中国人民保险集团股份有限公司

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

Stock Code：1339

Annual Report 2014

Company Profile

Founded in October 1949, The People's Insurance Company (Group) of China Limited (the "Company") is the first nation-wide insurance company in the People's Republic of China (the "PRC") and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking the 208th in the List of Fortune Global 500 (2014) published by the Fortune magazine.

The Company operates its property and casualty ("P&C") insurance business in the PRC through PICC Property and Casualty Company Limited ("PICC P&C") and in Hong Kong through The People's Insurance Company of China (Hong Kong), Limited ("PICC Hong Kong"), in which the Company holds approximately 68.98% and 75.0% equity interests, respectively. The Company operates its life and health insurance businesses through PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), in which the Company, directly and indirectly, holds 80.0% and approximately 93.95% equity interests, respectively. The Company centrally and professionally manages most of its insurance assets through PICC Asset Management Company Limited ("PICC AMC"), in which the Company holds 81% of equity interest, and holds a 100% equity interest in PICC Investment Holding Co., Ltd ("PICC Investment Holding") which is a professional investment company specializing in real estate investments. The Company also carries out non-transactional businesses such as equity and debt investments in insurance and non-insurance capital within and outside the Group through PICC Capital Investment Management Company Limited ("PICC Capital") in which it holds a 100% equity interest. The Company has also made strategic investments in non-insurance financial businesses such as banking and trust.

The Company's principal competitive strengths include:

- We are the pioneer of the PRC insurance industry and possess a well-recognized brand with the longest history in the industry.
- We are an integrated insurance financial group focusing on our core business, taking a leading position in the rapidly developing Chinese insurance market.
- We have a strategically balanced business structure, an extensive nation-wide distribution and service network and a wide customer base, contributing to our ability to achieve rapid development in business and stable growth in profits.
- We have the capability to synchronize our business growth with the overall economic and social development of the PRC and develop innovative business models in response to such development.
- We have implemented efficient management at the group level to effectively improve synergies among different business lines and improve our overall operational efficiency.
- We have strong professional technical skills as well as product and service innovation capabilities.
- We have an industry-leading asset management platform and have undertaken strategic planning in the non-insurance financial areas.
- We have an experienced and insightful management team.

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Financial Highlights

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

Unit: RMB in millions, except for percentages

	2014	2013	% change	2012	2011	2010
Group consolidation						
Total assets	**782,221**	755,319	3.6	688,650	585,152	442,879
Total liabilities	**656,644**	660,518	(0.6)	605,308	537,217	406,166
Total equity	**125,577**	94,801	32.5	83,342	47,935	36,713
Gross written premiums	**349,169**	306,421	14.0	265,216	249,047	229,440
Net profit	**18,715**	12,055	55.2	10,144	7,897	5,847
Net profit attributable to equity holders of the Company	**13,109**	8,121	61.4	6,832	5,185	3,987
Earnings per share (RMB)[1]	**0.31**	0.19	61.4	0.20	0.16	0.13
Net assets value per share (RMB)[1]	**2.18**	1.69	29.3	1.54	0.91	0.76
Weighted average return on equity (%)	**16.0**	11.9	Increase of 4.1 pt	18.2	19.0	17.6

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

Mr. Wu Yan
Chairman

Dear shareholders,

The year 2014 was an important year in which the Company and its subsidiaries ("The Group" or "Group") deepened reform and strengthened its foundation. During the year, the Group faced complex and changing internal and external development challenges; nonetheless, it firmly implemented the keynote of "Further reform and innovation, maintenance of stable growth and emphasizing value creation", grasped opportunities and accelerated the speed of development. The Group had a good development trend with remarkable achievements and the business indicators recorded the highest level in history.

In 2014, the Group emphasized value creation, achieved record high total profit in six consecutive years and the Group's profit before tax exceeded RMB20 billion for the first time. We placed our key focus on the enhancement of value creation, concentrated on the quality and effectiveness of development, hence achieved substantial increase in the total profit of the Group, strengthened the overall profitability of our major subsidiaries, effectively improved those segments with low profits and created the best earning results in history. The profit before tax of the Group was RMB23.42 billion, representing an increase of 49.5% compared to the corresponding period last year, which is the highest on record in six consecutive years. It took the Group merely three years to reach the new level of RMB20 billion since its profit before tax in 2011 first exceeded RMB10 billion. The Group's net profit was RMB18.72 billion, representing an increase of 55.2% compared to the corresponding period last year; weighted average return on equity was 16.0%. The profit levels of P&C insurance business and life insurance business both recorded the best results in history. The net profit of PICC P&C increased 43.2% compared to the corresponding period last year. It had a combined cost ratio of 96.5% which continued to be above the industry average. The net profit of PICC Life increased 126.5% compared to the corresponding period last year. The Group's investment yield achieved the highest level in the past seven years and its total investment yield was 6.0%.

In 2014, the Group maintained stable growth, gradual improvement on business development and enhanced comprehensive strength. We adapted to the changing market environment and made strategies tailored for designated markets, as a result, there was a good trend of stable improvement in the areas of business revenue, comprehensive strength and development transformation. The Group received gross written premiums ("GWPs") of RMB349.169 bilion, representing an increase of 14.0% compared to the corresponding period last year, maintained a good trend of double digit growth; P&C insurance segment received GWPs of RMB253.166 bilion, representing an increase of 13.2% compared to the corresponding period last year; PICC Life actively engaged in business transformation and received

GWPs of RMB80.197 billion for the year, representing an increase of 6.5% compared to the corresponding period last year, first-year regular premiums of increased by 12.5%; PICC Health received GWPs of RMB15.806 billion, representing an increase of 110.0% compared to the corresponding period last year. The total assets of the Group were RMB782.221 billion, the assets of P&C insurance and life insurance both exceeded RMB350 billion. The net asset of the Group increased by 32.5% compared to the corresponding period last year to RMB125.577 billion.

In 2014, the Group enhanced reform and innovation and released the potential of resources, which further improved its capability of coordinated development. We are determined to build a customer-oriented value creation system, focused on top level design and key breakthrough, worked on long term plans as well as short term measures, and endeavoured to provide strong power for the development of the Group through reform and reorganization. We made effort to promote the four major reform and reorganization projects, including the reform of the information management system, the consolidaton of the customer and sales service resources, the reform of the investment management and risk management systems. We prescribed specific measures of reform, implemented key projects such as the consolidation of the e-commerce platform and made an important step forward towards the establishment of an all-in-one efficient and coordinated service system. We enhanced the consolidation and sharing of resources, completed a system upgrade of the centralized job number and cross-sales centralized portal of the Group, promoted the establishment of the Big Data, completed the consolidation of the credit rating resources of the Group, improved the management of commission on cross-sales, continued to deepen the development of both the urban and rural area networks, hence the synergies of such development are becoming more apparent. In 2014, the Group received total written premiums ("TWPs") of RMB23.004 billion from cross interactive business, representing an increase of 16.4% compared to the corresponding period last year, whose contribution to the Group's TWPs increased to 6.5%.

In 2014, the Group strengthened the development of the grass-roots, grasped the key points in developing the grass-roots for the long run and brought vigour and vitality into the development of the grass-roots. We carried out the "Year of the Development of the Grass-Roots" activity, encouraged interaction between the higher level and the lower level, closely cooperated with one another, focused on solving apparent problems affecting the development of the grass-roots, worked hard to secure the development basis of the grass-roots. We focused on enhancing the establishment of a servicing head office, strengthening the provision of guidance to the business of the grass-roots units, facilitating the provision of services to the grass-roots units systematically and on a regular basis and enhancing the efficiency of serving the grass-roots. We focused on the development of grass-roots teams, further improved the policies on cultivation of personnel, performance management, career development and use of labour. We carried out the "Thousand People Project", the "Talent Attraction Action" and the "Dawn Programme", increased allocation of resources to the grass-roots, strengthened the vitality of the grass-roots teams. We focused on strengthening the establishment of regional communist party coordination committees and promoted the development of integrated grass-roots which, at present, covers 1,941 counties in 36 provinces autonomous regions, and municipalities and plays a positive role in the snyergies among sub-divisions.

In 2014, the Group actively performed social responsibilities, assisted with the transformation of the economy and the society and enhanced its capability to provide comprehensive servcies. We focused on the development of agriculture, rural areas and farmers, promoted the development, innovation and upgrade of agricultural insurance. During the year, the Group provided insurance for 560 million mu of crops, assumed risk liability of RMB832.84 billion of the plantation sector and the breeding sector, maintained a market share of 52.7%. In support for the development of regional economy in a stable and sustainable manner, we promoted and set up the first joint venture equity fund between a financial enterprise owned by the central government and a provincial government in China – Guangdong (PICC) Eastern, Western and Northern Guangdong Development Equity Fund which became the model for insurance funds to support the coorindated development of the local economies. During the year, there were 23 equity interest and debt programme products registered, the registered scale of the equity programme was RMB25.49 billion, which was the first in the industry, the registered scale of the debt programme was RMB41.30 billion, which was the second in the industry. We focused on the establishment of the social security system, improved the internal coordination mechanism, optimized the model to expand the social security insurance business, carried out processing services with integrity, strived for turning the work entrusted by the government to be projects that gain the support and confidence of the people. As at the end of 2014, the Group has underwritten 200 critical illness insurance projects, received written premiums of RMB6.55 billion, covering 26 provinces (autonomous regions, municipalities) and 158 regions, with customers exceeding 300 million people.

The year 2015 is full of hope and challenges. The economic development of China has entered into the "New Normal" period and it is still in the strategic opportunities period gearing for stable growth and structural improvement, which creates favourable conditions for the steady growth of the business of the Company. The "Certain Opinions on the Speeding Up of the Development of a Modernized Insurance Service Sector by the State Council" created unprecedented policy opportunities for this industry. All departments and commissions and local governments will speed up to announce specific measures to implement the policies and gradually release the benefits of the polices. At the same time, the internet revolution as represented by the Big Data, cloud computing, mobile internet will bring deepened reform to the production methods of the society. The financial and insurance spending and transaction methods, the deep penetration of the internet and the traditional industries and customer-oriented organizational innovation, mechanism innovation and work flow innovation have become the new drivers for the reform in the insurance and financial sectors.

In view of the new developments, The People's Insurance Company (Group) of China Limited will grasp the opportunities, maintain its confidence, overcome difficulties, speed up the transformation towards customer-oriented business and well complete all tasks for this year. First, we will determine the direction of policies, increase our sensitivity, expand new potential to develop business by exploiting the "New Normal" and adapting to the "New Normal". Second, we will focus on enhancing the innovation capability to adapt to social reforms, establish direction based on customer-oriented value, continue to optimize those operation mechanisms which can demonstrate customer-oriented value. Third, we will focus on enhancing the ability to have integrated development, promoting reform and reorganization of the Group, achieving new breakthrough in the areas of strategic synergies and consolidation and sharing of resources. Fourth, we will focus on enhancing our ability to expand the markets, strengthening the development of the grass-roots, having the grass-roots as the basis for development, stimulating the development of the grass-roots, increasing the development strength of the grass-roots. Fifth, we will take the opportunity of the implementation of the inspection policy of "Two Strengthen, Two Restrain" by the State Council, and continue to strengthen law obedience and compliance and risk control to achieve stable and sustainable development.

We trust that with the support of all shareholders and the efforts of all our employees, The People's Insurance Company (Group) of China Limited will continue to achieve stable growth of its overall value, and provide our shareholders, our employees and the society with better performance.

Wu Yan
Chairman

Beijing, the PRC
27 March 2015

Honors and Awards

1. Ranked the 208th in the List of Fortune Global 500

   On 7 July 2014, the Company ranked the 208th in the list of Fortune Global 500 published by the Fortune magazine in the US, 48 ranks higher than in the year 2013.

2. Ranked the 33rd in the list of Top 500 Enterprises of China (2014)

   On 2 September 2014, the Group ranked the 33rd in the list of Top 500 Enterprises of China selected by the China Enterprise Directors Association. The Group also ranked the 17th in the list of Top 500 Service Industry Enterprises of China in 2014, and it ranked the 3rd among the insurance enterprises in the list of Top 500 Enterprises of China in 2014.

3. The Company was awarded the "Insurance Company with the Strongest Comprehensive Strength for the Year"

   On 12 December 2014, the Company was awarded the "Insurance Company with the Strongest Comprehensive Strength for the Year" in the China Financial Development Forum and the Fifth Golden Tripod Awards.

4. The Company was awarded the "4th China Corporate Social Reponsibility Outstanding Award of 2014"

   On 16 December 2014, the Company was awarded the "China Corporate Social Reponsibility Outstanding Award" at the "4th China Corporate Social Reponsibility Outstanding Award of 2014" ceremony jointly organized by the "China Philanthropy Times", the Philanthropy Research Institute of Beijing Normal University and the Asia Academy of Philanthropy by virtue of its active implementation of corporate social responsibilities through the platforms such as the PICC Philanthropy Charity Foundation.

5. PICC P&C was rated "A1, Stable Outlook" by Moody's

   In June 2014, PICC P&C was rated "A1, Stable Outlook" by Moody's Investors Service.

6. PICC P&C was awarded the "2014 China Most Admired Knwoledge Entreprises Award (China MAKE)"

   In January 2014, PICC P&C was awarded the "2014 China Most Admired Knowledge Entreprises Award (China MAKE)" by the Hong Kong Polytechnic University Knowledge Management and Innovation Study Centre.

7. PICC AMC was awarded the "Golden Shell Prize"

   On 22 August 2014, PICC AMC was awarded the "Insurance Asset Management Category – 2014 Most Competitive Insurance Asset Management Company" at the 7th China Asset Management "Golden Shell Prize".

8. PICC Health was awarded the "2014 Most Competitive Insurance Product"

   On 17 January 2014, at the Twelefth China Financial and Economic Ranking and Financial and Economic China Annual Meeting, PICC Health was awarded the "2014 Most Competitive Insurance Product".

9. PICC Life was awarded the "Best Brand of the Year"

   In December 2014, PICC Life was awarded the "Best Brand of the Year" in the 2nd "Golden Tripod Cup" insurance industry annual award.

10. PICC Hong Kong was given financial strength rating of "A-" and insurance company credit rating of "a-" by A.M. Best

    On 17 June 2014, PICC Hong Kong was given financial strength rating of "A-" and insurance company credit rating of "a-", with a stable outlook by A.M. Best for the first time, on the basis of its sustainable and efficient development for the past five consecutive years since 2009.

Management Discussion and Analysis

The Group divides its three principal business lines of P&C insurance, life and health insurance and asset management into four operating segments for reporting purposes: P&C insurance business constitutes the P&C insurance segment and includes PICC P&C and PICC Hong Kong, in which the Company holds 68.98% and 75.0% equity interests, respectively; life and health insurance business constitutes two separate segments, including life insurance segment and health insurance segment, among which the life insurance segment includes PICC Life, in which the Company holds an 80.0% equity interest directly and indirectly, and the health insurance segment includes PICC Health, in which the Company holds a 93.95% equity interest directly and indirectly; and the asset management business constitutes the asset management segment and primarily includes PICC AMC, PICC Investment and PICC Capital, in which the Company holds 81.0%, 100.0% and 100.0%, respectively.

KEY OPERATING INDICATORS

(1) Key Operating Data

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Original Premiums Income [1]			
PICC P&C	**252,419**	223,005	13.2
PICC Life	**78,718**	75,273	4.6
PICC Health	**15,795**	7,640	106.7
Combined ratio of PICC P&C (%)	**96.5**	96.7	Decrease of 0.2 pt
Value of one year's new business of PICC Life	**3,668**	4,070	(9.9)
Value of one year's new business of PICC Health	**276**	481	(42.6)
Total investment yield (%)	**6.0**	5.2	Increase of 0.8 pt

	As of 31 December 2014	As of 31 December 2013	
	RMB in millions, except for percentages		(% of change)
Market share [2]			
PICC P&C (%)	**33.5**	34.4	Decrease of 0.9 pt
PICC Life (%)	**6.2**	7.0	Decrease of 0.8 pt
PICC Health (%)	**1.2**	0.7	Increase of 0.5 pt
Embedded Value of PICC Life	**47,414**	36,863	28.6
Embedded Value of PICC Health	**4,463**	2,491	79.2
Solvency margin ratio of the Group (%)	**182**	148	Increase of 34 pt
Solvency margin ratio of the PICC P&C (%)	**239**	180	Increase of 59 pt
Solvency margin ratio of PICC Life (%)	**301**	202	Increase of 99 pt
Solvency margin ratio of PICC Health (%)	**187**	116	Increase of 71 pt

(1) According to the statistics and measurement of the Original Premiums Income in the PRC (excluding Hong Kong, Macau and Taiwan) published by the China Insurance Regulatory Commission (the "CIRC");

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

In 2014, by adhering to its key aspiration of "Further reform and innovation, maintenance of stable growth and emphasizing value creation", the business of the Group has grown steadily with strengthening synergies, despite increasing pressure from the economic slowdown and intensifying industry competition. In 2014, the market share of PICC P&C in the P&C insurance market was 33.5%, the market share of PICC Life in life and health insurance market was 6.2% and the market share of PICC Health in life and health insurance market was 1.2%. In terms of the TWPs, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB252,419 million, RMB81,348 million, RMB17,978 million, HKD137 million, respectively in 2014. The Group actively pursued the transformation towards "customer-orientated business" and the promotion of unified development of the Group. The TWPs generated by cross-selling among the Group's business lines grew by 16.4% to RMB23,004 million in 2014 from RMB19,769 million in 2013. In 2014, the number of policyholders who purchased two or more types of property, life and health insurance products reached 3.273 million, a 21.8% increase compared to the same period in 2013, and the number of policies purchased by such policyholders increased to 4.66 policies per person on average.

(2) Key Financial Indicators

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Gross written premiums	**349,169**	306,421	14.0
P&C Insurance	**253,166**	223,622	13.2
Life Insurance	**80,197**	75,273	6.5
Health Insurance	**15,806**	7,525	110.0
Profit before tax	**23,420**	15,670	49.5
Net profit	**18,715**	12,055	55.2
Net profit attributable to equity holders of the Company	**13,109**	8,121	61.4
Earnings per share (RMB)	**0.31**	0.19	61.4
Weighted average return on equity (%)	**16.0**	11.9	Increase of 4.1 pt

	As of 31 December 2014	As of 31 December 2013	
	RMB in millions, except for percentages		(% of change)
Total assets	**782,221**	755,319	3.6
Total liabilities	**656,644**	660,518	(0.6)
Total equity	**125,577**	94,801	32.5
Net assets per share (RMB)	**2.18**	1.69	29.3
Gearing ratio[1] (%)	**83.9**	87.4	Decrease of 3.5 pt

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

The Group's capital base has been further strengthened in which total equity grew by 32.5% to RMB125,577 million as of 31 December 2014 from RMB94,801 million as of 31 December 2013. In 2014, the Group realized GWPs of RMB349,169 million, representing a 14.0% increase as compared to 2013. The Group's net profit grew by 55.2% to RMB18,715 million in 2014 from RMB12,055 million in 2013. Profit attributable to equity holders of the Company grew by 61.4% to RMB13,109 million in 2014 from RMB8,121 million in 2013. The weighted average return on equity of the Group increased by 4.1 percentage points to 16% in 2014 from 11.9% in 2013.

The net assets per share of the Group increased by 29.3% to RMB2.18 as of 31 December 2014 from RMB1.69 as of 31 December 2013. The Group's earnings per share increased by 61.4% to RMB0.31 in 2014 from RMB0.19 in 2013. The Group's gearing ratio decreased by 3.5 percentage points to 83.9% as of 31 December 2014 from 87.4% as of 31 December 2013.

P&C INSURANCE BUSINESS

In 2014, the Chinese economy has entered a new stage of development. The Group's P&C insurance segment enhanced reform and innovation, strengthened its foundation building, enhanced risk management, strongly strengthened its foundation of development, maintained stable growth in business, achieved stable growth in assets and improved its capital strength with record-high operating results.

(1) Analysis by Product

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Motor vehicle insurance	**185,058**	163,246	13.4
Commercial property insurance	**12,975**	12,633	2.7
Liability insurance	**10,104**	8,504	18.8
Accidental injury and health insurance	**14,162**	9,934	42.6
Cargo insurance	**3,563**	3,674	(3.0)
Agricultural insurance	**17,143**	16,566	3.5
Other P&C insurance	**10,161**	9,065	12.1
Total	**253,166**	223,622	13.2

GWPs for the P&C insurance segment increased by 13.2% to RMB253,166 million in 2014 from RMB223,622 million in 2013. The overall steady growth was largely driven by the rapid development in the motor vehicle insurance, accidental injury and health insurance and liability insurance.

GWPs for motor vehicle insurance increased by 13.4% to RMB185,058 million in 2014 from RMB163,246 million in 2013. In 2014, the P&C insurance segment actively expanded the new-motor vehicle insurance market and simultaneously exploited the inventory business resources to increase the number of motor vehicle policies, the increase in renewal and transfer of policies exceeded the overall growth. The average motor vehicle premium remained stable and thereby the insured amount has achieved stable growth.

GWPs for commercial property insurance increased by 2.7% to RMB12,975 million in 2014 from RMB12,633 million in 2013. The P&C insurance segment actively reacted to the sluggish market environment, promoted latitude management system for insurance policies and actively developed overseas businesses and achieved a steady growth in average premium.

GWPs for liability insurance increased by 18.8% to RMB10,104 million in 2014 from RMB8,504 million in 2013. In 2014, government authorities continued to deepen the society management function of the liability insurance system and introduced a series of regulatory policies. The P&C insurance segment seized this opportunity to deepen business co-operation, foster business promotion and training. Businesses from the public, employers, safe production, medical and product liability insurance recorded a relatively fast growth.

GWPs for accidental injury and health increased by 42.6% to RMB14,162 million in 2014 from RMB9,934 million in 2013. In 2014, P&C insurance segment implemented the development strategy for accidental injury insurance – "Specialization of Group Business" and "Diversification of Business Channels", optimized and adjusted business structure under the foundation of entire development. The accidental injury insurance for school children, motor vehicle owners and borrowers recorded steady growth. The major disease insurance business in P&C insurance segment continually recorded surging growth and the market share for health insurance recorded steady increase.

GWPs for cargo insurance decreased by 3.0% to RMB3,563 million in 2014 from RMB3,674 million in 2013, mainly affected by the global economic condition and the decrease in shipment insurance premium.

GWPs for agricultural insurance increased by 3.5% to RMB17,143 million in 2014 from RMB16,566 million in 2013. Agricultural insurance in the P&C insurance segment has basically covered the entire country and the agricultural insurance business has entered a steady growth stage.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 12.1% to RMB10,161 million in 2014 from RMB9,065 million in 2013. In 2014, the rapid growth in engineering insurance in P&C insurance segment is attributable to the State's planning on infrastructure construction development. Meanwhile, the credit insurance business in the P&C insurance segment recorded a rapid growth which is attributable to, under the premise that risks are controllable, the actively promoting of the businesses of short-term export credit insurance, credit insurance for loan losses for financial institutions and loan guarantee insurance.

(2) Analysis by Channel

The following table sets forth a breakdown of Original Premiums Income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage. In 2014, PICC P&C insisted on market orientation. By grasping development opportunity, enhancing sales capabilities and continuing to deepen the merger of telemarketing and online sales, the development in telemarketing business has achieved new horizon, with direct sales channels revenue increased steadily and the Original Premiums Income accounted for 37.0% in 2014, representing an increase of 2.5 percentage points from 34.5% in 2013, of which the emerging sales channels such as telemarketing and online sales continued to record tremendous growth. The Original Premiums Income amounted to RMB49,397 million, representing an increase of 20.9% compared to same period in 2013.

	For the Year Ended 31 December				
	2014			2013	
	Amount	(% of total)	(% of change)	Amount	(% of total)
	RMB in millions, except for percentages				
Insurance agents	145,095	57.5	8.3	133,962	60.0
Among which:					
Individual insurance agents	77,395	30.7	6.3	72,835	32.6
Ancillary insurance agents	52,012	20.6	5.1	49,505	22.2
Professional insurance agents	15,688	6.2	35.0	11,622	5.2
Direct sales	93,421	37.0	21.6	76,843	34.5
Insurance brokerage	13,903	5.5	14.0	12,200	5.5
Total	252,419	100.0	13.2	223,005	100.0

(3) Financial Analysis

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Net earned premiums	211,797	183,125	15.7
Investment income	13,079	10,568	23.8
Other income	1,323	1,239	6.8
Total income	236,187	206,126	14.6
Claims and policyholders' benefits	136,322	121,355	12.3
Handling charges and commissions	23,388	19,030	22.9
Finance costs	1,631	2,060	(20.8)
Other operating and administrative expenses	56,139	49,358	13.7
Total benefits, claims and expenses	217,476	191,939	13.3
Profit before tax	21,309	15,408	38.3
Income tax expense	(4,335)	(3,209)	35.1
Net profit	16,974	12,199	39.1

Net earned premiums

Benefited from the relatively rapid development in the businesses of motor vehicle insurance, accidental injury and health insurance and liability insurance, net earned premiums of the P&C insurance segment increased by 15.7% to RMB211,797 million in 2014 from RMB183,125 million in 2013.

Investment Income

Investment income of the P&C insurance segment increased by 23.8% to RMB13,079 million in 2014 from RMB10,568 million in 2013. The increase was mainly attributed to the increased allocation of resources in negotiated deposits, debt investment schemes of good credit rating and high quality, asset management products and asset securities products. It also benefited from gains in the domestic capital market which contributed to a significant increase in investment income.

Claims and policyholders' benefits

Claims and policyholders' benefits for the P&C insurance segment increased by 12.3% to RMB136,322 million in 2014 from RMB121,355 million in 2013, of which the loss ratio of PICC P&C reduced by 1.8 percentage points to 64.4% in 2014 from 66.2% in 2013. The P&C insurance segment continually strengthened its control and management over insurance policies, upgraded the standards for personal injury, spare parts and work hours management as well as the control over the costs of repair and maintenance workshops and 4S shops, which resulted in the decrease of the loss ratio in motor vehicle insurance.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 22.9% to RMB23,388 million in 2014 from RMB19,030 million in 2013. The increase in handling charges and commissions were mainly due to intense competition.

Finance costs

Finance costs of P&C insurance segment decreased by 20.8% to RMB1,631 million in 2014 from RMB2,060 million in 2013. This was mainly due to the decrease in interests payments on subordinated debts and financial assets sold under repurchase agreements.

Net profit

As a result of the foregoing reasons, the net profit of P&C insurance segment increased by 39.1% to RMB16,974 million in 2014 from RMB12,199 million in 2013.

LIFE AND HEALTH INSURANCE

(1) Life insurance

In 2014, the Group's Life insurance segment continued to explore the direction and strategy on the repositioning development, further focused on infrastructure building and value creation, strengthened staff and sales team building and consolidated the future development with more emphasis on customers. By continuously improving customers' experience, focusing on the demand of each market segment and value growth, more attractive products were launched including regular premium products targeting at specified customers with specific demand, which were designed to better adapt to market needs and to provide more protection against risks. The Group also devoted efforts to increasing its management standard with stronger backup customer service and its social security system was strengthened to provide more risk protection. The asset management function was also enhanced and its market position was further secured. In terms of Original Premiums Income, PICC Life ranked fifth in the market and second in respect of first-year TWPs.

1. *Analysis by Product*

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

	For the Year Ended 31 December RMB in millions, except for percentages			
	2014		2013	
Life insurance products	**Amount**	**% of total**	Amount	% of total
Traditional life and health insurance	**60,505**	**76.9**	9,016	12.0
Participating life insurance	**15,146**	**19.2**	63,567	84.4
Universal life insurance	**82**	**0.1**	82	0.1
Accidental injury and short-term health insurance	**2,984**	**3.8**	2,608	3.5
Total	**78,717**	**100.0**	75,273	100.0

In terms of TWPs, in 2014, the TWPs of traditional life and health insurance, participating life insurance, universal life insurance, accidental injury and short-term health insurance amounted to RMB60,506 million, RMB16,402 million, RMB1,457 million, RMB2,984 million, respectively, of which traditional life and health insurance increased by 571.1% as compared to same period in 2013. This was primarily attributed to the rapid growth in the annual premium traditional life and health insurance products that tallied with market needs.

2. *Analysis by Channel*

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Bancassurance	**49,619**	49,489	0.3
First-year business of long-term insurance	**45,152**	45,108	0.1
Single premiums	**44,173**	43,698	1.1
First-year regular premiums	**979**	1,410	(30.6)
Renewal business	**4,286**	4,210	1.8
Short-term insurance	**181**	171	5.4
Individual Insurance	**19,063**	19,611	(2.8)
First-year business of long-term insurance	**15,079**	16,610	(9.2)
Single premiums	**12,934**	15,269	(15.3)
First-year regular premiums	**2,145**	1,341	60.0
Renewal business	**2,945**	2,176	35.3
Short-term insurance	**1,039**	825	26.0
Group Insurance	**10,036**	6,173	62.6
First-year business of long-term insurance	**8,269**	4,506	83.5
Single premiums	**8,278**	4,489	84.4
First-year regular premiums	**(9)**	17	–
Renewal business	**2**	56	(95.7)
Short-term insurance	**1,764**	1,611	9.5
Total	**78,717**	75,273	4.6

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB49,636 million, RMB20,388 million and RMB11,325 million respectively for the year 2014.

In the life insurance segment, individual injury channel had repositioned to focus on value creation and renewal of premiums increased substantially. As of 31 December 2014, the number of insurance agents for the life insurance segment was 94,648. In 2014, the TWPs of first-year insurance business was RMB6,462 per insurance agent per month and the average number of new life insurance policies was 2.53 per agent per month. Bancassurance channel stabilised its scale and actively responded to new policies of the authorities, and sales of the integrated wealth management grew steadily. The group insurance channel strived on the platform of the five segments of businesses, enhanced classified guidance on branches and maintained its leading position in the market. Emerging sales channels such as telemarketing and online sales were fully utilized in the life insurance segment and service standard continued to excel.

3. *Persistency Ratios of policies and premiums*

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

Item	For the Year Ended 31 December 2014	2013
13-month policy persistency ratio [1] (%)	**50.8**	81.0
25-month policy persistency ratio [2] (%)	**75.9**	86.3
13-month premium persistency ratio [3] (%)	**88.5**	87.5
25-month premium persistency ratio [4] (%)	**82.8**	80.0

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

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

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

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

4. *Financial Analysis*

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Net earned premiums	**79,822**	74,986	6.4
Investment income	**18,017**	15,411	16.9
Other income	**277**	429	(35.4)
Total income	**98,146**	90,848	8.0
Claims and policyholders' benefits	**88,663**	81,950	8.2
Handling charges and commissions	**3,029**	2,605	16.3
Finance costs	**1,810**	1,948	(7.1)
Other operating and administrative expenses	**4,612**	4,213	9.5
Total benefits, claims and expenses	**98,098**	90,848	8.0
Profit before tax	**2,335**	1,134	105.9
Income tax expense	**(464)**	(308)	50.6
Net Profit	**1,871**	826	126.5

Net earned premiums

Net earned premiums for the life insurance segment increased by 6.4% to RMB79,822 million in 2014 from RMB74,986 million in 2013, mainly due to introduction of products which better satisfied the market and customers' needs as well as the increased efforts in business promotion.

Investment income

The investment income of the life insurance segment increased by 16.9% to RMB18,017 million in 2014 from RMB15,411 million in 2013. This was mainly attributable to the persistent efforts in the allocation of debt investment plans and other fixed-income products; at the same time, the Group was able to share the gains in the rebound of the capital market.

Other income

Other income of the life insurance segment decreased by 35.4% to RMB277 million in 2014 from RMB429 million in 2013. This was mainly attributable to the decrease in policy initiation fees of certain universal products.

Claims and policyholders' benefits

Claims and policyholders' benefits for the life insurance segment increased by 8.2% to RMB88,663 million in 2014 from RMB81,950 million in 2013. This was mainly attributable to the increase in expiry and maturity of benefits and lapse rate.

Handling charges and commissions

Handling charges and commissions of the life insurance segment increased by 16.3% to RMB3,029 million in 2014 from RMB2,605 million in 2013. This was mainly attributable to the increase in premiums and first-year regular premiums income.

Finance costs

Finance costs of the life insurance segment decreased by 7.1% to RMB1,810 million in 2014 from RMB1,948 million in 2013. This was mainly attributable to the decrease in interest expenses in universal insurance products.

Net profit

Mainly attributable to the factors mentioned above, the net profit of the life insurance segment increased by 126.5% to RMB1,871 million in 2014 from RMB826 million in 2013.

(2) Health Insurance

In 2014, by following the guidance of "Speed Up Transformation and Develop through Innovation", the health insurance segment of the Group further promoted the reform of staff, organization, finance, management operation system, speeded up the process of becoming customer-oriented in order to enhance value-creation capabilities. By upholding the "The State Council's Various Opinions on Fostering the Modern Development Pertinent to the Insurance Industry" and the "State Council Office's Several Opinions on Accelerating the Development of Commercial Health Insurance", business development progressed at full strength. The Group enhanced health management capabilities, patented a self-developed health electronic system, promoted health management services products, enhanced service standards for government-commissioned projects, advanced the service standards of joint platform and forged the deepening of the country's medical reform. PICC Health underwrote 365 government-commissioned projects during the year, which covered 118 cities and municipalities in 23 provinces (autonomous regions, municipality directly under the central government and municipalities with independent planning status), serving over 122 million people. PICC Health ranked thirteenth among life and health insurance companies and first among professional health insurance companies in terms of premiums income.

1. *Analysis by Product*

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

	For the Year Ended 31 December			
	RMB in millions, except for percentages			
	2014		2013	
Health insurance products	**Amount**	**% of total**	Amount	% of total
Illness insurance	**259**	**1.6**	183	2.4
Medical insurance	**5,502**	**34.8**	4,839	64.3
Disability losses insurance	**78**	**0.5**	79	1.0
Nursing care insurance	**9,099**	**57.6**	879	11.7
Accidental injury insurance	**388**	**2.5**	381	5.1
Participating endowment insurance	**480**	**3.0**	1,164	15.5
Total	**15,806**	**100.0**	7,525	100.0

In terms of TWPs, the TWPs of illness insurance, medical insurance, disability losses insurance, nursing care insurance, accidental injury insurance and participating endowment insurance in 2014 amounted to RMB259 million, RMB7,197 million, RMB78 million, RMB9,576 million, RMB388 million and RMB480 million, respectively, of which nursing care insurance increased by 131.0% as compared to the same period in 2013. This was mainly attributed to the reform in premium pricing, promotion of products more tailored to the needs of customers and increase in business promotion.

2. *Analysis by Channel*

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

	For the Year Ended 31 December		
	RMB in millions, except for percentages		
	2014	2013	(% of change)
Bancassurance	**8,969**	1,831	389.8
First-year business of long-term insurance	**8,700**	1,659	424.4
Single premiums	**8,591**	1,515	467.1
First-year regular premiums	**109**	144	(24.3)
Renewal business	**266**	170	56.5
Short-term insurance	**3**	2	50.0
Individual Insurance	**845**	363	132.8
First-year business of long-term insurance	**579**	79	632.9
Single premiums	**460**	12	3,733.3
First-year regular premiums	**119**	67	77.6
Renewal business	**195**	142	37.3
Short-term insurance	**71**	142	(50.0)
Group Insurance	**5,992**	5,331	12.4
First-year business of long-term insurance	**9**	4	125.0
Single premiums	**9**	4	125.0
First-year regular premiums	**–**	–	–
Renewal business	**3**	3	0.0
Short-term insurance	**5,980**	5,324	12.3
Total	**15,806**	7,525	110.0

In terms of TWPs, the TWPs from the bancassurance, individual insurance and group insurance in 2014 amounted to RMB9,205 million, RMB1,055 million and RMB7,718 million respectively.

In the health insurance segment, individual insurance agent channel focused on developing its sales team to drive the development of regular premiums business. As of 31 December 2014, the number of sales agents for the health insurance segment was 12,324. The first year TWPs of new insurance policies amounted to RMB4,944 per sales agent per month and the monthly new insurance polices were 0.82 per sales agent per month. The Bancassurance channel actively seized opportunities, enhanced training for the furtherance of the sales capabilities of the sales agents, and the TWPs achieved significant increase. The Group insurance channel boosted efforts in promoting the "Zhanjiang, Taicang, Pinggu" model in relation to the government-commissioned projects, implemented the combined "basic + critical illness (supplemental)" and "protection + experience" for comprehensive business development and strengthened competitive advantage, which resulted in rapid growth in TWPs.

3. *Persistency Ratios of policies and premiums*

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

	For the Year Ended 31 December	
Item	**2014**	2013
13-month policy persistency ratio [1] (%)	**93.0**	92.2
25-month policy persistency ratio [2] (%)	**90.5**	87.7
13-month premium persistency ratio [3] (%)	**81.0**	83.0
25-month premium persistency ratio [4] (%)	**76.8**	63.7

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

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

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

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

4. *Financial Analysis*

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Net earned premiums	**13,995**	5,193	169.5
Investment income	**1,533**	992	54.5
Other income	**90**	113	(20.4)
Total income	**15,709**	6,559	139.5
Claims and policyholders' benefits	**13,775**	4,985	176.3
Handling charges and commissions	**321**	177	81.4
Finance costs	**575**	731	(21.3)
Other operating and administrative expenses	**1,426**	1,459	(2.3)
Total benefits, claims and expenses	**16,097**	7,354	118.9
Profit before tax	**(388)**	(795)	–
Income tax expense	**2**	–	–
Net profit	**(386)**	(795)	–

Net earned premiums

Net earned premiums of the health insurance segment increased by 169.5% to RMB13,995 million in 2014 from RMB5,193 million in 2013. This was mainly attributable to the rapid growth in the long-term insurance business.

Investment income

Investment income from the health insurance segment increased by 54.5% to RMB1,533 million in 2014 from RMB992 million in 2013. This was mainly attributable to the rapid increase in the scale of capital utilization, the allocation of new funds for insurance assets management products and other fixed-income products; at the same time, the Group shared the gains in the rebound of the capital market.

Other income

Other income from the health insurance segment decreased 20.4% to RMB90 million in 2014 from RMB113 million in 2013. This was mainly attributable to the decrease in policy initiation fee of universal products.

Claims and policyholders' benefits

Claims and policyholders' benefits from the health insurance segment increased by 176.3% to RMB13,775 million in 2014 from RMB4,985 million in 2013. This was mainly attributable to rapid growth in the long-term insurance business and increase in the amount of claim reserves.

Handling charges and commissions

Handling charges and commission of the health insurance segment increased by 81.4% to RMB321 million in 2014 from RMB177 million in 2013. This was mainly attributable to the rapid growth in the long-term insurance business.

Finance costs

Finance costs of the health insurance segment decreased by 21.3% to RMB575 million in 2014 from RMB731 million in 2013. This was mainly attributable to the decrease in interest expenses of universal products and securities sold under agreement to repurchase.

Net profit

Mainly due to the factors mentioned above, the net profit from the health insurance segment amounted to RMB-386 million in 2014 compared to net profit of RMB-795 million in 2013, representing a decrease in net loss of 51.4%.

Analysis of Original Premiums Income by Region

The following table sets forth the Original Premiums Income from the insurance business of the Group in the PRC by region for the reporting periods indicated:

	For the Year Ended 31 December	
	2014	2013
	(RMB in millions)	
Guangdong Province	**30,609**	25,107
Jiangsu Province	**29,263**	25,152
Zhejiang Province	**25,014**	21,713
Shandong Province	**22,115**	22,626
Sichuan Province	**20,255**	16,634
Hebei Province	**19,161**	18,404
Beijing	**18,664**	15,192
Fujian Province	**14,152**	11,113
Hubei Province	**12,710**	11,485
Liaoning Province	**12,651**	11,211
Other regions	**142,349**	127,166
Total	**346,943**	305,804

Asset management business

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

In 2014, the equity linked products of the Group's asset management segment had a registered scale of RMB25,490 million and ranked number one in the industry; the registered scale of debt linked products was RMB41,300 million and ranked the second in the industry. Products for public sales amounted to RMB30,378 million, accounting for 59.5% of the offer size. We not only developed the traditional equity interests and debt products, but also developed products such as the asset based equity products in relation to the equity of Sinopec Marketing Co., Ltd., the medical health industry and sectorial funds in support of "One Belt and One Road" constructions, as well as rights to debt income and repurchase rights under debt investment plan. PICC AMC recorded rapid growth in the scale of third-party and the offered insurance assets management products, which recorded an increase of 82.0% to RMB107,021 million as of 31 December 2014 from RMB58,814 million as of 31 December 2013.

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

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Investment income	**480**	431	11.4
Other income	**921**	811	13.6
Total income	**1,401**	1,242	12.8
Finance costs	**14**	5	180.0
Other operating and administrative expenses	**818**	779	5.0
Total expenses	**839**	801	4.7
Profit before tax	**572**	437	30.9
Income tax expense	**(181)**	(108)	67.6
Net profit	**391**	329	18.8

Investment income

Investment income from the asset management segment increased by 11.4% to RMB480 million in 2014 from RMB431 million in 2013, primarily because PICC AMC had taken advantage of market condition and recorded higher returns from investment in bonds and funds.

Other income

Other income from the asset management segment increased by 13.6% to RMB921 million in 2014 from RMB811 million in 2013, primarily due to the increase in asset operating income of PICC Investment Holding.

Finance costs

Finance costs for the asset management segment increased by 180.0% to RMB14 million in 2014 from RMB5 million in 2013, primarily due to the increase in interest expenses of securities sold under agreement to repurchase.

Net profit

Subject to the above reasons, net profit of the asset management segment increased by 18.8% to RMB391 million in 2014 from RMB329 million in 2013.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

(1) Investment portfolio

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

Investment assets	As of 31 December 2014 Carrying amount	As of 31 December 2014 % of total	As of 31 December 2013 Carrying amount	As of 31 December 2013 % of total
	RMB in millions, except for percentages			
Cash and cash equivalents	**39,307**	**5.7**	46,607	7.1
Fixed-income investments	**414,262**	**59.9**	396,558	60.8
Term deposits	**164,408**	**23.8**	137,607	21.1
Fixed-income securities	**235,905**	**34.1**	243,756	37.3
Government bonds	**13,975**	**2.0**	19,191	2.9
Financial bonds	**113,499**	**16.4**	115,660	17.7
Corporate bonds	**108,431**	**15.7**	108,905	16.7
Other fixed-income investments (1)	**13,949**	**2.0**	15,195	2.3
Equity and fund investments at fair value	**69,224**	**10.0**	69,200	10.6
Securities investment funds	**50,227**	**7.3**	49,169	7.5
Equity securities	**18,997**	**2.7**	20,031	3.1
Other investments	**168,376**	**24.4**	140,313	21.5
Subordinated debts and debt investment schemes	**83,200**	**12.0**	73,542	11.3
Investment in associates and a joint venture	**36,128**	**5.2**	28,268	4.3
Others (2)	**49,048**	**7.1**	38,503	5.9
Total investment assets	**691,169**	**100.0**	652,678	100.0

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

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

(2) Investment income

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

Items	For the Year Ended 31 December 2014	2013
	RMB in millions, except for percentages	
Cash and cash equivalents	**430**	789
Fixed-income investment	**21,668**	18,720
Interest income	**21,411**	18,856
Net realized gains/(losses)	**200**	(94)
Net unrealized gains/(losses)	**57**	(42)
Impairment	**–**	–
Equity and fund investments at fair value	**5,851**	4,887
Dividend income	**4,546**	4,459
Net realized gains/(losses)	**2,652**	3,664
Net unrealized gains/(losses)	**308**	87
Impairment	**(1,655)**	(3,323)
Other investment income/(loss)	**11,322**	6,404
Total investment income	**39,271**	30,800
Total investment yield [1] (%)	**6.0**	5.2
Net investment yield [2] (%)	**5.8**	5.1

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

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

SPECIFIC ANALYSIS

(1) Liquidity Analysis

1. *Liquidity Analysis*

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

During the year due to the payment of claims and surrenders for the Group's life insurance products, cash flow from operating activities recorded a net outflow. The Group maintained a certain proportion of assets with high liquidity to meet liquidity requirements. In addition, the Group could also obtain additional liquidity from the disposal of securities sold under agreement to repurchase and other financing methods.

Substantially all of the cash flows of the Company, as a holding company, mainly derived from the investment income arising from the investment activities, the cash flow generated by financing activities and the dividends from its subsidiaries. The Company believes that it has sufficient liquidity to meet foreseeable liquidity requirements of the Group and the Company in the foreseeable future.

2. *Statement of Cash Flows*

	For the Year Ended 31 December		
	2014	2013	
	RMB in millions, except for percentages		(% of change)
Net cash flow from operating activities	**(399)**	53,851	–
Net cash flow used in investment activities	**4,183**	(63,694)	–
Net cash flow used in financing activities	**(11,092)**	(17,009)	(34.8)

(2) Solvency

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

	As of 31 December 2014	As of 31 December 2013	(% of change)
	RMB in millions, except for percentages		(% change)
PICC Group			
Actual capital	**127,194**	94,170	35.1
Minimum capital	**70,004**	63,491	10.3
Solvency margin ratio (%)	**182**	148	Increase of 34 pt
PICC P&C			
Actual capital	**79,440**	52,026	52.7
Minimum capital	**33,290**	28,867	15.3
Solvency margin ratio (%)	**239**	180	Increase of 59 pt
PICC Life			
Actual capital	**34,654**	24,992	38.7
Minimum capital	**11,529**	12,386	(6.9)
Solvency margin ratio (%)	**301**	202	Increase of 99 pt
PICC Health			
Actual capital	**3,206**	1,575	103.6
Minimum capital	**1,718**	1,356	26.7
Solvency margin ratio (%)	**187**	116	Increase of 71 pt

As of 31 December 2014, the solvency margin ratio of the Group was 182%, representing an increase of 34 percentage points as compared to 31 December 2013 and remained in the Adequate Solvency II category as classified by the CIRC.

As of 31 December 2014, the solvency margin ratio of PICC P&C was 239%, representing an increase of 59 percentage points as compared to that was on 31 December 2013 and remained in the Adequate Solvency II category as classified by the CIRC. The solvency margin ratio of PICC Life was 301%, representing an increase of 99 percentage points as compared to that was on 31 December 2013 and remained in Adequate Solvency II category as classified by the CIRC. The solvency margin ratio of PICC Health was 187%, representing an increase of 71 percentage points as compared to that was on 31 December 2013 and remained in the Adequate Solvency II category as classified by the CIRC.

PROSPECTS

(1) Market Environment

During 2014, China's insurance industry recorded robust growth with the development of the industry entered into a fast lane and the deepening of structural adjustment continued. There was a remarkable enhancement of efficiency of the industry, and capital strength increased significantly. According to the information released by CIRC, during 2014, the Original Premiums Income of China's insurance industry amounted to approximately RMB2.02 trillion, representing an increase of 17.5% as compared to the same period of last year, in which, the Original Premiums Income of the P&C insurance companies and life and health insurance companies recorded an increase of 16.4% and 18.1%, respectively, as compared to the same period of last year; by the end of 2014, total assets of the insurance industry in China amounted to RMB10.16 trillion, representing an increase of 22.6% as compared to the beginning of the period.

2015 is a critical year for the comprehensive deepening reform by the central government, and a year to start fully administering the country according to the law. The Chinese economic and social development contains new structural opportunities which are beneficial for the further expansion of new potential for business development in China's insurance industry, and for maintaining the good development trend of stability and progress.

The comprehensive promotion of all reform measures and the gradual release of the benefits of policies play a strong role in the development of the insurance sector. The State Council successively issued the "New Ten Regulations" to speed up the development of a modern insurance service sector and the Several Opinions on Accelerating the Development of Commercial Health Insurance, which have created the conditions for the Chinese insurance industry to participate in the sector chain integration of healthcare, retirement and social management and to explore new business domains.

The systematic implementation of the national new urbanization strategy is beneficial for the further exploration of the insurance businesses in relation to engineering projects, corporate finance, liability and accident during the process of industry transfer and shanty town improvement projects, as well as the "organic" interactive linking of the assets and liabilities of those investment projects with longer development periods and stable income so that the assets can better drive liabilities.

The central government proposed a series of policies and measures to accelerate the development of modernization of agricultural sector. The size and scope of "Greenbox" supportive policies such as agricultural insurance will be expanded gradually. All of these policies and measures will provide new and important opportunities for the upgrade and expansion of insurance for agriculture, rural areas and farmers and the improvement of rural finance insurance service chain.

The comprehensive implementation of modernization of the governance system and governance capability of the State and the continuous expansion of the width and breath of procurement services of the government in the market will provide new opportunities for the insurance industry to further push ahead the liability insurance pilot schemes, explore occupational annuity, supplemental business pension and health insurance businesses and participate closely in all types of social insurance services and other public services in depth.

A new trend of changes has occurred in the external liberalization – the slogans of a high level of “Bringing in” and a large-scale “Going out” are taking place simultaneously, and the “One Belt One Road” strategy of the State is being implemented. These are favourable elements for the Chinese insurance industry to enhance optimization of global business layout, the innovation of export credit insurance products and the development of overseas investment insurance, as well as increase in overseas investment and speeding up of the development internationalization.

The steady set-up of a modern insurance regulatory system and the continuous deepening of the reform progress in relation to the pricing of insurance products, the application of insurance funds, the market entrance and exit and the market supervision of re-insurance business are positive factors to further raise the level of regulated development of the Chinese insurance market and strengthen the sustainable development capability of the Chinese insurance industry.

(2) Key Works

2015 is a vital year for the Company in terms of deepening its reform, reorganization, consolidation and innovation and also is the last year of “the 12th five-year-plan”. Based on the key aspiration of “Further reform and innovation, maintenance of stable growth and emphasizing value creation”, the Company will seize opportunities, overcome difficulties, enhance innovative power, identify potential of synergies, inspire the fundamental vigor and fully speed up the transformation to customer-oriented system. The Company will emphasize the enhancement of innovative capability to adapt to social changes, strengthen the establishment of the customer-oriented value, continue to optimize any operation mechanisms that can show this customer-oriented value, continue to strengthen the power to implement the customer-oriented system and further push ahead the transformation of customer-oriented value; it will stress on enhancing the ability to have integrated development, focus on the combination of the top level design and fundamental needs, connect the transitional missions and long term targets of reform, continue to push ahead reform and reorganization with high quality, endeavour to achieve breakthrough in coordination of strategies and resource consolidation and sharing, enhance the efficiency of the overall operation, emphasize the enhancement of the ability to explore markets, continue the building-up of our core team, further inspire the fundamental vigor, continue to push ahead the fundamental coordination, strengthen the sharing and development of client resources, identify the market demand smartly and further strengthen the adaptability of products. The Company will also focus on strengthening of law obedience and compliance and risk prevention, increase the restraints of systems and procedures, prevent the spread of external risks and deepen the systematic establishment of compliance work.

In 2015, all subsidiaries will consider their own professional positioning to pay more attention to the improvement of quality and efficiency, enhance the ability to create value for clients in a comprehensive manner. PICC P&C will grasp the first and foremost mission of development, insist on market orientation, maintain the basic stability of its market share, and while pushing ahead the stable development of motor vehicle insurance business, it will make non-vehicle insurance business to become an important force for the upgraded development of the Company, and at the same time actively adapt to the new regulatory measures, secure its leading position in the comprehensive cost ratio and stabilize the profitability of insurance undertaking. PICC Life will focus on the transformation of development, and pay more attention to raise the value of business, consolidate the fundamental basis, strengthen team building, and while maintaining stable growth of business and the overall stability of cash flow, it will realize the continuous optimization of business structure, increasingly strengthen team building, as well as the overall enhancement of management ability and service standard. PICC Health will stress on mastering the opportunities of the policy of Several Opinions on Accelerating the Development of Commercial Health Insurance of the State Council, further specify its positioning in the promotion of the establishment of the national medical protection system, build up a sustainable business model, strengthen the professional development ability in health insurance, accelerate the construction and operation of a professional health management platform, and endeavour to achieve new breakthroughs in areas of health insurance and health management. In the investment segment, it will grasp the opportunities presented by better investment policy environment, utilize the new investment conditions of "Shanghai-Hong Kong Stock Connect", push ahead alternative investment business steadily, endeavour to obtain new development in the investment domains of developing the healthcare and retirement sector and supporting the development of the real economy and improve gains on investment in entrustment assets. It will push forward the expansion of third party business and increase its influence in the wealth management market; meanwhile, it will further improve the investment decision making mechanism, continue to optimize the assets and liabilities management model and enhance support to the development of the insurance business.

CAPITAL EXPENDITURE

The capital expenditure of the Group primarily consists of property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure of the Group amounted to RMB3,095 million in 2014.

PLEDGE OF ASSETS

Beijing No. 88 West Chang'an Avenue Development Company ("No. 88 Development Company"), a subsidiary of the Company, obtained a loan from China Construction Bank, the outstanding balance of which amounted to RMB687 million and RMB496 million as at 31 December 2014 and 31 December 2013, respectively. No. 88 Development Company has pledged its property located at No. 88 of West Chang'an Avenue in Beijing (net assets as at 31 December 2014: RMB3,554 million; net assets as at 31 December 2013: RMB3,533 million) for security.

Besides, certain subsidiaries of the Company sold and repurchased securities in the market for liquidity management. During the course of transaction, securities held by the Company's subsidiaries were pledged for such transactions. As at 31 December 2014, the carrying amount of relevant securities was RMB44,415 million.

BANK BORROWINGS

Besides the subordinated debts issued by the Group and the repurchase business disposed of in the investment business, the bank borrowings of the Group were RMB687 million. Details of the subordinated debts are set out in Note 35 to the consolidated financial statements, and details of the bank borrowings are set out in Note 34 to the consolidated financial statements.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2014. The Company's management believes such litigation matters will not cause significant losses to the Group.

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

FOREIGN EXCHANGE RISK

A substantial part of the Group's assets and liabilities are denominated in RMB, while certain assets and liabilities of the Group are denominated in foreign currencies, such as Hong Kong dollar, U.S. dollar and other currencies. We may be exposed to foreign exchange risks as a result of changes in the exchange rates between RMB and these currencies. In 2013, the Group converted the proceeds of HK$22,000 million from listing in Hong Kong into RMB in order to mitigate its foreign exchange risk. In addition, the Group controls foreign exchange risk by controlling the foreign exchange balances, increasing the gain on investment in foreign currency assets etc depending on the changes in exchange rates.

INTEREST RATE RISK

Our exposure to interest rate risk predominantly arises from the risk of changes in fair value due to investments in fixed income debt securities which are exposed to fluctuations in interest rates as well as from the effect on the future gain on investments due to such fluctuations. We regularly monitor and assess our interest rate risk by conducting sensitivity analysis and stress tests based on the gap analysis of assets and liabilities. We also manage our interest rate risk by adjusting our portfolio composition and by managing, to the extent possible, the average duration and maturity of our portfolio. We use financial derivatives, such as interest rate swaps, to hedge against part of our interest rate risk.

EXECUTIVE DIRECTORS

Mr. Wu Yan, aged 53, is an Executive Director and the Chairman of the board of directors of the Company (the "Board"), and a Senior Economist. Mr. Wu is a member of the 17th and the 18th National Congress of the Communist Party of China and a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference. From July 1985 to August 1998, he served successively as the deputy secretary of the league committee of the Communist Youth League of Xinjiang Autonomous Region, the party secretary of the Communist Party Committee of the city of Bole, Xinjiang, a member of the Standing Committee of Bortala Mongol Autonomous Prefecture Communist Party Committee, the party secretary (bureau-level) of the Communist Youth League of Xinjiang Autonomous Region and the vice minister (bureau-level) of the Organization Department of the Central Committee of the Communist Youth League. From August 1998 to August 2003, he was the party secretary of the Finance League of the Central Committee of the Communist Youth League and the vice minister of the United Front and Mass Work Department of the Central Finance League, and the president of the National Finance Youth Union. He served as the deputy general manager of China Life Insurance (Group) Company from August 2003 to January 2007. Meanwhile, he also served as president of China Life Insurance Asset Management Company Limited from August 2003 to January 2006 and president of China Life Insurance Company Limited (listed on the Shanghai Stock Exchange, stock code: 601628; the Hong Kong Stock Exchange, stock code: 2628; and the New York Stock Exchange, stock code: LFC) from January 2006 to January 2007. Mr. Wu was appointed as the general manager (president) of the Company in January 2007, and Executive Director, the Chairman of the Board and president (but ceased to be president since March 2012) since September 2009 when the Company completed the share transformation. Mr. Wu is also the chairman of the board of directors of PICC P&C since March 2007, PICC Life since April 2007, PICC AMC since January 2008 and PICC Health since April 2014. Mr. Wu has been a director of The Geneva Association since June 2010. Mr. Wu was awarded the Special Government Allowance by the State Council of the PRC (the "State Council") in March 2011. Mr. Wu graduated from Xinjiang College of Finance and Economics (now known as Xinjiang University of Finance and Economics) in July 1981, and graduated from the graduate school of the Chinese Academy of Social Sciences in July 2002 with a Doctoral Degree in Economics.

Mr. Wang Yincheng, aged 54, is an Executive Director, Vice Chairman and president of the Company, and a Senior Accountant. Mr. Wang joined the Company in August 1982 and until July 2003, served successively as deputy general manager (in charge of daily operations) of the Planning and Finance Department, general manager of the Shenzhen branch and assistant to the general manager of the Company. Mr. Wang was appointed as vice president and chief financial officer of PICC P&C in July 2003; vice-chairman and president from August 2008 to October 2013; and an executive director in July 2003. Since December 2013, Mr. Wang has been reappointed as a non-executive director. He also served as a director of PICC AMC from November 2006 to April 2010. In March 2009, Mr. Wang was appointed as the vice-president of the Company and an Executive Director and vice president in September 2009. Since October 2013, Mr. Wang has been appointed as Executive Director, Vice Chairman and president. Mr. Wang has been the deputy president of the Insurance Association of China from September 2008 to January 2014 and deputy president of the China Association of Actuaries since April 2011to May 2014 as well as the vice chairman of the Insurance Institute of China since January 2014. Mr. Wang graduated from Shanxi College of Finance and Economics (山西財經學院, now known as Shanxi University of Finance and Economics) in July 1982 with a Bachelor's Degree in Economics and graduated from Zhongnan University of Economics and Law in December 2003 with a Doctoral Degree in Economics.

Ms. Zhuang Chaoying, aged 56, is an Executive Director, a vice president of the Company and a Deputy Editor and Senior Enterprise Risk Manager. Ms. Zhuang worked at the Organization Department of the CPC Central Committee from July 1985 to December 2006, serving successively as deputy division director of the Party's Foreign Affairs Cadres Bureau, director of the Editorial Office II and deputy chief editor (deputy bureau level) of the Party Building Books Publishing House, deputy inspector of the Cadres Bureau IV and deputy director of the Cadres Bureau IV in August 2003. Ms. Zhuang has been a deputy general manager (vice president) of the Company since December 2006 and an Executive Director since March 2014. She also served as chairman of the board of supervisors of PICC Life since August 2007. Ms. Zhuang did not hold any directorship in any other listed companies in the last three years. Ms. Zhuang has also been a director of The Insurance Institute of China since November 2011 and a vice chairman since January 2014. Ms. Zhuang graduated from Shandong University in January 1982 with a Bachelor's Degree in Philosophy and obtained a Master of Business Administration Degree from the China Europe International Business School in September 2010.

NON-EXECUTIVE DIRECTORS

Mr. Yao Zhiqiang, aged 57, is a Non-executive Director of the Company and a Senior Accountant. Mr. Yao was a teacher of the economics department, vice-officer of the school office and chief of finance department in Liaoning Province Grain School（糧食學校）from 1982 to 1987. Mr. Yao was the senior staff and deputy director of the Central Enterprise Department of Liaoning Provincial Department of Finance from 1987 to 1995. He was the chief director and assistant commissioner of Liaoning Commissioner Office of Department of Finance from 1995 to 2003 and a party member, deputy inspector and inspector of Liaoning Commissioner Office of Department of Finance since 2003 until now. Mr. Yao has been a Non-executive Director of the Company since March 2014. Mr. Yao did not hold any directorship in any other listed companies in the last three years. He graduated from Liaoning Finance Institute with a major in business administration in 1982.

Mr. Wang Qiao, aged 57, is a Non-executive Director of the Company. He served in the People's Liberation Army as a force warrior of team 39172, group leader of team 39420 and staff officer from 1977 to 1989. Mr. Wang was also the section chief of the Cultural, Educational, Administrative and Financial Department of the Department of Finance, secretary of Public Expenditure Department and secretary and chief of Administration, Politics and Law Division from 1989 to 2011. He has been appointed as the deputy inspector of the Administration, Politics and Law Division of the Department of Finance since September 2011. Mr. Wang has been a Non-executive Director of the Company since March 2014. Mr. Wang did not hold any directorship in any other listed companies in the last three years. He graduated from Air Force Engineering College majored in automatic control and Distance Learning Institute of the Chinese Communist Party majored in economics.

Ms. Li Shiling, aged 59, is a Non-executive Director of the Company, obtained a bachelor's Degree in Law and a postgraduate degree from Communist Party Central Academy Research Institute. She is a Senior Economist. She started her career in January 1974 and worked as a political economy teacher and an office deputy director (in charge of daily operations) of The Bank of Hunan school, an assistant to office director, deputy chief of financial institutions management office of the People's Bank of China Hunan Branch, an assistant to the branch manager of Chang De branch, the director of non-bank financial institutions management office and the director of insurance division business integrated office of the People's Bank of China. From November 1998 to 2013, Ms. Li worked in the CIRC as the director of the Department of Policy and Regulation, the deputy chief and party committee of Tianjin Office, the deputy chief and inspector of the General Office as well as the inspector and deputy chief (in charge of daily operations). She has been serving as the director of Insurance Consumer Protection Bureau since May 2012. Ms. Li has been a Non-executive Director of the Company since March 2014. Ms. Li did not hold any directorship in any other listed companies in the last three years.

Ms. Zhang Hanlin, aged 61, is a Non-executive Director of the Company and a Deputy Researcher. Ms. Zhang was the deputy chief of the Policy and Regulation Division of Ministry of Commerce from 1991 to 1993, the chief, party committee secretary of the State Grainary Reserve Bureau, person in charge, inspector and chief of the center of Central Reserve Office from 1993 to 2007. Ms. Zhang was the controller of the company organization committee of the China Grain Group Company (中國華糧集團公司) from August 2000 to May 2002. Ms. Zhang worked at the China Investment Corporation from September 2007 to March 2012, and served successively as controller of the operational department, director, director of the general office and a member of the party committee. Since April 2012, Ms. Zhang has been a Non-executive Director of the Company. Ms. Zhang did not hold any directorship in any other listed companies in the last three years. Ms. Zhang graduated from Liaoning University in July 1984 majored in Economic Management and a Doctoral Degree in Economics from the Graduate School of the Chinese Academy of Social Sciences in 1991.

Mr. Ma Qiang, aged 55, is a Non-executive Director of the Company. Mr. Ma served as an official of the Tianjin Bureau of Statistics from April 1982 to June 1987, the cadre and the officer of the general office of the Tianjin Municipal People's Government from June 1987 to October 1995, and the deputy division head of the fund management division, the deputy division head of the budget division, the division head of the fund management division as well as of the budget division of Tianjin Bureau of Finance from December 1995 to July 2001. He also served as the deputy chief and the member of the party leadership group, the deputy chief and the deputy secretary of the party leadership group (bureau level) of Tianjin Finance Bureau, also Tianjin Local Taxation Bureau, from July 2001 to December 2010. Mr. Ma has been the director of the equity management department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. He has been a non-executive director of Bank of Communications Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601326; the Hong Kong Stock Exchange, stock code: 3328) since September 2011. Since March 2014, Mr. Ma has been appointed as a Non-executive Director of the Company. In December 2014, Mr. Ma Qiang. resigned of a Non-executive Director. Before the approval of the appointment of a new non-executive director as a successor by shareholders of the Company at a general meeting pursuant to relevant laws, regulations and internal documents such as the Articles of Association and the approval of the China Insurance Regulatory Commission in respect of the appointment qualifications of the successor, Mr. Ma Qiang will continues to perform the duties and responsibilities of Director. He graduated from the Internet Faculty of Hunan University in 2004 majored in finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Hon Chuen, GBS, JP, aged 67, has been an Independent Non-executive Director of the Company since October 2012. He has been a solicitor of the High Court of Hong Kong since December 1971, and is a China-Appointed Attesting Officer and a Notary Public. Mr. Lau has been the senior partner of Messrs. Chu & Lau, Solicitors & Notaries since April 1978, and is currently a standing committee member of the 12th National Committee of the Chinese People's Political Consultative Conference. Mr. Lau is currently an independent non-executive director of the following companies listed on the Hong Kong Stock Exchange: Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited, Yuexiu Property Company Limited, Joy City Property Limited (Formerly known as COFCO Land Holdings Limited), and Brightoil Petroleum (Holdings) Limited. He is also currently an independent non-executive director of OCBC Wing Hang Bank Limited (Formerly known as Wing Hang Bank Limited, delisted from HKEx with effect from 16 October 2014), Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited, Nanyang Commercial Bank Limited, Wing Hang Bank (China) Limited and a director of Chu & Lau Nominees Limited (a company secretarial services company), Sun Hon Investment and Finance Limited (an investment business company), Wydoff Limited (a nominee services company), Wytex Limited (a nominee services company), Trillions Profit Investment Ltd., Helicoin Ltd. and Wyman Investments Ltd. Mr. Lau served as chairman of Central and Western District Council of Hong Kong from 1988 to 1994, the president of the Law Society of Hong Kong from 1992 to 1993, a member of the Bilingual Laws Advisory Committee from 1988 to 1997 and a member of the Legislative Council of Hong Kong from 1995 to 2004 (he was a member of the Provisional Legislative Council between 1997 and 1998). Mr. Lau was the standing committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference. Mr. Lau graduated from the University of London in July 1969 with a Bachelor of Laws Degree.

Mr. Du Jian, aged 73, is an Independent Non-executive Director of the Company and a Senior Economist. Mr. Du joined the MOF in August 1963, and until June 2000 served consecutively as deputy director of the General Division of the Cultural, Educational, Administrative and Financial Department, deputy director of the Cultural and Health Division, deputy director and director of the Cultural and Corporate Division, director of the Social Security Department and director of the External Department. Mr. Du was the chairman of the board of supervisors (deputy organization level) of the Communist Party's Central Finance Working Committee on Important State-owned Financial Institutions of the State Council from June 2000 to June 2003 and chairman of the board of supervisors (deputy organization level) of the CBRC's Important State-owned Financial Institutions of the State Council from June 2003 to August 2005. Mr. Du was the director of the CBRC's Special Treatment Case Supervision Organization from February 2006 to December 2008. Mr. Du has been an Independent Non-executive Director of the Company since October 2012. In August 2014, Mr. Du Jian resigned of a Non-executive Director. Before the approval of the appointment of a new non-executive director as a successor by shareholders of the Company at a general meeting pursuant to relevant laws, regulations and internal documents such as the Articles of Association and the approval of the China Insurance Regulatory Commission in respect of the appointment qualifications of the successor, Mr. Du Jian will continues to perform the duties and responsibilities of Director. Mr. Du did not hold any directorship in any other listed companies in the last three years. Mr. Du graduated from Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1963 with a Bachelor's Degree in Finance.

Mr. Xu Dingbo, aged 51, is an Independent Non-executive Director of the Company. From 1986 to 2003, Mr. Xu was a teaching assistant at the University of Pittsburgh and the University of Minnesota, an assistant professor at the Hong Kong University of Science and Technology, and an adjunct professor at Peking University from April 1999 to April 2009. He joined the China Europe International Business School in January 2004, where he currently serves as the school's Essilor chair Professor of Accounting, associate dean of Academic Affairs and a member of the Managing Committee, and has served as a member of its financial budget committee since October 2009. Mr. Xu has been an Independent Non-executive Director of the Company since September 2009, and was an independent non-executive director and chairman of the audit committee of Sanjiang Shopping Club Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601116) from December 2009 to November 2011. Mr. Xu has served as an independent non-executive director and chairman of the audit committee of Dongyi Risheng Home Decoration Group Limited Company (listed on Shenzhen Stock Exchange, stock code: 002713) since December 2010. Since December 2012, Mr. Xu has served as an independent director and chairman of the audit committee of Shanghai Shyndec Pharmaceutical Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600420). Mr. Xu has served as independent director of Sany Heavy Industry Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600031) since January 2013 and as the chairman of the audit committee since July 2013. Since June 2013, Mr. Xu has served as an independent director and chairman of the audit committee of China Cinda Asset Management Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01359). Mr. Xu graduated from Wuhan University in July 1983 with a Bachelor's Degree in Mathematics, and obtained a Master's Degree in Economics in October 1986. Mr. Xu graduated from the University of Minnesota in August 1996 with a Doctoral Degree in Accounting. As a result of Mr. Xu's extensive academic experience and expertise in the field of accounting, as well as his experience in company (including public company) audit committees and budget committees of institutions, the Company considers that Mr. Xu possesses appropriate accounting and financial management expertise for the purposes of Rule 3.10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

Mr. Luk Kin Yu, Peter, aged 74, is an Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute and Faculty of Actuaries in England, the Institute of Actuaries of Australia and the Society of Actuaries in the United States of America, respectively. Mr Luk was previously the chief actuary of American International Assurance Company, Limited, the chief financial officer of the Pacific-Asia Division of Manulife Insurance Co., Ltd., the appointed actuary of Australian Casualty and Life Insurance Co., Ltd., the senior actuary of Mercer, Campbell, Cook & Knight, and an executive director and the chief financial officer of Pacific Century Insurance Holdings Limited. Mr Luk was the president of the Actuarial Society of Hong Kong when it was founded and the President of the society for a considerable number of sessions. Mr Luk was a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong and the chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the chief executive officer of Plan-B Consulting Limited, an independent non-executive director of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited. Since April 2005, Mr. Luk has been the independent non-executive director of PICC P&C and he has been appointed as the Independent Non-executive Director of the Company since December 2013. Mr Luk has substantial experience in the insurance industry.

SUPERVISORS

Mr. Lin Fan, aged 55, is a Supervisor and the chairman of the Board of Supervisors of the Company, and a Senior Economist. Mr. Lin joined the Company in September 1980 and until July 1999, served successively as deputy general manager of the Guangzhou branch and general manager of the Shenzhen branch. Mr. Lin served as deputy general manager of China Insurance Company, Limited from July 1999 to August 2002. From August 2002 to May 2009, Mr. Lin served successively as managing director, vice chairman of the board of directors, deputy general manger, general manager and chairman of the board of directors of China Insurance (Holdings) Company Limited. Mr. Lin served as the chairman of the board of directors of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited from May 2009 to March 2012. Meanwhile, Mr. Lin served consecutively as chairman of the Board of The Ming An Insurance Co. (H.K.) Ltd., chairman of the board of directors of The Ming An (Holdings) Company Limited and chairman of the board of directors of China Taiping Insurance Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 0966). Mr. Li has been a Supervisor and chairman of the Board of Supervisors of the Company since March 2012. Mr. Lin graduated from the University of South Australia in August 2006 with a Master's Degree in Business Administration.

Mr. Yu Ning, aged 61, is an Independent Supervisor of the Company and a lawyer. He served in the army from 1969 to 1978. He worked in Zhenjiang Health Office, Jiangsu province as an administrative officer from May 1978 to August 1979. Mr. Yu served as deputy director and director of Central Disciplinary Inspection Commission of the Chinese Communist Party from August 1983 to May 1994. He established Beijing Times Highland Law Firm in 1994 and worked as a practicing lawyer until 2005; from 1999 to 2005, he was the fourth and fifth vice president of the All China Lawyers Association. From 2005 to 2011, he was the sixth and seventh president of the All China Lawyers Association. Since 2012, Mr. Yu has been serving as the chairman of Grandall Legal Group. Meanwhile, Mr. Yu also served as an external director of China Mobile Limited, and an independent director of Bank of Beijing Co. Ltd (listed on the Shanghai Stock Exchange, stock code: 601169), BOE Technology Group Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000725), Intime Retail (Group) Company Limited (listed on the Hong Kong Stock Exchange, stock code: 1833) and Beijing Enterprises Water Group Limited (listed on the Hong Kong Stock Exchange, stock code: 0371). He was a member of the eleventh National Committee of the Chinese People's Political Consultative Conference (CPPCC) and a member of the Social and Legal Affairs Committee of the CPPCC. Since March 2014, Mr. Yu has been appointed as an Independent Supervisor of the Company. He graduated from Peking University in 1983 with a Bachelor's Degree in Law and also obtained a Master's Degree in Economic Law from Peking University in 1996.

Mr. Xu Yongxian, aged 51, is a shareholder representative Supervisor of the Company and a Senior Economist. Mr. Xu joined the MOF in August 1990 and until December 2009, served successively as deputy director of the General Division of the Taxation Department, deputy director of the General Division of the Taxation Regulation Department, director of the General Division and director of Local Tax Division I of the Taxation Department, and deputy department level cadre of the Taxation Department of the MOF from September 2009 to December 2009. Mr. Xu has been a Supervisor of the Company since September 2009. Mr. Xu did not hold any directorship in any listed companies in the last three years. Mr. Xu graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1987 with a Bachelor's Degree in Taxation and a Master's Degree in Finance in July 1990.

Ms. Li Yongmei, aged 47, is a Supervisor representative of employees of the Company and a Senior Economist. She worked in the National Audit Office since August 1989 and served as vice commissioner of the Audit Office in the Ministry of Commerce, vice commissioner of the Audit Office in the Ministry of Internal Trade, deputy chief and chief of Development and Planning Audit Office until July 2001. In August 2001, Ms. Li was the chief executive financial officer, chief information officer, chief commercial officer and deputy general manager of Beijing Zhonghongjin Information Company Limited (北京中宏金資訊有限公司). She joined the Company in June 2005, and served successively as a member of company organization committee and the chief director of audit department of the ministry of audit and supervision of PICC Life and the deputy general manager of the ministry of audit and supervision/inspection office of the Company (in charge of daily operations) until October 2011. Since November 2011, she has been the general manager of the ministry of audit and supervision/inspection office of the Company. She has been serving as a Supervisor of Zhongsheng International since March 2008 and a Supervisor of No. 88 Development Company since March 2011. Since March 2014, Ms. Li has been appointed as a Supervisor representative of employees of the Company. Ms. Li did not hold any directorship in any listed companies in the last three years. She graduated from Beijing Business School (currently known as Beijing Technology and Business University) with a Bachelor's Degree in Financial Management in August 1989.

Ms. Yao Bo, aged 55, is a Supervisor representative of employees of the Company, a Senior Economist and a Senior Accountant. Ms. Yao joined the MOF in October 1987 and until March 2004 served successively as deputy director of Domestic Debts Division of the National Debts Department, deputy director of Finance Division III of the National Debts and Finance Department, deputy director and researcher of Finance Division II of the Finance Department. Ms. Yao served successively as part-time supervisor of the board of supervisors of Industrial and Commercial Bank, China Huarong Asset Management Corporation, China Construction Bank and China Cinda Asset Management Corporation from June 2000 to March 2004. Ms. Yao joined the Company in March 2004 and until September 2007, served as deputy general manager of the Finance and Accounting Department and director of the Accounting Division, and since September 2007 served successively as general manager of the Worker's Union Department of the Company and the deputy director of the Worker's Union Committee, and has been the Supervisor representative of the employees of the Company since September 2009. Ms. Yao did not hold any directorship in any listed companies in the last three years. Ms. Yao graduated from the People's Liberation Army Medical School of Beijing (中國人民解放軍北京軍區醫院學校), now known as People's Liberation Army Bethune Medical Officer School (中國人民解放軍白求恩醫務士官學校) in July 1982 with a university level qualification majoring in Examination and Inspection, and graduated from the Party School of the Central Committee of CPC in December 1997 with a Bachelor's Degree in Foreign-related Economics, and graduated from the Jiangxi University of Finance and Economics in July 1999 with a Master's Degree in Finance and Policy.

SENIOR MANAGEMENT

Mr. Wang Yincheng. Please refer to the section titled “Executive Directors” for the biography of Mr. Wang Yincheng.

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

Mr. Li Yuquan, aged 49, is a vice president of the Company and a Researcher. Mr. Li joined the Company in July 1994 and until July 2003, served successively as office deputy division director and director, deputy general manager of the Market Development Department and general manager of the Legal Department. Mr. Li served as a vice president of PICC P&C from July 2003 to August 2007 and general manager of its Legal Department from July 2003 to March 2006, general manager of its Shanghai branch from May 2004 to December 2005 and its compliance controller from February 2007 to August 2007. Mr. Li has served as vice chairman of the board of directors and president of PICC Health from August 2007 to September 2013, and vice president of the Company since March 2011. Mr. Li has been appointed as a Supervisor representative of employees of the Company. Mr. Li was awarded the qualifications of Committee Member and Arbitrator of the China International Economic and Trade Arbitration Commission, Committee Member, Arbitrator and Member of the Expert Consultation Committee of the China Maritime Arbitration Commission in April 2001, and Arbitrator of the Beijing Arbitration Committee in September 2003,and vice chairman of the Expert Consultation Committee of the China Maritime Arbitration Commission in April 2014. Mr. Li has served as a director of The Insurance Institute of China from November 2011 to January 2014,and as vice chairman of China Maritime Law Association. Mr. Li was awarded the Special Government Allowance by the State Council in August 2005. Mr. Li graduated from Zhejiang University in July 1986 with a Bachelor’s Degree in Law and obtained a Master’s Degree in Law in July 1989 and a Doctoral Degree in Law in July 1994 from Wuhan University.

Mr. Tang Zhigang, aged 50, is a vice president of the Company and a Senior Economist. Mr. Tang worked in the Agricultural Bank of China from July 1988 to July 1994 and served as a deputy director of restructuring commission of research office. From July 1994 to September 2013, Mr. Tang worked in the Agricultural Bank of China and served as a deputy director of research office of general administrative office, a deputy division director, director, assistant to the chief of Jiangsu branch, deputy officer of administrative office of headquarters, manager of the research division, chief of Jiangsu branch, head of the preparation committee of international business of headquarters, general manager of the international department and director of the office, as well as the assistant to the president and director of office of the Agricultural Bank of China since February 2013. Since September 2013, he has been appointed as a vice president of the Company. Mr. Tang did not hold any directorship in any listed companies in the last three years. Mr. Tang graduated from Hunan Institute of Finance in July 1985 with a Bachelor’s Degree in Economics and obtained a Master’s Degree in Economics from PBOC Research Institute of Finance and Banking in July 1988.

Ms. Yu Xiaoping, aged 57, is a vice president of the Company and a Senior Economist. Ms. Yu worked at the People’s Construction Bank of China as deputy director of the Real Estate Credit and Loan Department from January 1982 to March 1994, at the China Development Bank successively as controller and deputy director of the International Finance Bureau, president (bureau level) of the Wuhan branch, and president (bureau level) of the Shenzhen branch from March 1994 to January 2010. Ms. Yu has served as a chief investment officer of the Company from January 2010 to January 2014 and she has been appointed as a vice president of the Company since October 2013. Ms. Yu has served as a director of China Credit Trust Company Limited from November 2010 to December 2013, non-executive director of PICC P&C since January 2011 and chairman of the board of directors of No. 88 Development Company since March 2011. Ms. Yu graduated from Tongji University in January 1982 with a Bachelor’s Degree in Science and from Renmin University of China in July 1988 with a Bachelor’s Degree in Economics.

Mr. Sheng Hetai, aged 44, is a vice president of the Company and a Senior Economist. Mr. Sheng joined the Company in July 1998 and until September 2007, served successively as deputy director of the Product Development Center, deputy general manager (in charge of daily operations) of the Research and Development Department, general manager of the Equity Management Department/Risk Management Department. Mr. Sheng has served as general manager of the Strategic Planning Department of the Company since September 2007, senior expert from May 2008 to May 2010, assistant to the president since March 2010 and vice president since June 2014. He has also served as a supervisor of PICC P&C since August 2006. He has been the chairman of the board of directors of Zhongsheng International Insurance Brokers Co., Ltd since November 2013. Mr. Sheng did not hold any directorship in any listed companies in the last three years. Mr. Sheng has served as a director of The Insurance Institute of China since September 2004 and executive director since January 2014. Mr. Sheng graduated from Peking University in July 1998 with a Doctoral Degree in Economics.

Mr. Han Kesheng, aged 49, is an assistant to the president and a Senior Economist. Mr. Han joined the National Ministry of Supervision in July 1991, the CPC Central Commission for Discipline Inspection in January 1993 and until May 2001, served successively as deputy division level inspector, division level inspector and supervisor of the General Office. Mr. Han joined the Company in May 2001 and served successively as assistant to the general manager and deputy general manager of the Human Resources Department of the Company, deputy general manager of the Human Resources Department of PICC P&C and general manager of the Supervisory Department/Auditing Department of PICC P&C. Mr. Han has served as general manager of the Human Resources Department of the Company since September 2007 to January 2015 and assistant to the president since March 2010. Mr. Han did not hold any directorship in any listed companies in the last three years. Mr. Han graduated from Anhui Normal University in July 1985 with a Bachelor of Arts Degree and from Nankai University in July 1991 with a Master's Degree in Literature.

Mr. Li Tao, aged 48, is the secretary to the Board and general manager of the Secretariat of the Board and Office of the Board of Supervisors of the Company, and a Senior Economist. Mr. Li's career began in July 1985. Mr. Li joined the Company in July 1998, and served successively as director of the Policy Research Office of the Research and Development Center and deputy director of the Research and Development Center of the Company, deputy director and director of the secretariat of the board of directors of PICC P&C, general manager of the Development and Reform Department and director of the Policy Research Office of the Company from March 2006 to September 2007, and senior expert from September 2007 to January 2010. Mr. Li served as the deputy director of the Share Transformation Office of the Company from February 2008 to September 2009 and has been the secretary to the Board since September 2009. He has been the secretary to the Board/general manager of the office of the Board of Supervisors since January 2010 and standing deputy director of the listing office since May 2011. He has served as a non-executive director of PICC P&C since November 2006. Mr. Li graduated from Renmin University of China in July 1993 with a Master's Degree in Philosophy and from the Party School of the Central Committee in July 1998 with a Doctoral Degree in Economics.

Mr. Zhao Jun, aged 54, is the chief information technology officer and general manager of the South Information Center of the Company, and a Senior Engineer. Mr. Zhao joined the Company in November 1993 and until July 2003, served successively as deputy general manager and general manager of the Information Technology Department. Mr. Zhao served as general manager of the Information Technology Department of PICC P&C from July 2003 to June 2005, general manager of the Statistics and Information Department of the Company from June 2005 to March 2006, general manager of the Information Technology Department/Statistical Analysis Department in March 2006, chief information technology officer since September 2007, general manager of the South Information Center since January 2010 and general manager of the Information Technology Department since March 2015. Mr. Zhao did not hold any directorship in any listed companies in the last three years. Mr. Zhao was awarded the Special Government Allowance by the State Council in February 2007. Mr. Zhao graduated from Hunan University in December 1981 with a Bachelor's Degree in Engineering and from the University of Bradford in November 1993 with a Master's Degree in Science.

Mr. Zhou Houjie, aged 49, is the financial controller and chief financial officer of the Company, and an Accountant. Mr. Zhou served successively as deputy general manager and general manager of the Finance Department of China Union Pay Company Limited, general manager of its Shanghai branch and general manager of its Banking Service Department from March 2002 to July 2008. Mr. Zhou served as vice president of China Huawen Investment Holding Company Limited and vice president of Shanghai Xin Huawen Investment Company Limited from July 2008 to July 2010 and has served as the financial controller and chief financial officer of the Company since January 2010. He has served as a non-executive director of Shanghai New Huang Pu Real Estate Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600638) from September 2008 to September 2010 and non-executive director of PICC Capital since March 2014. Mr. Zhou graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in June 1991 with a Bachelor's Degree in Economics and the Shanghai National Accounting Institute in June 2005 with an Executive Master of Business Administration Degree.

EMPLOYEES

As at 31 December 2014, the Group had a total of 184,644 employees, including regular empolyees and contract labor staff. For the year ended 31 December 2014, salaries paid to the employees by the Company and its subsidiaries were approximately RMB28.317 billion in total, which mainly included fixed salaries, performance bonuses as well as contributions to insurance and benefit plans for employees in accordance with relevant PRC regulations. The salary of employees are determined in accordance with market levels, employees' performance and actual situation of Company. The Company and its subsidiaries enhance the performance and efficiency of employees by various measures such as providing career development channels, strengthening staff training and implementing performance review.

OVERVIEW

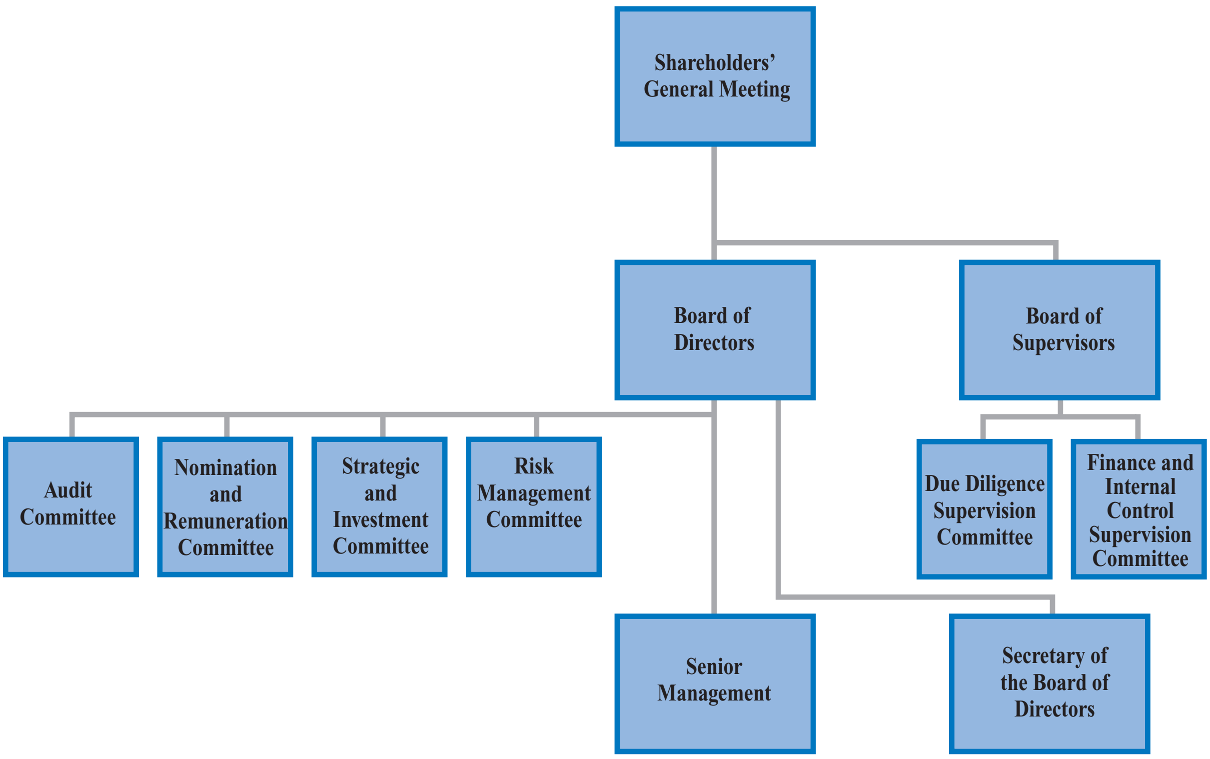
The Company always abides by the relevant laws such as the "Company Law of the People's Republic of China", the "Insurance Law of the People's Republic of China", earnestly performed the requirements of the regulatory systems of the "Listing Rules", the "Guided Opinion on standardizing the corporate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

Save for the requirement that "every Director should be subject to retirement by rotation at least once every three years" under the code provision A.4.2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, and the requirement that "An issuer must appoint independent non-executive directors representing at least one-third of the board" under Rule 3.10A of the Listing Rules, the Company had complied with all other code provisions of the Corporate Governance Code in 2014, adopted recommended best practices under appropriate circumstances and continued to perfect its corporate governance structure. The general meeting, the Board, the Board of Supervisors and the senior management independently performed their respective rights and obligations pursuant to the Articles of Association, which is in compliance with laws and regulatory requirements.

Regarding the non-compliance with code provision A.4.2 of the Corporate Governance Code, since the qualification of Mr Luk Kin Yu, Peter as a Director is not yet approved by the CIRC, thus Mr Cai Weiguo will continue to serve as director of the Company. Therefore, the Company was not in compliance with the requirement in A.4.2 of Corporate Governance Code as set out in Appendix 14 to the Listing Rules that each Director shall retire from office by rotation at least once every three years. For details, please refer to the announcement of the Company dated on 11 March 2014.

In respect of the non-compliance with Rule 3.10A of the Listing Rules, on 29 September 2014, Mr Xiang Huaicheng resigned from the post of Independent Non-executive Director of the Company, so that the Independent Non-executive Directors of the Company were less than one-third of the number of members of the Board of Directors. On 30 December 2014, the Company convened a meeting of the Board, and considered and approved the resolution to nominate Mr Tang Shisheng as candidate of Independent Non-executive Director, however his appointment is subject to the approval by the shareholders. For details, please refer to the announcements of the Company dated 26 September 2014 and 30 December 2014. The Company will propose relevant resolutions at the annual general meeting.

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



SHAREHOLDERS' GENERAL MEETING

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

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

- Considered and approved the reports of the Board and the Board of Supervisors for the year 2013;
- Considered and approved the resolution concerning the financial report of the Company for the year 2013;
- Considered and approved the resolution concerning the Company's profit distribution plan for the year 2013;
- Considered and approved the Company's investment budget for fixed assets in 2014.
- Considered and approved the engagement of auditor for 2014 financial report.
- Received the performance report of the Directors of the Company for the year 2013 and performance report of the Independent Directors of the Company for the year 2013.
- Received the report on connected transactions and the execution of the connected transaction management system of the Company for the year 2013.

SHAREHOLDERS' GENERAL MEETING *(continued)*

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

The shareholders' general meetings established effective channels for communicating with shareholders, ensured that the shareholders have the right to know, participate in and vote on major matters of the Company. The shareholders are also familiar with the detailed procedures to vote on resolutions by means of voting.

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

Methods of Convening Extraordinary General Meetings

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

Procedures for Proposing Resolutions at General Meetings

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

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

THE BOARD

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

THE BOARD *(continued)*

Composition

As at 31 December 2014, the Board comprised 13 Directors (see "Directors, Supervisors, Senior Management and Employees" in this annual report for the profiles of current Directors), consisting of four Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. Directors serve a term of three years and are eligible for re-election, but Independent Non-executive Directors shall not serve consecutively for more than six years.

During the year, the Board comprised the following Directors:

Name	Position	Date of Appointment
Wu Yan	Chairman of the Board and Executive Director	28 September 2009
Wang Yincheng	Vice Chairman of the Board and Executive Director	28 September 2009
Zhuang Chaoying	Executive Director	4 March 2014
Zhou Liqun	Executive Director	4 March 2014
Yao Zhiqiang	Non-executive Director	4 March 2014
Wang Qiao	Non-executive Director	4 March 2014
Li Shiling	Non-executive Director	4 March 2014
Zhang Hanlin	Non-executive Director	17 April 2012
Ma Qiang	Non-executive Director	4 March 2014
Lau Hon Chuen	Independent Non-executive Director	19 October 2012
Du Jian	Independent Non-executive Director	19 October 2012
Xu Dingbo	Independent Non-executive Director	28 September 2009
Cai Weiguo	Independent Non-executive Director	18 November 2009

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

On 27 December 2013, the Company held the second extraordinary general meeting of the Company in 2013 for the purpose of electing Mr. Wu Yan, Mr. Wang Yincheng, Ms. Zhuang Chaoying and Mr. Zhou Liqun as the Executive Directors for the second session of the Board; electing Mr. Yao Zhiqiang, Mr. Wang Qiao, Ms. Li Shiling, Ms. Zhang Hanlin and Mr. Ma Qiang as the Non-executive Directors for the second session of the Board; and electing Mr. Xiang Huaicheng, Mr. Lau Hon Chuen, Mr. Du Jian, Mr. Xu Dingbo and Mr. Luk Kin Yu, Peter as the Independent Non-executive Directors for the second session of the Board. The qualifications of Ms. Zhuang Chaoying, Mr. Zhou Liqun, Mr. Yao Zhiqiang, Mr. Wang Qiao, Ms. Li Shiling and Mr. Ma Qiang as the Directors of the Company have been approved by the CIRC in March 2014. Since the qualification of Mr. Luk Kin Yu, Peter as a Director of the Company is still subject to the approval of the CIRC, Mr. Cai Weiguo shall therefore continue to serve as a Director of the Company. Therefore, the Company was not in compliance with the requirement in A.4.2 of Corporate Governance Code as set out in Appendix 14 to the Listing Rules: Each Director shall retire from office by rotation at least once every three years.

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

On 25 August 2014, pursuant to the relevant regulation on retired party and political leaders and cadres working part-time (holding office) in enterprises, Mr. Du Jian resigned from the posts of Independent Non-Executive Director and member of the Nomination and Remuneration Committee of the Company, before the qualification of his successor is approved by China Insurance Regulatory Commission, Mr. Du Jian will continue to perform the duties and responsibilities as Independent Non-Executive Director and member of the Nomination and Remuneration Committee of the Company.

THE BOARD *(continued)*

Composition *(continued)*

On 26 September 2014, Mr. Xiang Huaicheng resigned from the post of Independent Non-Executive Director of the Company, Chairman of the Nomination and Remuneration Committee and member of the strategy and investment committee due to his own busy schedule, so that the number of Independent Non-Executive Directors of the Company was less than one-third of the members of the board of directors. On 30 December 2014, the Company nominated Mr Tang Shisheng as Independent Non-Executive Director, as soon as the term of directorship of Mr Tang Shisheng takes effect, the number of Independent Non-Executive Directors will exceed one-third of the number of the members of the board of directors, and the Company will then comply with the provision of Rule 3.10A of the Listing Rules of The Stock Exchange of Hong Kong Limited.

On 30 December 2014, pursuant to the relevant regulation on retired party and political leaders and cadres working part-time (holding office) in enterprises, Mr. Ma Qiang resigned from the posts of non-executive director and member of the risk management committee of the Company. At the same time, the board nominated Mr Li Fang to be the successor of Mr Ma Qiang and to be appointed as non-executive director of the Company. Before the term of Mr Li Fang takes effect, Mr Ma Qiang will continue to perform the duties and responsibilities as non-executive director and member of the risk management committee of the Company.

On 14 January 2015, Mr Zhou Liqun resigned from the post of Executive Director and member of the risk management committee of the Company due to work arrangement.

Please refer to the section "Directors, Supervisors, Senior Management and Employees" in the Company's 2013 Annual Report for the biographies of Mr Xiang Huaicheng and Mr Zhou Liqun.

Duties and Responsibilities

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

THE BOARD *(continued)*

Summary of Work Undertaken

During the reporting period, the Board convened 1 shareholders' meeting, submitted 7 resolutions to the shareholders' meeting for consideration and approval, and submitted 3 reports; convened 8 meetings of the Board, reviewed and approved 35 resolutions, received 6 reports. The main matters reviewed included: election of the chairman and vice chairman of the second session of the Board; election of the chairmen and members of the audit committee, nomination and remuneration committee and risk management committee, election of the members of the strategy and investment committee; nomination of the candidates of Non-executive Directors and Independent Non-executive Directors; hiring of the vice president of the Company; preparation of the annual business plan, financial budget; carried out annual appraisal of the directors and senior management; approved the 2013 annual report, announcement of annual results, 2014 interim report, announcement of the interim results; hired the auditors for the financial reports for the year 2014; reviewed the three-year rolling plan proposals of asset strategic allocation for 2014-2016, 2015-2017 of The People's Insurance Company (Group) of China Limited; reviewed the internal control, compliance management, risk control annual reports of the Company; made a comprehensive assessment of the corporate governance status of the Company of 2013; reviewed the resolution of the renewal of the liability insurance for directors, supervisors and senior management; approved the enterprise annuity proposal.

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

Name	Attendance in person/scheduled attendance	Percentage of attendance in person
Wu Yan	0/1	0%
Wang Yincheng	1/1	100%
Zhuang Chaoying	1/1	100%
Zhou Liqun	0/1	0%
Yao Zhiqiang	1/1	100%
Wang Qiao	1/1	100%
Li Shiling	1/1	100%
Zhang Hanlin	1/1	100%
Ma Qiang	1/1	100%
Xiang Huaicheng	0/1	0%
Lau Hon Chuen	1/1	100%
Du Jian	1/1	100%
Xu Dingbo	1/1	100%
Cai Weiguo	0/1	0%

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

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

Name	Attendance in person/scheduled attendance	Percentage of attendance in person	Attendance by proxy/scheduled attendance	Percentage of attendance by proxy
Wu Yan	7/8	87.5%	1/8	12.5%
Wang Yincheng	7/8	87.5%	1/8	12.5%
Zhuang Chaoying	7/7	100%	0/7	0%
Zhou Liqun	5/7	72%	2/7	28%
Yao Zhiqiang	7/7	100%	0/7	0%
Wang Qiao	7/7	100%	0/7	0%
Li Shiling	7/7	100%	0/7	0%
Zhang Hanlin	8/8	100%	0/8	0%
Ma Qiang	6/7	86%	1/7	14%
Xiang Huaicheng	3/7	43%	4/7	57%
Lau Hon Chuen	8/8	100%	0/8	0%
Du Jian	8/8	100%	0/8	0%
Xu Dingbo	7/8	87.5%	1/8	12.5%
Cai Weiguo	3/8	37.5%	5/8	62.5%

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

- Convened one shareholders' general meeting;
- Elected the Chairman and Vice Chairman of the second session of the Board;
- Elected the chairmen and members of the audit committee, nomination and remuneration committee, risk management committee of the second session of the board, elected the members of the strategy and investment committee of the second session of the board;
- Considered and approved the operation plans and financial budget of the Company for the year 2014;
- Considered and approved the resolutions concerning the financial report and the profit distribution plan for the year 2013;
- Considered and approved the resolution concerning the annual report and annual result announcement for the year 2013 as well as the interim report and interim result announcement for the first half of the year 2014;
- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company;

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

- Considered and approved the Company's self-assessment report on internal control, risk evaluation report, compliance report, corporate governance report and assessment report on the implementation of business plan for the year 2013;

- Engaged the vice president of the Company;

- Nominated the candidates of non-executive directors and independent non-executive directors for the second session of the Board;

- Considered and approved the remuneration settlement scheme for the key personnel of the Company;

- Considered the engagement of auditor for financial report for the year 2014;

- Considered and approved the resolution in relation to the increase in share capital of PICC Health;

- Received the performance reports of the Directors for the year 2013 and performance reports of the Independent Directors of the Company for the year 2013, reports on the Company's connected transactions and the implementation of its connected transactions management system for the year 2013, report on specific auditing results of connected transactions of the Company for the year 2013, internal audit work summary of the Company for the year 2013, working plan for the year 2014, internal audit work summary of the Company for the first half of 2014.

DIRECTORS

Responsibility with respect to Financial Statements

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

Securities Transactions

The Company has established the *Interim Management Measures for Shareholding and their Changes of Shares of the Company's Directors, Supervisors and Senior Management* to regulate the dealing in securities by Directors, and such measures are no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules (the "Model Code"). Following enquiries made by the Company, all the Directors and Supervisors confirmed that they had complied with the standards set out in the Model Code and such measures during the reporting period.

Independence of Independent Non-executive Directors

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

Training of Directors

All Directors (Mr. Wu Yan, Mr. Wang Yincheng, Ms Zhang Chaoying, Mr Zhou Liqun, Mr Yao Zhiqiang, Mr Wang Qiao, Ms Li Shiling, Ms Zhang Hanlin, Mr Ma Qiang, Mr Xiang Huaicheng, Mr. Lau Hon Chuen, Mr. Xu Dingbo, Mr. Du Jian and Mr Cai Weiguo) are actively involved in continuing professional development, and participated in various kinds of training activities relating to corporate governance and the Listing Rules which were organized by the shareholding organizations, regulators, industry organizations and the Company, so as to provide them with comprehensive and relevant information to develop and update their knowledge and skills and improve their performance ability, with an aim of making positive contributions to the Board.

Chairman/Vice Chairman/President

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

The Vice Chairman of the Company for this year is Mr. Wang Yincheng. The Vice Chairman will perform the duties of the Chairman if the Chairman cannot or does not perform his duties.

The President of the Company for this year is Mr. Wang Yincheng. The president is responsible for leading the operation management of the Company, implementing Board resolutions, organizing the implementation of annual operation plans and investment proposals, formulating the internal management organization plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of other senior management. Details of the duties and responsibilities of the Chairman, Vice Chairman and president are set out in the Articles of Associations.

BOARD COMMITTEES

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

Audit Committee

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

Composition

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

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

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

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Duties and Responsibilities

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

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

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Auditor's fees

In 2014, the fee in respect of audit services provided to the Group by Deloitte Touche Tohmatsu was RMB7 million (excluding the audit fees of all subsidiaries). Besides, Deloitte Touche Tohmatsu also provided non-auditing services for the consultancy project for the economic capital establishment and implementation of the Group, the fee was RMB400,000.

Summary of Work Undertaken

During the year, the audit committee of the second session of the board held 3 meetings, of which 11 proposals were reviewed and approved. Attendance of the members was as follows:

Name	Xu Dingbo	Lau Hon Chuen	Yao Zhiqiang
Attendance in person/scheduled attendance	3/3	3/3	3/3
Percentage of attendance in person	100%	100%	100%
Attendance by proxies/scheduled attendance	0/3	0/3	0/3
Percentage of attendance by proxy	0%	0%	0%

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

- Reviewed and assessed the Company's connected transactions and the implementation of its connected transactions management system for the year 2013;
- Reviewed and assessed the report on the results of the special audit of connected transactions of the Company for the year 2013;
- Reviewed and assessed the internal audit work summary for the year 2013 and the internal audit work for the first half of 2014, the audit work plan for the year 2014;
- Reviewed and assessed the self-assessment report on internal control of the Company for the year 2013;
- Reviewed and assessed the resolution in relation to the engagement of auditor for the financial report for the year 2014;
- Reviewed and assessed the management discussion and analysis, result announcement and annual report for the year 2013 as well as the interim result announcement and interim report for the first half of the year 2014; and
- Received the reporting on the audit work for the year 2013 (audited consolidated and individual financial reports) by Deloitte Touche Tohmatsu, the auditor, received the reporting on the review of the 2014 interim results by Deloitte Touche Tohmatsu, the auditor.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee

As at the end of the reporting period, the nomination and remuneration committee of the Company comprised four Directors including three Independent Non-executive Directors and one Non-executive Director. Since Xiang Huaicheng resigned from the post of chairman, the post of chairman of the Nomination and Remuneration Committee is now vacant. At present, according to the terms of reference of the Nomination and Remuneration Committee of the Board of the Company, one Independent Non-executive Director will perform the duties of the chairman in the interim, and such Independent Non-executive Director should be nominated and elected by over half of the members of the committee. The Company will elect the chairman of the Nomination and Remuneration Committee according to the relevant terms of reference.

Composition

Members:	Du Jian (Independent Non-executive Director), Xu Dingbo (Independent Non-executive Director), Luk Kin Yu, Peter (Independent Non-executive Director) *, Wang Qiao (Non-executive Director)

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

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

Duties and Responsibilities

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

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Duties and Responsibilities (continued)

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

Director nomination

The nomination and remuneration committee conducts a preliminary examination of the potential candidates for directorship of the Company according to laws, regulations, regulatory documents, regulatory requirements and the Articles of Association, and provides recommendation opinions to the Board for determining whether they are submitted to the general meeting for election. The nomination and remuneration committee fully considers the board diversity (including but not limited to sex, age, cultural and educational background, expertise, experience, skills, knowledge and term of office) and its advantages, and focuses on the educational background and working experiences, in particular management and research experiences in finance and insurance industries of the candidates, and also pay special attention to the independence of the Independent Non-executive Directors. Therefore, on 30 December 2014, the Board approved the resolution to appoint Mr Li Fang to be Non-executive Director and Mr Tang Shisheng to be Independent Non-executive Director. Mr Li Fang has worked in several government bodies, his public service experience will benefit the Board by broadening its horizon; Mr Tang Shisheng has extensive financial industry experience, he will bring benefits to the development of the business of the Company.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Remuneration of Directors and Other Senior Management

The fixed salary of the Executive Directors and other senior management is determined in accordance with the market levels and their respective duties and responsibilities, and the amount of their performance-related bonuses is determined according to the various factors including the operating results of the Company and scores on performance appraisals. The amounts of Directors' fees and Supervisors' fees are determined with reference to the market levels and the circumstances of the Company. The Company adjusted the remuneration package of Independent Directors and Independent Supervisors during the year.

For the remuneration of the senior management of the Company by band during the reporting period, please refer to "Remuneration of Senior Management" in the Report of the Board of Directors.

Summary of Work Undertaken

During the year, the nomination and remuneration committee held 4 meetings, at which 13 proposals were studied and reviewed. Attendance of the members was as follows:

Name	Xiang Huaicheng (resigned)	Du Jian	Xu Dingbo	Wang Qiao
Attendance in person/scheduled attendance	3/3	4/4	4/4	4/4
Percentage of attendance in person	100%	100%	100%	100%
Attendance by proxies/scheduled attendance	0/3	0/4	0/4	0/4
Percentage of attendance by proxy	0%	0%	0%	0%

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

- Reviewed the matters in relation to the candidates of the chairman and members of the audit committee, the candidates of the members of the strategy and investment committee, the candidates of the chairman and members of the risk management committee of the second session of the broad, and made recommendations to the Board, which has been approved by the Board;
- Reviewed the matters in relation to the nomination of Mr. Li Fang and Mr. Tang Shisheng as candidates of the second session of the Baord of the Company, and made recommendation to the Board;
- Reviewed the nomination of Sheng Hetai as Vice President of the Company and made recommendation to the Board, which has been approved by the Board;
- Reviewed and assessed the "Resolution on the improvement of the annual incentive allocation mechanism of the head office of the Group";
- Reviewed and assessed the implementation of the performance appraisal and incentive scheme of the Company for the year 2013;
- Reviewed and assessed the compensation plan of the Company's key personnel for the year 2013;

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Summary of Work Undertaken (continued)

- Reviewed and assessed the remuneration settlement scheme for Directors and Supervisors of the Company for the year 2013;
- Reviewed and assessed the enterprise annuity proposal of the Company;
- Reviewed the performance report of the Directors of the Company for the year 2013 and performance report of the Independent Directors of the Company for the year 2013.

Strategy and Investment Committee

As at the end of the reporting period, the strategy and investment committee of the Company comprised four Directors including two Executive Directors, two Non-executive Directors. Pursuant to the Articles of Association, the Chairman of the committee is served by the Chairman of the Board. In March 2014, Mr. Wang Yincheng, Mr. Xiang Huaicheng, Mr. Yao Zhiqiang and Ms. Zhang Hanlin were elected as the members of the strategy and investment committee, at the second meeting of the second session of the Board. In September 2014, Mr Xiang Huaicheng resigned from the post of the member of the strategy and investment committee.

Composition

Chairman: Mr. Wu Yan (Executive Director)

Members: Wang Yincheng (Executive Director), Yao Zhiqiang (Non-executive Director), Zhang Hanlin (Non-executive Director)

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Duties and Responsibilities

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

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

Summary of Work Undertaken

During the year, the strategy and investment committee held 3 meetings, of which 8 proposals were reviewed and considered. Attendance of the members was as follows:

Name	Wu Yan	Wang Yincheng	Xiang Huaicheng	Yao Zhiqiang	Zhang Hanlin
Attendance in person/scheduled attendance	3/3	3/3	3/3	3/3	3/3
Percentage of attendance in person	100%	100%	100%	100%	100%
Attendance by proxies/scheduled attendance	0/3	0/3	0/3	0/3	0/3
Percentage of attendance by proxy	0%	0%	0%	0%	0%

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Summary of Work Undertaken (continued)

During the year, the strategy and investment committee of the first session of the Board held 1 meeting, of which 4 proposals were reviewed and considered. Attendance of the members was as follows:

Name	Wu Yan	Xiang Huaicheng	Cao Guangsheng	Zhang Hanlin
Attendance in person/scheduled attendance	1/1	1/1	0/1	1/1
Percentage of attendance in person	100%	100%	0%	100%
Attendance by proxies/scheduled attendance	0/1	0/1	0/1	0/1
Percentage of attendance by proxy	0%	0%	0%	0%

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

- Reviewed and considered the operation plan and financial budget of the Company for the year 2014;
- Reviewed and considered the three-year rolling plan proposals of asset strategic allocation for 2014-2016, 2015-2017 of the Group;
- Reviewed and considered the corporate governance report of the Company for the year 2013;
- Reviewed and considered the report of the Board of Directors the Company for the year 2013;
- Reviewed and considered the corporate governance report of the Company for the year 2013;
- Reviewed and considered the financial report of the Company for the year 2013 and the related matters on profitdistribution for the year 2013;
- Reviewed and considered the related matters on capital increase in PICC Health Insurance Company Ltd;
- Considered the evaluation report for the implementation of the Group's planning for the year 2013;
- Reviewed and considered the matters of general mandate for the issuance of shares.

BOARD COMMITTEES *(continued)*

Risk Management Committee

As at the end of the reporting period, the risk management committee of the Company comprised six Directors including two Executive Directors, three Non-executive Directors and one Independent Non-executive Director, and the Independent Non-executive Director served as the Chairman.

Composition

Chairman:	Lau Hon Chuen (Independent Non-executive Director)
Members:	Zhuang Chaoying (Executive Director), Zhou Liqun (Executive Director), Wang Qiao (Non-executive Director), Li Shiling (Non-executive Director), Ma Qiang (Non-executive Director)

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

In January 2015, Mr Zhou Liqun resigned from the post of member of the risk management committee.

Duties and Responsibilities

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

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

BOARD COMMITTEES *(continued)*

Risk Management Committee *(continued)*

Summary of Work Undertaken

During the year, the risk management committee held 3 meetings, at which 6 proposals were studied and reviewed. Attendance of the members was as follows:

Name	Lau Hon Chuen	Zhuang Chaoying	Zhou Liqun	Wang Qiao	Li Shiling	Ma Qiang
Attendance in person/scheduled attendance	3/3	3/3	2/3	3/3	3/3	1/3
Percentage of attendance in person	100%	100%	67%	100%	100%	33%
Attendance by proxies/scheduled attendance	0/3	0/3	1/3	0/3	0/3	2/3
Percentage of attendance by proxy	0%	0%	33%	0%	0%	67%

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

- Reviewed and considered the renewal of liability insurances for the Directors, Supervisors and senior management of the Company;
- Reviewed and considered the Compliance Report of the Company for the year 2013;
- Reviewed and considered the Risk Evaluation Report of the Company for the year 2013;
- Reviewed and considered the matters related to the regulations of the review and approval of credit risk management of the management;
- Reviewed and considered three systems including the "Measures for management of credit risks of trading counterparties (pilot)";
- Inspected the half-year compliance report of the Company for the year 2014.

INTERNAL CONTROL

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

INTERNAL CONTROL *(continued)*

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

The Company has, pursuant to the requirements of internal control standards such as the Basic Guidelines for Internal Controls of Enterprises (CK (2008) No. 7) issued by the MOF, China Securities Regulatory Commision National Audit office of the People's Republic of China, China Banking Regulatory Commission and CIRC and its supporting guidance, the Principal Rules for the Internal Control of Insurance Companies (BJF (2010) No. 69) issued by CIRC, perfected the internal control system, executed internal control with governing documents such as the Internal Control Manual and the Internal Control Evaluation Manual, and guiding major subsidiaries to promote the construction of internal control systems in accordance with the foregoing supervisory regulations. In 2014, the Company carried out comprehensive self-assessments of internal control evaluation covering the entire Group. Through optimized internal control evaluation strategy, we widened the aspect of internal control evaluation, further ratified the deficiency of internal control evaluation while the Company and its subsidiaries has further optimized the internal control procedures and perfected internal control measures.

In 2014, the Company continued to strengthen the establishment of the internal control system, standardize the management of rights and duties, launch the standardization of work flow, comprehensively streamline the internal control risk points and improve the internal control measures, strengthen the dynamic monitoring of risks, push forward the application of the internal control work management system, risk indicator monitoring and alert system. The Company prepared the handbook of rights and duties, further clearly stated the boundaries of management authority and functions of each department, optimized the management work flow, standardized the internal authorization system, enhanced the operation efficiency and risk control, realized value added of management. PICC P&C continued to optimize the work mechanism and work flow of internal control management, the risk management platform of online operation, to realize the "three-in-one" connection of the internal control and compliance, operation work flow and authorization systems, start the online internal control assessment work for the first half of the year, continue to pay attention to the operational risks of the key areas. PICC AMC promulgated a series of internal control and compliance policies, set up a mechanism of specific internal control personnel, strengthened the implementation and execution of the internal control measures, strengthened the reporting and approval management of personal investment transactions of staff through the establishment of an information system, assessed risk points regularly, updated in time the system and work flow, promoted the dynamic management of the business work flow. PICC Health carried out standardization of rights and duties, improved the risk identification and monitoring and assessment mechanism, strengthened the operation and actual employment of the information system for risk management, actively carried out risk control, supervision and inspection beforehand, at present and subsequently. PICC Life insisted on the bottom line of operation with compliance as usual, it continued to strengthen the establishment of internal control, risk management system and work flow, actively arranged and conducted special inspection, effectively prevented and resolved operational risks of the company. PICC Investment continued to push forward the establishment of internal control system, strengthen information exchange, communication and sharing, it strengthened comprehensive inspection through special audit and inspection by the Group, and stressed on the improvement of the areas with weak internal control which were prone to risks.

The Board and the audit committee received and discussed the Internal Control Evaluation Report for the year 2013 of the Company, and the Board and the risk management committee received and discussed the Risk Evaluation Report and Compliance Report of the Company for the year 2013 so as to ensure the continuous improvement and the effectiveness of the internal control system.

BOARD OF SUPERVISORS

During the year, the Board of Supervisors had adhered to laws and performed its duties of supervision, enhanced the supervision over significant events, the supervision of the performance of the respective duties by the Directors and senior management, stressed on carrying out special investigation and studies, made proposals with respect to the deepening of implementation of strategies and the prevention of business risks to the Board and the operation management.

Composition

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

Chairman: Mr. Lin Fan

Supervisors: Mr Yu Ning (Independent Supervisor), Mr Xu Yongxin (shareholder representative Supervisor), Ms Li Yongmei (employee representative Supervisor), Ms Yao Bo (employee representative Supervisor)

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

In March 2014, CIRC approved the qualifications of Mr. Yu Ning, Mr. Xu Yongxin, Ms. Li Yongmei and Ms. Yao Bo as Supervisors. On 14 March 2014, the second session of the Board of Supervisors held the first meeting, during which Mr Li Fan was elected as Chairman. On 28 March, the candidates for the Finance & Internal Control Supervision Committee and for the Due Diligence Supervision Committee were elected respectively with Li Fan, Chairman of the Board of Supervisor to serve as chairman of the Due Diligence Supervision Committee, Xu Yongxin and Yao Bo to serve as members; Yu Ning, Supervisor to serve as Chairman of the Finance & Internal Control Supervision Committee, Xu Yongxin, Supervisor as Vice Chairman and Li Yongmei as member.

Duties and Responsibilities

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

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

BOARD OF SUPERVISORS *(continued)*

Summary of the Work Undertaken

During the year, the Board of Supervisors, pursuant to the relevant provisions of the Company Law and the Articles of Association, earnestly fulfilled its duties, and protected the interests of the Company, shareholders and employees. During the year, the Board of Supervisors convened 6 meetings and considered, reviewed and received 34 resolutions. The Due Diligence Supervision Committee convened 1 meeting, the Finance & Internal Control Supervision Committee convened 2 meetings. The attendance of meetings was as follows:

Name	Lin Fan	Yu Ning	Xu Yongxin	Li Yongmei	Yao Bo
Attendance in person/scheduled attendance	6/6	5/5	6/6	5/5	6/6
Percentage of attendance in person	100%	100%	100%	100%	100%
Attendance by proxies/scheduled attendance	0/6	0/5	0/6	0/5	0/6
Percentage of attendance by proxy	0%	0%	0%	0%	0%

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

AMENDMENT OF THE ARTICLES OF ASSOCIATION

Other than the amendment of the Articles of Association as approved in the general meeting of the Company on 27 December 2013 (approved by the CIRC on 12 February 2014), the Company did not amend the Articles of Association during the year.

INVESTOR RELATIONSHIP

After publishing the results for the year 2013 and the interim results for the year 2014, the Company communicated with investors with respect to the Company's operation result and trend of business development through press conferences and roadshows. Also, the Company invited certain shareholders to attend the Company's annual work conference to understand the operation and development of the Company. The Company strengthened daily communication with investors through receiving visit of investors, participating in large investor forums, and timely replying telephone and email enquires. The Company also establishes and maintains a good relationship with investors through the investor relations information on its website.

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

Report of the Board of Directors

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2014. During the reporting period, there have been no significant changes to the scope of the Company's principal activities.

PRINCIPAL ACTIVITIES

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

RESULTS AND PROFIT DISTRIBUTION

The results of the Group for the year are set out on pages 95 to 231 of this annual report.

The net profit of the Company for the year 2014 as presented in the audited financial statements amounted to RMB2.231 billion. Pursuant to the Articles of Association and other relevant provisions, after appropriation of 10%, or RMB223 million of the net profit in the financial statements as statutory reserve, the distributable profit realized for the year was RMB2.008 billion. The Board has recommended the distribution of dividend based on 20% of RMB2.008 billion, i.e., a payment of cash dividend of RMB0.094671 per 10 shares (inclusive of tax), calculated on the basis of a total share capital of 42.424 billion shares, amounting to a total of approximately RMB402 million, subject to the approval of shareholders at the annual general meeting to be held on 26 June 2015 (Friday). Subject to approval, the final dividend is expected to be paid on or around 26 August 2015 (Wednesday) to the holders of H shares whose names appear on the H share register of members of the Company on 9 July 2014 (Thursday).

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

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

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得税法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得税法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家税務總局關於印發<非居民享受税收協定待遇管理辦法(試行)>的通知》(國税發[2009]124號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家税務總局關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》(國税函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay income tax on the dividends paid including individual income tax for the Overseas individual shareholders and enterprise income tax for non-resident enterprise shareholders in respect of the final dividend for the year 2014 to be distributed to them. The details of withholding and paying income tax on the dividends paid for overseas individual shareholders and non-resident enterprise shareholders will be disclosed separately in the circular for the annual general meeting.

FINANCIAL HIGHLIGHTS

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

BUILDINGS, EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property and equipment and investment properties of the Group during the year are set out in Note 27 and Note 26 to the consolidated financial statements respectively. As at 31 December 2014, the Group did not own any properties for investment purposes or held for development and/or sale where one or more percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) exceed 5%.

SHARE CAPITAL

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

The total share capital of the Company had no change in 2014. The share capital of the Company as at 31 December 2014 was as follows:

Name of Shareholder	Class	Number of Shares	Percentage of registered capital
MOF	Domestic Shares	29,896,189,564	70.47%
NSSF	Domestic Shares	3,801,567,019	8.96%
	H Shares	615,879,000	1.45%
Other H-share shareholders	H shares	8,110,355,000	19.12%
Total		42,423,990,583	100.00%

PRE-EMPTIVE RIGHTS

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

REPURCHASE, DISPOSAL AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, save as participation in the rights issue of PICC P&C contributing a capital amount of RMB5 billion, the Company and its subsidiaries had not repurchased, disposed of or redeemed any listed securities of the Company and its subsidiaries.

RESERVES

Details of reserves of the Group are set out in Note 41 to the consolidated financial statements, and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of 31 December 2014, the distributable reserves of the Company amounted to RMB6.897 billion.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2013 were RMB58.4347 million, of which the donations made by the Company were RMB10 million.

MAJOR CUSTOMERS

During the reporting period, the Company had no individual customer with premium income exceeding 5% of the annual premium income of the Company and its subsidiaries. Premium income from the top five customers accounted for not more than 30% of the total premium income of the Company and its subsidiaries.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

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

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

REMUNERATIONS OF SENIOR MANAGEMENT

Details of the remuneration of the Senior Management of the Company by band are set out in Note 12 to the consolidated financial statements.

HIGHEST PAID INDIVIDUALS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

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

INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2014, none of the Directors, Supervisors and senior management had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

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

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

As far as the Directors of the Company are aware, as at 31 December 2014, the following persons (other than the Directors, Supervisors and senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Sections 2 and 3 of Part XV of the SFO, or required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total issued domestic shares *(Note 4)*	Percentage of total issued shares *(Note 5)*
MOF	Beneficial owner	29,896,189,564	Long position	88.72%	70.47%
NSSF	Beneficial owner	3,801,567,019	Long position	11.28%	8.96%

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

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total issued H shares *(Note 6)*	Percentage of total issued shares *(Note 5)*
American International	Beneficial owner	1,113,405,000	Long position	12.76%	2.62%
NSSF *(Note 1)*	Beneficial owner	615,879,000	Long position	7.06%	1.45%
State Grid Corporation of China *(Note 2)*	Interest of controlled corporation	668,043,000	Long position	7.66%	1.57%
State Grid Yingda *(Note 2)*	Beneficial owner	668,043,000	Long position	7.66%	1.57%
GF Securities Co., Ltd. *(Note 2)*	Asset Manager, nominee	668,043,000	Long position	7.66%	1.57%
BlackRock, Inc. ("BlackRock") *(Note 3)*	Interest of controlled corporation	474,288,132	Long position	5.44%	1.12%

Note:

1. NSSF, as the beneficial owner, holds 602,279,000 H shares. In addition, it also holds 13,600,000 H shares via State Street Global Advisors ("SSGA"), as the asset manager and trustee. Accordingly, NSSF is deemed to be interested in 13,600,000 H shares owned by SSGA.

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

3. BlackRock is deemed to be interested in 474,288,132 H shares (long position) through its controlled entities, namely, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock Asset Management Canada Limited, BlackRock Asset Management Deutschland AG, BlackRock Asset Management North Asia Limited, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC and BlackRock Japan Co Ltd.

4. As at 31 December 2014, the total issued domestic shares of the Company was 33,697,756,583 shares.

5. As at 31 December 2014, the total issued shares of the Company was 42,423,990,583 shares.

6. As at 31 December 2014, the total issued H shares of the Company was 8,726,234,000 shares.

Save as disclosed above, as at 31 December 2014, the Company was not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company required to be entered into the register under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors as of the latest practicable date prior to the publication of this annual report, 18.87% of the issued share capital of the Company was held by the public. Since PICC Life established a joint venture with AIG APAC, AIG becomes a core connected person of the Company pursuant to Rule 1.01 of the Listing Rules as AIG is an close associate of the substantial shareholder of the joint venture. The Company made an application to the Hong Kong Stock Exchange which has exercised its discretion under Rule 8.08(1) of the Listing Rules to regard AIG as part of "the public" when considering whether the Company complies with the requirement of minimum public float of 18.44%. Please refer to the announcement of the Company dated 14 March 2014 for details. H shares held by NSSF and Tokyo Marine & Nichido Fire Insurance Co., Ltd. are not deemed as the shares held by the public for the purposes of Rule 8.08(1) of the Listing Rules.

CONNECTED TRANSACTIONS

During the reporting period, the Company had no connected transactions required to be disclosed pursuant to Chapter 14A of the Listing Rules. Please refer to Note 46 to the consolidated financial statements "Related Party Disclosures" for particulars of the related party transactions defined under International Financial Reporting Standards; such transactions are not connected transactions as defined under Chapter 14A of Listing Rules.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

AUDITORS

As reviewed and approved by the shareholders' meeting in 2013, the Company engaged Deloitte Touche Tohmatsu CPA LLP and Deloitte Touche Tohmatsu as the auditor of the Company for the financial statements for the year ended 31 December 2014, prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards respectively. For details of the change of auditors in the past three years, please refer to the announcement of the Company dated 27 December 2013.

By the order of the Board
Chairman
Wu Yan

Report of the Board of Supervisors

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

PERFORMANCE OF THE BOARD OF SUPERVISORS

Organizing and convening Supervisors' meetings in accordance with the law and performing supervisory Functions

The Board of Supervisors of the Company completed the change of session in March. During the year, the Board of Supervisors convened 6 meetings and considered and received 34 resolutions, it made suggestions and recommendations to the relevant resolutions, and made feedback to the Board and the operation team of the management, with details as follows:

First, on 17 January the first meeting of the first session of the Board of Supervisors was convened, the "Resolution of the 2014 business plan", the "Resolution of the 2014 fixed asset investment budget", the "Resolution of the increase of capital of ICC Health Insurance Company Limited" and the "Resolution of "The three-year rolling plan proposals of asset strategic allocation for 2014-2016 of The People's Insurance Company (Group) of China Limited"" were received.

Second, on 14 March the first meeting of the second session of the Board of Supervisors was convened, Mr Lin Fan was elected as chairman of the Board of Supervisors, the "Working Rules for the Due Diligence Supervision Committee of the Board of Supervisors", the "Working Rules for the Finance & Internal Control Supervision Committee of the Board of Supervisors", the "Board of Supervisors 2014 Work Plan" and "Board of Supervisors 2013 Work Report" were considered and approved.

Third, on 28 March the second meeting of the second session of the Board of Supervisors was convened, the members of the Due Diligence Supervision Committee and the Finance & Internal Control Supervision Committee of the second session of the Board of Supervisors were elected, the "Resolution of the 2013 final accounts", the "Resolution of the 2013 profit distribution proposal", the "Resolution of the 2013 Management discussion and analysis", the "Resolution of the results announcement for the year 2013 and the annual report for the year 2013", the "Resolution of the engagement of auditor for the financial report for the year 2014", the "Resolution of the corporate governance report for the year 2013" were considered and approved, and the "Resolution of the performance report of directors for the year 2013", the "Resolution of the performance report of independent directors for the year 2013" and the "Resolution of the internal audit work summary of the Company for the year 2013, working plan for the year 2014" were received.

Fourth, on 25 April the third meeting of the second session of the Board of Supervisors was convened, the "Resolution of the assessment report on the implementation of development plan for the year 2013", the "Resolution of the assessment report on internal control for the year 2013", the "Resolution of the risk assessment report for the year 2013" and the "Resolution of the compliance report for the year 2013" were considered and approved, also the "Report on the Company's connected transactions and the implementation of its connected transactions management system for the year 2013" and the "Report on specific auditing results of connected transactions of the Company for the year 2013" were received.

Fifth, on 22 August the fourth meeting of the second session of the Board of Supervisors was convened, the "Resolution of the interim report and interim result announcement for the year 2014", the "Resolution of the "Temporary Measures for the performance appraisal of Supervisors of the Company"' were considered and approved, also the "Internal audit work summary of the Company for the first half of 2014", the "Compliance report of the Company for the first half of 2014" and the "Risk management and internal control summary of the Company for the first half of 2014" were received.

Sixth, on 30 December the fifth meeting of the second session of the Board of Supervisors was convened, the "Resolution of the enterprise annuity proposal of the Group", the "Resolution of the "Three-year rolling plan proposals of asset strategic allocation for 2015-2017 of The People's Insurance Company (Group) of China Limited"" and the "Report on the disciplinary supervision of significant cases within PICC in 2013 and the first half of 2014" were received.

During the year, as required by their duties, the Diligence Supervision Committee of the Board of Supervisors convened 1 meeting, the Finance & Internal Control Supervision Committee convened 2 meetings, they proposed their opinions on the related resolutions, and reported to the Board of Supervisors.

A multi-faceted approach to supervision

In addition to the Supervisors' meetings referred to above, the Board of Supervisors also adopts various methods in order to supervise the decision-making procedures and the duty performance of the Board and the management involved in operations.

During the year, the Supervisors attended 1 shareholders' meeting, six Board meetings, and 5 meetings of Board committees, participated in the resolution communication meetings 15 times. The Supervisors also attended the annual work meeting and semi-annual work meeting, quarterly "One-to-one" operational trend analysis meeting in order to understand the overall operation condition of the Group and the development in each business segment, and to perform the supervisory duties.

Besides, the Broad of Supervisors focused on strengthening the study of the Company's material investment and operational management, making relevant advice and recommendation and keeping a close eye and learning about on the implementation of the resolutions of the shareholders' meetings and board meetings.

Finance and internal control supervison with a focus on key points

The Board of Supervisors based on the relevant regulations actively performed the supervison duties of the finance and internal control of the Company, promoted the truth, accuracy, compliance of the financial information of the Company, and the standardization, completeness and effectiveness of the internal control and risk management systems.

During the year, the Board of Supervisors seriously reviewed the announcements and reports of the annual and interim results, the annual business plan and budget proposals, focused on scientific aspect and actual execution effects of the business plan, the utilization rate of the capital of shareholders, the quality of regular information disclosure; it seriously reviewed the annual compliance report, internal assessment report, risk assessment report, it paid attention to the effectiveness of internal control of the Company and the major risks faced by it.

Besides, the Board of Supervisors convened 3 special communication meetings with the strategic planning department, financial management department of the Company, learnt about the preparation of the abusiness plan of the Companyc, the results of the annual audit and the interim review etc, it proposed its opinions and suggestions as feedback to the Board and the operation team of the management.

Conducting detailed investigations as well as practical supervision

During the year, the Board of Supervisors arranged and carried out some special investigations of the urban business, and its members successively went to the head offices of PICC P&C and PICC Life and their subsidiaries in Beijing, Shanghai, Jiangsu, Zhejiang, Guangdong, Shaanxi, Hubei, Sichuan, Guangzhou, Hangzhou, Ningbo to conduct on-site investigation. The investigatons were made in the form of listening to the overall situations, interview and communication about key issues, questionnaire, on-site visit of the business work flow etc, they listened to the voices of the frontline staff, understood the development of the urban business of the Group, studied and analyzed the problems which existed in the operation management, business development of the Group, made suggestions and recommendations.

Besides, the Board of Supervisors also sent the related Supervisors to attend the joint commmisson of directors and supervisors of the Company, they went to conduct investigations in the subsidiaries in Yunnan, Gansu and Guangdong, visited and studied the Southern Information Centre of the Group, understood the operation management, business development of the fundamental entities, and made the relevant suggestions.

Reinforcing systems capabilities in order to improve supervision standards

During the year, the Board of Supervisors strengthened the establishment of systems, it studied and prepared three system documents, namely the "Working Rules for the Due Diligence Supervision Committee of the Board of Supervisors", "Working Rules for the Finance & Internal Control Supervision Committee of the Board of Supervisors", "Temporary Measures for the performance appraisal of Supervisors", and it further improved the working system of the Board of Supervisors. The Board of Supervisors also stressed on building the capabilities of the Supervisors in terms of their performance of duties, it encouraged the Supervisors to actively take part in the training of external training such as CIRC, and it arranged several internal focusing on specified topics to share with others and enhanced its professionalism.

Performance of the Supervisors

Based on the work of the attendance of all members of the Board of Supervisors in the shareholders' meeting, meetings of the Board of Supervisors and its committees, their attendance in the meetings of the Board of Directors and its committees, the participation in the investigations of the Board of Supervisors, the Board of Supervisors is of the view that during the year 2014 the performance of all members of the Board of Supervisors met with expectation, their performance reached the corporate requirements of the Company Law and other laws and regulations and the Articles of Association, they were able to perform the duties as Supervisors earnestly and diligently, and they effectively safeguarded the interests of the shareholders, the Company.

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

(1) Operation of the Company in accordance with law

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

(2) Facts about the financial statements

The annual financial statements of the Company are a true and objective presentation of the financial position and operating results of the Company. The financial statements of the Company for the year 2014 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu respectively in accordance with the corresponding independent auditing standards, and issued audit reports with standard and clean opinions.

(3) Material investments and acquisitions of assets

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

(4) Connected transactions

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

(5) Review of internal control

During the reporting period, the management of the Company attached great importance to the construction of an internal control system. The Company established a complete, reasonable and effective internal control system, which enhanced the level of internal control management.

(6) Implementation of resolutions adopted at the shareholders' meetings

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

Corporate Social Responsibility

In 2014, abiding by the mission and responsibility of "People's Insurance serves the People", the Group has constantly contributed to the enhancement of the economic and social large layout, actively promoted the exploration and advancement of insurance functions and mechanisms, made efforts to promote the development of a product and service system centered around customers, and focused on employees' development with a strong humanistic approach, so as to effectively achieve joint growth in the returns to the shareholders, customers, employees and shareholders.

Serving the establishment of social security service system. The Group fully utilized the advantages of insurance system, which can be customized for the market with plenty of flexibility, the Group is in the leading position in establishing social security system with multiple levels of services. It continued to optimize the model to expand the social security business, it carried out formality processing services with integrity, it strives to turn the work entrusted by the government to be projects that gain the support and confidence of the people. In 2014, original premiums income of the health insurance business entrusted by the government was RMB13.558 billion, representing an increase of 46.27% compared to the corresponding period last year, the number of people served was 475 million people. The number of critical illness insurance projects underwritten was 200, written premiums were RMB6.55 billion, covering 26 provinces (autonomous regions, municipalities) and 158 regions, with customers exceeding 300 million people. The Group also actively develops annuity insurance, health insurance and health management business to satisfy clients' demand for differential and high quality protection.

The Group explored social management innovation. The Group gave full play to insurance in resolving social conflicts and disputes and promoting the positive effect of liability insurance on social harmony, accelerated the development of liability insurance types such as safety production, environmental pollution, food safety, special equipment and medical liability insurance. In 2014, the Group acted as the principal insurer for the comprehensive insurance project of professional liability insurance of patent agent of China and the the first general policy of liability insurance for aviation products in China – comprehensive insurance project of Aviation Industry Corporation of China, it had underwritten the first comprehensive insurance project of food safety demonstration county in China – comprehensive insurance project of food safety of Tangyin county, Henan, it was the principal insurer for the comprehensive liability insurance project of Sinopec, it carried out medical liability insurance business in 30 provinces (autonomous regions, municipalities) other than Tibet across China, in aggregate it provided the protection against medical liability risks for more than RMB100 billion.

Active participation in risk management of disaster incidents. It thoroughly made good use of the core function of insurance protection, continues to increase the scope of coverage of its insurance services, provides risk management services throughout the entire work flow while focusing on prevention beforehand, administration at present and subsequent compensation, played a positive role in the promotion of safety production and responses to unexpected events. It actively pushed forward and joined the catastrophe insurance pilot work in places like Shenzhen, Ningbo and Yunnan, and became the only cooperation insurance company of catastrophe insurance project in Shezhen, and the principal underwriter of catastrophe insurance project in Ningbo, it strongly supported the establishment of the protection system against catastrophes. In 2014, the Group has underwritten liability insurance of RMB309 trillion, which was approximately five times the GDP of China in the same period.

Great efforts to expand the insurance services for agriculture, rural areas and farmers. It seized the opportunities of the coordinated development of the urban and rural areas under the New Normal, promoted the standardized development, innovation and upgrade of the agricultural insurance, explored the construction of a rural financial service chain. It strengthened the building of a rural service network, innovated insurance products and services involving agriculture, worked hard to build a one-stop sale and service platform in villages for the insurance service for agriculture, rural areas and farmers. It speeded up the promotion of the formalities processing business for new rural co-operatives and criticial illness insurance business, actively involved in the establishment of a multi-level social security system for the rural areas. It strongly expanded those agricultural insurances of policy nature, the forest insurance, agricultural insurances with local features and other agricultural insurance businesses, so as to offer protection for output expansion of the agricultural sector and for income growth of farmers. In 2014, the Group has underwritten 560 million mu of produces in underwritten insurance policies, undertaken the risk liability of RMB832.84 billion of the plantation sector and breeding sector, with a market share of 52.7%. It handled the large claims of agricultural insurance, it has undertaken 840,000 farming households in the drought of Liaoning and the claim for 7.78 million mu.

Actively serving the economy and enhancing quality, increasing efficiency and upgrading. The Group adequately made good use of the unique advantages of the insurance funds to support the real economy and the development of weak sectors. It promoted and set up the first cooperate equity fund between a financial enterprise owned by the central government and a provincial government in China – Guangdong (PICC) Eastern, Western and Northern Guangdong Development Equity Fund which became the model of insurance funds supporting the coordinated development of the local economies. In 2014, the Group had 23 registered equity interest and debt programme products, the registered scale of the equity programme was RMB25.49 billion, which was the first in the industry, the registered scale of the debt programme was RMB41.30 billion, which was the second in the industry. It actively served the "Going Out" strategy of the state, it was the principal underwriter of large projects, as the comprehensive insurance of the overseas projects of China Communication Construction Group and the seamless steel pipe project insurance of Tianjin Pipe (Group) Corporation. It strongly developed small loan guarantee insurance and credit insurance businesses, providing support of weak sectors such as the medium and small and micro enterprises. It actively developed scientific and technological insurance, cultural industry insurance and other emerging insurance businesses, offering support for the transformation and upgrade of the economy.

Efforts to enhance the quality of customer services. It focused on the setting up of a customer service system with the objectives of market orientation, customer-focused, value creation system and efficiency, it steadily promoted the four major transformation projects to consolidate customer and sales service resources, worked hard to provide diversified insurance financial services for clients. It held the sixth Customer Festival activity, further upgraded the insurance services, continued to enhance customer experience. The Group was awarded 19 prizes including the "Insurance brand with the strongest influence of the Year" in the 9th China Insurance Innovation Prizes. Among them, 9 products including the art work comprehensive insurance were granted 10 prizes such as the "The Most Innovative Insurance Product", "Product with the Strongest Market Influence" and "Insurance Product with the Best Market Potential" and "Best Product Portfolio".

The Group further developed into a people-centered harmonious enterprise. The Group actively practised the corporate culture of "People-oriented and Strive Forward in Harmony", respected and recognized employees' values and contribution. It provided a healthy, safe working environment, fair development opportunities and good career prospect to staff, PICC P&C under the Group was named as "Top 10 Best Employers of China". It promoted the setting up of a learning organization, arranged and carried out reading activity for all staff, PICC P&C under the Group was named as "2014 China Most Respected Knowledge Enterprise Award (China MAKE)", and became the only insurance company receiving this honour since this prize was created. It carried out projects to show care for its staff, set up and improve a complete system of files of those employees who are in difficulties, promoted the assistance work as a system itself to let employees with difficulties to feel the warmth of the Company via several channels and to get assistance in different aspects.

The Group insisted on spreading the strength of charity activities. The Group insisted on giving feedback to society through participating in various charity activities, including promotion of charity activities and organizing disaster relief and antipoverty campaigns. The Group actively supported the disaster resistance and disaster recue work, it donated a lot of money and supplies, carried out claim processing efficiently, donated RMB10 million to the "8•3" earthquake area in Ludian, offered support in disaster resistance and disaster recuse work as well as the reconstruction work after the disasters. It supported the social work development in Xinjiang, donated RMB11 million to Xinjiang to buy 68 "Healthy Mom" vehicles, held the training class of financial and insurance personnel for the development of the economy and society of Xinjiang, it donated RMB25 million to the "Five Insurers Centralized Subsidy to Households" in Tibet. It carried out the "2014 • The People's Insurance Charity Walk for Education Subsidy" series of events, donated learning supplies to 21,764 students to 104 primary schools in remote and poor areas in 36 provinces, autonomous regions and municipalities in China.

The Company will publish a social responsibility report separately for the year 2014 to describe in details the Group's fulfilment of social responsibility.

Significant Events

MAJOR CONNECTED TRANSACTIONS

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

MATERIAL CONTRACTS AND THEIR PERFORMANCES

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

OTHER MATERIAL CONTRACTS

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

OTHER SIGNIFICANT EVENTS

(i) Increase in share capital of PICC Health

In March 2014, the Company increased in share capital of PICC Health in the amount of RMB1.6 billion, which was paid by the internal resources of the Company. After this increase of capital was completed, the direct shareholding of the Company in PICC Health was 92.10%.

(ii) Setting up a joint venture company between PICC Life and AIG APAC

In March 2014, the joint venture company jointly set up by PICC Life and AIG APAC completed the commercial and industry registration, it was officially set up and became a subsidiary of the Company. PICC Life and AIG APAC hold 75.1% and 24.9% of the equity interest of the joint venture company respectively. For the matters relating to public float of the Company, please refer to the Section "Report of the Board of Directors – Public float" of this Annual Report for details.

(iii) PICC P&C issued RMB8 billion subordinated debts

In October 2014, as approved by the CIRC, PICC P&C, a subsidiary of the Company issued subordinated term debts of RMB8 billion to qualified investors fullfiling the regulatory provisions. The term is for 10 years (PICC P&C has the redemption right from the end of the fifth year onwards), and the interest rate of this issue was determined according to the market mechanism. The successful issue of the subordinated term debts enhanced the compensation capability of PICC P&C.

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

In November 2014, in accordance with the information disclosed in the announcement by PICC P&C and the Company's irrevocable commitment, the Company contributed approximately RMB5.00 billion to subscribe for 844,594,760 domestic rights shares of PICC P&C. Upon completion of the rights issue by PICC P&C, the Company still holds 69% of the issued capital in PICC P&C.

(v) Acquisition of 19% equity interest of PICC AMC

In November 2014, the Company and MEAG signed an equity interest transfer agreement, whereby MEAG sold 19% equity interest of PICC AMC that it held to the Company. After deduction of the cash dividend that PICC AMC distributed to MEAG, the consideration for this acquisition of shares was approximately RMB227 million. After the completion of this share acquisition, the Company will hold 100% equity interest of PICC AMC.

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

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

Deloitte Consulting (Shanghai) Co. Ltd. Beijing Branch, independent consulting actuaries, have prepared actuarial consultants' review reports on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 31 December 2014, and the value of one year's new business of PICC Life and PICC Health, respectively, in respect of our new life and health insurance businesses written for the 12 months ended 31 December 2014, on a range of assumptions. Copies of consulting actuaries' review reports are included in our annual report. These reports do not constitute an audit opinion of the financial information used in the report.

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

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

Independent Actuaries Review Opinion Report on the Embedded Value

PICC Life has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2014. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and one year's new business value as of 31 December 2014;
- Review the assumptions of the embedded value and one year's new business value as of 31 December 2014;
- Review the various embedded value results as of 31 December 2014, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2013 to 31 December 2014, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the breakdown of value of one year's new business as of 31 December 2014 and 31 December 2013 by distribution channel.

BASIS OF OPINION, RELIANCES AND LIMITATION

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

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

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

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

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Life to determine the embedded value results is in line with the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by the CIRC. This method is one that is commonly used by life and health insurance companies in China;

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

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

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

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

Eric Lu
FIAA, FCAA

31 December 2014 Embedded Value Report of PICC Life Insurance Company Limited

1. DEFINITION AND METHODOLOGY

1.1 Definition

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

- **Embedded Value ("EV"):** this is the sum of the Adjusted Net Worth and Value of In-Force Business as at the valuation date;

- **Adjusted Net Worth ("ANW"):** this is the market value of the assets in excess of the assets supporting the policy reserve and other liabilities as at the valuation date attributable to shareholders. This is equal to the shareholder equity on accounting report basis plus reserve differences between accounting report basis and solvency basis, market value adjustments and tax adjustments;

- **Value of In-Force Business ("VIF"):** this is equal to the present value as at valuation date of future net of tax statutory profits from the business in force as at the valuation date, less the Cost of Capital associated with such business;

- **Statutory Profits:** this is the profit determined based on regulatory solvency reporting basis. The key difference between this profit and the profit reported under accounting report basis is that the policy reserve is determined based on the CIRC's actuarial requirement instead of the accounting report basis;

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

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

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

1.2 Methodology

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

PICC Life has used the traditional embedded value approach. Both Value of In-Force Business and Value of One Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of One Year's New Business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

2. RESULTS SUMMARY

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

2.1 Overall Results

Table 2.1.1 Embedded Value of PICC Life as of 31 December 2014 and 31 December 2013 (Unit: RMB Million)

	31 Dec 2014	31 Dec 2013
Value of In-Force Business before CoC	**17,504**	17,664
Cost of Capital	**(649)**	(982)
Value of In-Force Business after CoC	**16,855**	16,682
Adjusted Net Worth	**30,560**	20,181
Embedded Value	**47,414**	36,863

Note: Figures may not add up due to rounding.

Table 2.1.2 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2014 and 31 December 2013 (Unit: RMB Million)

	31 Dec 2014	31 Dec 2013
Value of One Year's New Business before CoC	**4,008**	4,383
Cost of Capital	**(340)**	(313)
Value of One Year's New Business after CoC	**3,668**	4,070

Note: Figures may not add up due to rounding.

2.2 Results by Distribution Channels

PICC Life split the Value of One Year's New Business by distribution channel. The results of the Value of One Year's New Business by distribution channel as of 31 December 2014 and 31 December 2013 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2014 and 31 December 2013 by Distribution Channel (Unit: RMB Million)

Distribution Channel	Bancassu rance	Individual insurance agent	Group sales	Reinsurance	Total
2014 Value of One Year's New Business	1,592	1,554	462	60	3,668
2013 Value of One Year's New Business	2,219	1,407	445	–	4,070

Note: Figures may not add up due to rounding.

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

3. ASSUMPTIONS

The assumptions below are used for the valuation of the Embedded Value and Value of One Year's New Business as of 31 December 2014.

3.1 Risk Discount Rate

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

3.2 Rate of Investment Return

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

3.3 Policy Dividend

The expected level of participating policy dividend is derived based on the participating policy of PICC Life. The impact on the Value of In-Force Business and Value of One Year's New Business that may be caused by the change in the level of participating policy dividend is illustrated in the sensitivity tests.

3.4 Mortality and Morbidity

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

3.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on actual experience. They are in the range from 30% to 63% of gross premium depending on the lines of business.

3.6 Lapse Rates

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

3.7 Expenses and Commissions

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

Commission assumptions are set based on overall commission level of PICC Life and vary by business lines.

3.8 Tax

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

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

4. SENSITIVITY TESTS

PICC Life has conducted sensitivity tests on the Embedded Value and Value of One Year's New Business. In each of these tests, only the assumption referred to is changed, while the other assumptions are kept unchanged. For the investment return assumption scenario, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 Value of In-Force Business of PICC Life as of 31 December 2014 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	17,504	16,855
Risk Discount Rate at 9%	18,601	17,991
Risk Discount Rate at 11%	16,546	15,869
Investment rate of return plus 50 bps	20,619	20,124
Investment rate of return less 50 bps	14,410	13,606
Expenses increased by 10%	17,259	16,610
Expenses reduced by 10%	17,748	17,099
Lapse rates increased by 10%	16,945	16,384
Lapse rates reduced by 10%	18,060	17,325
Mortality increased by 10%	17,379	16,733
Mortality reduced by 10%	17,629	16,978
Morbidity increased by 10%	17,466	16,818
Morbidity reduced by 10%	17,540	16,891
Short-term business claim ratio increased by 10%	17,455	16,806
Short-term business claim ratio reduced by 10%	17,552	16,903
Participating Ratio (80/20)	16,622	15,972
150% of Minimum Solvency Requirement	17,504	15,850
Taxable Income Based on China Accounting Standards	17,214	16,565

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

4. SENSITIVITY TESTS *(continued)*

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2014 of PICC Life under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	4,008	3,668
Risk Discount Rate at 9%	4,342	4,042
Risk Discount Rate at 11%	3,712	3,338
Investment rate of return plus 50 bps	5,286	5,001
Investment rate of return less 50 bps	2,731	2,336
Expenses increased by 10%	3,670	3,330
Expenses reduced by 10%	4,345	4,006
Lapse rates increased by 10%	3,701	3,412
Lapse rates reduced by 10%	4,320	3,929
Mortality increased by 10%	3,957	3,618
Mortality reduced by 10%	4,058	3,718
Morbidity increased by 10%	3,991	3,652
Morbidity reduced by 10%	4,023	3,684
Short-term business claim ratio increased by 10%	3,905	3,566
Short-term business claim ratio reduced by 10%	4,110	3,770
Participating Ratio (80/20)	3,909	3,570
150% of Minimum Solvency Requirement	4,008	3,317
Taxable Income Based on China Accounting Standards	3,899	3,560

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

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of Embedded Value movement from 31 December 2013 to 31 December 2014.

Table 5.1 Analysis of Embedded Value Movement of PICC Life from 31 December 2013 to 31 December 2014 (Unit: RMB Million)

No	Description	Amount
1	Embedded Value as at 31 December 2013	**36,863**
2	New Business Contribution	4,112
3	Expected Return	1,956
4	Investment Variance	6,005
5	Other Experience Variances	(1,253)
6	Assumption Changes	(1,868)
7	Capital Change and Market Value Adjustment	1,600
8	Embedded Value as at 31 December 2014	**47,414**

Note: Figures may not add up due to rounding.

Explanations on items 2 to 7 above:

2. The contribution of new business sold in 2014 to the embedded value as at 31 December 2014;

3. The expected return in 2014 arising from the in-force business and adjusted net worth at 2013 year end;

4. Change in Embedded Value arising from variances in 2014 between the actual investment and related investment assumption;

5. Change in Embedded Value arising from other variances in 2014 between the actual experience and assumption other than relating to investment;

6. The impact on Embedded Value due to the changes in assumptions during 2014;

7. The impact on Embedded Value due to capital changes and the changes in market value of held-to-maturity financial assets due to the change in market interest rates during 2014.

Independent Actuaries Review Opinion Report on the Embedded Value

PICC Health has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2014. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and one year's new business value as of 31 December 2014;
- Review the assumptions of the embedded value and one year's new business value as of 31 December 2014;
- Review the various embedded value results as of 31 December 2014, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2013 to 31 December 2014, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the breakdown of value of one year's new business as of 31 December 2014 and 31 December 2013 by distribution channel.

BASIS OF OPINION, RELIANCES AND LIMITATION

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

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

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

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

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Health to determine the embedded value results is in line with the “Guidance on Life and Health Insurance Embedded Value Report Preparation” (Baojianfa [2005] No. 83) issued by the CIRC. This method is one that is commonly used by life and health insurance companies in China;

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

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

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

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

Eric Lu
FIAA, FCAA

31 December 2014 Embedded Value Report of PICC Health Insurance Company Limited

1. DEFINITION AND METHODOLOGY

1.1 Definition

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

- **Embedded Value ("EV"):** this is the sum of the Adjusted Net Worth and Value of In-Force Business as at the valuation date;

- **Adjusted Net Worth ("ANW"):** this is the market value of the assets in excess of the assets supporting the policy reserve and other liabilities as at the valuation date attributable to shareholders. This is equal to the shareholder equity on accounting report basis plus reserve differences between accounting report basis and solvency basis, market value adjustments and tax adjustments;

- **Value of In-Force Business ("VIF"):** this is equal to the present value as at valuation date of future net of tax statutory profits from the business in force as at the valuation date, less the Cost of Capital associated with such business;

- **Statutory Profits:** this is the profit determined based on regulatory solvency reporting basis. The key difference between this profit and the profit reported under accounting report basis is that the policy reserve is determined based on the CIRC's actuarial requirement instead of the accounting report basis;

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

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

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

1.2 Methodology

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

PICC Health has used the traditional embedded value approach. Both Value of In-Force Business and Value of One Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of One Year's New Business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

2. RESULTS SUMMARY

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

2.1 Overall Results

Table 2.1.1 Embedded Value of PICC Health as of 31 December 2014 and 31 December 2013 (Unit: RMB Million)

	31 Dec 2014	31 Dec 2013
Value of In-Force Business before CoC	**1,367**	1,385
Cost of Capital	**(157)**	(133)
Value of In-Force Business after CoC	**1,209**	1,252
Adjusted Net Worth	**3,254**	1,239
Embedded Value	**4,463**	2,491

Note: Figures may not add up due to rounding.

Table 2.1.2 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2014 and 31 December 2013 (Unit: RMB Million)

	31 Dec 2014	31 Dec 2013
Value of One Year's New Business before CoC	**321**	517
Cost of Capital	**(45)**	(36)
Value of One Year's New Business after CoC	**276**	481

Note: Figures may not add up due to rounding.

2.2 Results by Distribution Channels

PICC Health split the Value of One Year's New Business by distribution channel. The results of the Value of One Year's New Business by distribution channel as of 31 December 2014 and 31 December 2013 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2014 and 31 December 2013 by Distribution Channel (Unit: RMB Million)

Distribution Channel	**Bancassurance**	**Individual insurance agent**	**Group sales**	**Total**
2014 Value of One Year's New Business	90	47	138	276
2013 Value of One Year's New Business	99	55	328	481

Note: Figures may not add up due to rounding.

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

3. ASSUMPTIONS

The assumptions below are used for the valuation of the Embedded Value and Value of One Year's New Business as of 31 December 2014.

3.1 Risk Discount Rate

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

3.2 Rate of Investment Return

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

3.3 Policy Dividend

The expected level of participating policy dividend is derived based on the participating policy of PICC Health. The impact on the Value of In-Force Business and Value of One Year's New Business that may be caused by the change in the level of participating policy dividend is illustrated in the sensitivity tests.

3.4 Mortality and Morbidity

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

3.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on actual experience. They are in the range from 30% to 115% of gross premium depending on the lines of business.

3.6 Lapse Rates

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

3.7 Expenses and Commissions

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

Commission assumptions are set based on overall commission level of PICC Health and vary by business lines.

3.8 Tax

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

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

4. SENSITIVITY TESTS

PICC Health has conducted sensitivity tests on the Embedded Value and Value of One Year's New Business. In each of these tests, only the assumption referred to is changed, while the other assumptions are kept unchanged. For the investment return assumption scenario, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 Value of In-Force Business of PICC Health as of 31 December 2014 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	1,367	1,209
Risk Discount Rate at 9%	1,450	1,309
Risk Discount Rate at 11%	1,293	1,121
Investment rate of return plus 50 bps	1,650	1,512
Investment rate of return less 50 bps	1,087	910
Expenses increased by 10%	1,292	1,134
Expenses reduced by 10%	1,446	1,289
Lapse rates increased by 10%	1,297	1,155
Lapse rates reduced by 10%	1,463	1,286
Mortality increased by 10%	1,360	1,203
Mortality reduced by 10%	1,373	1,216
Morbidity increased by 10%	1,354	1,197
Morbidity reduced by 10%	1,380	1,222
Short-term business claim ratio increased by 10%	907	749
Short-term business claim ratio reduced by 10%	1,885	1,728
Participating Ratio (80/20)	1,341	1,183
150% of Minimum Solvency Requirement	1,367	1,087
Taxable Income Based on China Accounting Standards	1,315	1,158

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

4. SENSITIVITY TEST *(continued)*

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2014 of PICC Health under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	321	276
Risk Discount Rate at 9%	334	295
Risk Discount Rate at 11%	309	258
Investment rate of return plus 50 bps	386	346
Investment rate of return less 50 bps	256	205
Expenses increased by 10%	276	231
Expenses reduced by 10%	366	321
Lapse rates increased by 10%	289	249
Lapse rates reduced by 10%	376	323
Mortality increased by 10%	321	276
Mortality reduced by 10%	321	276
Morbidity increased by 10%	320	275
Morbidity reduced by 10%	321	276
Short-term business claim ratio increased by 10%	42	(4)
Short-term business claim ratio reduced by 10%	600	555
Participating Ratio (80/20)	318	273
150% of Minimum Solvency Requirement	321	238
Taxable Income Based on China Accounting Standards	300	255

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

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of Embedded Value movement from 31 December 2013 to 31 December 2014.

Table 5.1 Analysis of Embedded Value Movement of PICC Health from 31 December 2013 to 31 December 2014 (Unit: RMB Million)

No	Description	Amount
1	Embedded Value as at 31 December 2013	**2,491**
2	New Business Contribution	312
3	Expected Return	237
4	Investment Variance	934
5	Other Experience Variances	(719)
6	Assumption Changes	(364)
7	Capital Change and Market Value Adjustment	1,571
8	Embedded Value as at 31 December 2014	**4,463**

Note: Figures may not add up due to rounding.

Explanations on items 2 to 7 above:

2. The contribution of new business sold in 2014 to the embedded value as at 31 December 2014;

3. The expected return in 2014 arising from the in-force business and adjusted net worth at 2013 year end;

4. Change in Embedded Value arising from variances in 2014 between the actual investment and related investment assumption;

5. Change in Embedded Value arising from other variances in 2014 between the actual experience and assumption other than relating to investment;

6. The impact on Embedded Value due to the changes in assumptions during 2014;

7. The impact on Embedded Value due to capital changes and the changes in market value of held-to-maturity financial assets due to the change in market interest rates during 2014.

Independent Auditor's Report

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

We have audited the consolidated financial statements of The People's Insurance Company (Group) of China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 231, which comprise the consolidated and company statements of financial position as at 31 December 2014 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2015

Consolidated Income Statement

For the year ended 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**2014**	2013
Gross written premiums	5	**349,169**	306,421
Less: Premiums ceded to reinsurers	5	**(32,788)**	(33,811)
Net written premiums	5	**316,381**	272,610
Change in unearned premium reserves	5	**(10,767)**	(9,350)
Net earned premiums		**305,614**	263,260
Reinsurance commission income		**10,109**	11,477
Investment income	6	**33,426**	27,829
Other income	7	**2,347**	2,172
TOTAL INCOME		**351,496**	304,738
Claims and policyholder's benefits:	8	**238,760**	208,290
Life insurance death and other benefits paid		**95,422**	28,592
Claims incurred, net		**141,157**	125,166
Changes in long-term life insurance contract liabilities		**(2,171)**	51,209
Policyholder dividends		**4,352**	3,323
Handling charges and commissions		**26,464**	21,659
Finance costs	9	**5,053**	5,512
Exchange (gains)/losses, net		**(34)**	646
Other operating and administrative expenses	10	**63,678**	55,932
TOTAL BENEFITS, CLAIMS AND EXPENSES		**333,921**	292,039
Share of profits and losses of associates		**5,845**	2,971
PROFIT BEFORE TAX	11	**23,420**	15,670
Income tax expense	14	**(4,705)**	(3,615)
PROFIT FOR THE YEAR		**18,715**	12,055
Attributable to:			
Equity holders of the parent		**13,109**	8,121
Non-controlling interests		**5,606**	3,934
		18,715	12,055
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in RMB)			
– Basic	15	**0.31**	0.19

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2014	2013
PROFIT FOR THE YEAR		18,715	12,055
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value gains/(losses)		13,972	(2,166)
– Reclassification of gains to profit or loss on disposals		(2,714)	(3,588)
– Impairment losses	6(d)	1,655	3,323
Income tax effect			
– Fair value gains/(losses)		(1,967)	(480)
– Reclassification of gains to profit or loss on disposals		389	526
– Impairment losses		(181)	(337)
		11,154	(2,722)
Net gains/(losses) on cash flow hedges		15	(57)
Income tax effect	30	(4)	14
		11	(43)
Exchange differences on translating foreign operations		12	(28)
NET OTHER COMPREHENSIVE INCOME/(EXPENSE) MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		11,177	(2,793)
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	26	442	369
Income tax effect	30	(110)	(92)
		332	277
Actuarial (losses)/gains on pension benefit obligation	38	(384)	187
NET OTHER COMPREHENSIVE (EXPENSE)/INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		(52)	464
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		11,125	(2,329)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,840	9,726
Attributable to:			
– Equity holders of the parent		21,434	6,475
– Non-controlling interests		8,406	3,251
		29,840	9,726

Consolidated Statement of Financial Position

At 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2014**	31 December 2013
ASSETS			
Cash and cash equivalents	17	**39,307**	46,607
Derivative financial assets	18	**23**	16
Debt securities	19	**235,905**	243,756
Equity securities and trust schemes	20	**92,637**	97,612
Insurance receivables, net	21	**18,475**	26,762
Reinsurance assets	22, 36	**25,857**	27,222
Term deposits	23	**164,408**	137,607
Restricted statutory deposits		**9,346**	8,992
Investments in associates and a joint venture	25	**36,128**	28,268
Investment properties	26	**10,682**	10,075
Property and equipment	27	**21,590**	22,054
Intangible assets	28	**808**	533
Prepaid land premiums	29	**3,902**	3,754
Deferred tax assets	30	**1,086**	1,545
Other assets	31	**122,067**	100,516
TOTAL ASSETS		**782,221**	755,319
LIABILITIES			
Securities sold under agreements to repurchase	33	**35,488**	44,448
Derivative financial liabilities	18	**2**	10
Income tax payable		**979**	57
Due to banks and other financial institutions	34	**687**	501
Subordinated debts	35	**47,914**	46,837
Insurance contract liabilities	36	**478,640**	461,776
Investment contract liabilities for policyholders	37	**25,520**	41,640
Policyholder dividends payable		**7,966**	7,806
Pension benefit obligation	38	**2,862**	2,614
Deferred tax liabilities	30	**915**	435
Other liabilities	39	**55,671**	54,394
TOTAL LIABILITIES		**656,644**	660,518
EQUITY			
Issued capital	40	**42,424**	42,424
Reserves	41	**50,157**	29,151
Equity attributable to equity holders of the parent		**92,581**	71,575
Non-controlling interests		**32,996**	23,226
TOTAL EQUITY		**125,577**	94,801
TOTAL EQUITY AND LIABILITIES		**782,221**	755,319

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent													
	Share capital *(note40)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note41 (a))*	Agriculture catastrophic loss reserve *(note41 (b))*	Asset revaluation	Cash flow hedge	Foreign currency translation reserve	Surplus reserve fund* *(note41 (c))*	Other reserves *(note41 (d))*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2014	42,424	19,925	(6,300)	2,845	–	1,716	(3)	(105)	579	(14,989)	25,483	71,575	23,226	94,801
Profit for the year	–	–	–	–	–	–	–	–	–	–	13,109	13,109	5,606	18,715
Other comprehensive income/(expense)	–	–	8,442	–	–	250	8	9	–	–	(384)	8,325	2,800	11,125
Total comprehensive income	–	–	8,442	–	–	250	8	9	–	–	12,725	21,434	8,406	29,840
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,166	–	–	–	–	223	–	(1,389)	–	–	–
Appropriations to catastrophic loss reserve for agriculture insurance	–	–	–	–	497	–	–	–	–	–	(497)	–	–	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	–	–	(352)	(352)	(981)	(1,333)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	2,269	2,269
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	(76)	–	(76)	76	–
Balance at 31 December 2014	42,424	19,925	2,142	4,011	497	1,966	5	(96)	802	(15,065)	35,970	92,581	32,996	125,577

* This reserve contains both statutory and discretionary surplus reserves.

(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent												
	Share capital *(note40)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note41 (a))*	Asset revaluation	Cash flow hedge	Foreign currency translation reserve	Surplus reserve fund* *(note41 (c))*	Other reserves *(note41 (d))*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2013	42,424	19,925	(4,316)	2,049	1,513	28	(84)	317	(14,889)	18,407	65,374	17,968	83,342
Profit for the year	–	–	–	–	–	–	–	–	–	8,121	8,121	3,934	12,055
Other comprehensive income/(expense)	–	–	(1,984)	–	203	(31)	(21)	–	–	187	(1,646)	(683)	(2,329)
Total comprehensive income/(expense)	–	–	(1,984)	–	203	(31)	(21)	–	–	8,308	6,475	3,251	9,726
Appropriations to general risk reserve and surplus reserve fund	–	–	–	796	–	–	–	262	–	(1,058)	–	–	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	–	(163)	(163)	(1,041)	(1,204)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	2,951	2,951
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	(100)	–	(100)	100	–
Others	–	–	–	–	–	–	–	–	–	(11)	(11)	(3)	(14)
Balance at 31 December 2013	42,424	19,925	(6,300)	2,845	1,716	(3)	(105)	579	(14,989)	25,483	71,575	23,226	94,801

* This reserve contains both statutory and discretionary surplus reserves.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**23,420**	15,670
Adjustments for:			
Investment income	6	**(33,426)**	(27,829)
Exchange (gains)/losses, net		**(34)**	646
Share of profits and losses of associates		**(5,845)**	(2,971)
Depreciation of property and equipment	11, 27	**2,567**	2,031
Amortisation of intangible assets	11, 28	**115**	90
Amortisation of prepaid land premiums	11, 29	**131**	126
Disposal gains from property and equipment and intangible assets	7	**(71)**	(83)
Finance costs except for interests credited to policyholders	9	**3,715**	3,571
Impairment losses	11	**564**	217
Investment expenses		**161**	129
Decrease/(increase) in insurance receivables, net		**7,770**	(3,645)
Decrease in investment contract liabilities for policyholders		**(16,120)**	(8,672)
Increase in insurance contract liabilities, net		**18,229**	66,852
Decrease/(increase) in other assets and prepayments, net		**1,275**	(234)
Increase in other liabilities and accruals, net		**1,867**	10,945
Cash generated from operations		**4,318**	56,843
Income tax paid		**(4,717)**	(2,992)
Net cash flows (used in)/from operating activities		**(399)**	53,851
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		**25,641**	20,874
Dividends received		**5,651**	5,577
Decrease/(increase) in policy loans		**1,600**	(204)
Capital expenditures		**(3,864)**	(3,776)
Proceeds from disposals of investment properties, plants and equipment and intangible assets		**224**	358
Acquisition of a joint venture		**(2,895)**	–
Purchases of investments		**(222,668)**	(282,369)
Proceeds from disposals of investments		**227,430**	213,591
Payments for investment expenses		**(161)**	(129)
Placement of deposits with banks with original maturity of more than three months		**(38,064)**	(31,346)
Maturity of deposits with banks with original maturity of more than three months		**11,289**	13,730
Net cash flows from/(used in) investing activities		**4,183**	(63,694)

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by subsidiaries		**2,269**	2,951
Share issuance expenses		**(24)**	(613)
Decrease in securities sold under agreements to repurchase		**(8,960)**	(26,842)
Issue of subordinated debts		**8,000**	21,948
Proceeds from banks and other financial institutions		**186**	139
Repayment of subordinated debts		**(6,900)**	(10,058)
Interests paid		**(3,643)**	(3,330)
Dividends paid		**(1,333)**	(1,204)
Repayment of other debts		**(687)**	–
Net cash flows used in financing activities		**(11,092)**	(17,009)
Net decrease in cash and cash equivalents		**(7,308)**	(26,852)
Cash and cash equivalents at beginning of the year		**46,607**	73,873
Effects of exchange rate changes on cash and cash equivalents		**8**	(414)
Cash and cash equivalents at end of the year		**39,307**	46,607
Analysis of balances of cash and cash equivalents			
Cash on hand	17	**1**	6
Securities purchased under resale agreements with original maturity of less than three months	17	**5,636**	6,583
Demand deposits and deposits with banks with original maturity of less than three months	17	**33,670**	40,018
Cash and cash equivalents at end of the year		**39,307**	46,607

Statement of Financial Position

At 31 December 2014
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2014**	31 December 2013
ASSETS			
Cash and cash equivalents	17	**3,796**	2,876
Debt securities	19	**2,035**	4,512
Equity securities	20	**5,175**	9,834
Term deposits	23	**548**	5,970
Investments in subsidiaries	24	**81,088**	74,448
Investments in associates	25	**4,259**	3,671
Investment properties	26	**1,141**	1,136
Property and equipment	27	**190**	227
Intangible assets	28	**30**	38
Prepaid land premiums	29	**71**	72
Other assets	31	**5,216**	2,414
TOTAL ASSETS		**103,549**	105,198
LIABILITIES			
Securities sold under agreement to repurchase	33	**345**	1,955
Subordinated debts	35	**15,963**	17,856
Pension benefit obligation	38	**2,862**	2,614
Other liabilities	39	**1,596**	2,277
TOTAL LIABILITIES		**20,766**	24,702
EQUITY			
Share capital	40	**42,424**	42,424
Reserves	41	**40,359**	38,072
TOTAL EQUITY		**82,783**	80,496
TOTAL EQUITY AND LIABILITIES		**103,549**	105,198

(Amounts in millions of Renminbi, unless otherwise stated)

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the year ended 31 December 2014, the Company's subsidiaries mainly provide integrated financial products and services and are engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses. The Company and its subsidiaries are collectively referred to as the "Group".

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB") and the disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments and insurance contract liabilities. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

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

2.3 APPLICATIONS OF NEW AND REVISED IFRSs

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

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

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

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities *(continued)*

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost,
- In accordance with IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted IFRS 9), or
- Using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The Company early adopted these amendments to its separate financial statement for the current year. It continues accounting for its investments in subsidiaries at cost, but accounts for its investment in an associate by equity method as described in IAS 28 instead of at cost.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

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

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

(Amounts in millions of Renminbi, unless otherwise stated)

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

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

IFRIC 21 – Levies

IFRIC 21 Levies addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The adoption of the above amendments to IFRSs and the new interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[1]
IFRS 14	*Regulatory Deferral Accounts*[2]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[5]
Amendments to IAS 1	*Disclosure Initiative*[5]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[5]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[5]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[5]
Amendments to IFRSs	*Annual Improvements to IFRSs 2010-2012 Cycle*[6]
Amendments to IFRSs	*Annual Improvements to IFRSs 2011-2013 Cycle*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2012-2014 Cycle*[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

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

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

IFRS 9 – Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

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

IFRS 9 – Financial Instruments *(continued)*

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

Application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 – Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

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

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

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

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

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

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

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(continued)*

Amendments to IFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. They also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity has to be consolidated; other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 allow the non-investment entity investor that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IFRS 12 require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 9 to present the disclosures in respect of investment entities required by IFRS 12.

Annual Improvements to IFRS 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle

The Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle sets out amendments to a number of IFRSs

None of the above new and revised IFRSs are expected to have a material impact on the financial position or performance of the Group but may require additional disclosures except IFRS 9 and IFRS 15. The directors of the Company are in the process of making an assessment of the impact of IFRS 9 and IFRS 15.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of consolidation *(continued)*

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

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

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

(2) Investment in subsidiaries

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

(3) Investment in associates and a joint venture

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(3) Investment in associates and a joint venture *(continued)*

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

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(3) Investment in associates and a joint venture *(continued)*

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

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

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

(4) Cash and cash equivalents

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

(5) Foreign currency translation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Foreign currency translation *(continued)*

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

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

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

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

(6) Financial assets

Initial recognition and measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(6) Financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Available-for-sale financial assets

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(6) Financial assets *(continued)*

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's financial assets that are classified as loans and receivables include cash and cash equivalents, terms deposits, loans and debts and miscellaneous receivables. Insurance receivables and policy loans are also accounted for as if they were loans and receivables. After initial measurement, such assets are subsequently measured at amortised cost, using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest is included in investment income in the income statement.

Held-to-maturity financial assets

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

Derecognition of financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(6) Financial assets *(continued)*

Derecognition of financial assets (continued)

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

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

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

(7) Impairment of financial assets

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

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of the reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Available-for-sale financial assets (continued)

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

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

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

Financial assets carried at amortised cost

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Financial assets carried at amortised cost (continued)

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

Financial assets carried at cost

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

(8) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or other financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Financial liabilities *(continued)*

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are always measured at fair value through profit or loss unless they are designated as effective hedging instruments.

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

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

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

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

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial guarantee contracts

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

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

(10) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Initial recognition and subsequent measurement (continued)

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

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

(11) Fair value measurement

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

(12) Investment properties

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(12) Investment properties *(continued)*

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

(13) Property and equipment and depreciation

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

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

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

Land and buildings	2.11% to 19.40%
Office equipment, furniture and fixtures	7.46% to 32.33%
Motor vehicles	6.47% to 24.25%

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(14) Construction in progress

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

(15) Intangible assets (other than goodwill)

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

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

(16) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises or treated as a revaluation decrease, as appropriate.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(17) Insurance receivables

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

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

(18) Product classification and unbundling

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

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Details of significant insurance risk testing are set out below.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more specified interest rates, a financial instrument price, a commodity price, a foreign exchange rate, an index of price or rates, a credit rating or a credit index or other variables, provided in the case of a non-financial variable, the variable is not specific to a party to the contract.

For contracts issued by the Group which require testing the significance of insurance risk, they should be performed at the initial recognition of such contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

(19) Significant insurance risk testing

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Insurance contract liabilities

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

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

Unearned premium reserves

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

Insurance contract liabilities other than unearned premium reserves

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Insurance contract liabilities *(continued)*

Insurance contract liabilities other than unearned premium reserves (continued)

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

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

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

- At inception of an insurance contract, any "day-one" gain is not recognised in the income statement, but included in the insurance contract liabilities as a residual margin. At inception of an insurance contract, any "day-one" loss is recognised in the income statement. Residual margins are not re-measured at the end of each reporting date. They are amortised on the basis of the effective sums insured or number of policies over the entire coverage period.

Reasonable estimates in expected future net cash flows are determined based on information currently available as at the end of the reporting period.

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

Liability adequacy tests

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

Derecognition of insurance contract liabilities

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Provisions

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

- An entity has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

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

(22) Retirement benefits cost

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Policyholder dividends

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

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

(24) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land for own use

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) Revenue recognition

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

Gross premiums

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

Premiums from life insurance contracts with instalment or single payments are recognised as revenue when due. Premiums from direct non-life insurance contracts are recognised as revenue according to the total premiums stated in the contracts.

Fee income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed.

Investment income

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

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

(26) Reinsurance

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(26) Reinsurance *(continued)*

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

Commissions receivable on outward reinsurance contracts are recorded as income in the income statement. The reinsurers' share of unearned premium reserves is reduced by commissions receivable on outward reinsurance contracts at inception and subsequently the reduced balance is released over the term of the contract in the same manner as the related unearned premium reserves. Reinsurers' share of loss and loss adjustment expense reserves also includes its share of risk margin to the gross balance of loss and loss adjustment expense reserves.

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

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

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

(27) Borrowing costs

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

(28) Government grants

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(29) Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or a joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(30) Income tax

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(30) Income tax *(continued)*

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

(1) Classification and measurement of financial assets

Management needs to make judgements on the classifications of financial assets as different classifications will affect the accounting treatment for the financial assets, and the financial position and operating results of the Group. The judgements on these classifications depend on the nature and purposes of acquiring these financial assets at their initial recognitions. Subsequent reclassifications may be made if the intention of holding a particular financial asset changed and that reclassification is permitted by IFRS.

The management of the Group judges whether fair value can be measured reliably for available-for-sale equity financial assets without prices in an active market, and measures them at cost if they cannot be measured reliably.

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

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

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

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

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

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

Judgements *(continued)*

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

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

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

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

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

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

The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 25 to these consolidated financial statements.

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

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

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

Judgements *(continued)*

(6) Deferred taxation on investment properties

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

Estimation uncertainty

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

(1) Impairment of loans and receivables

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

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

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

(2) Impairment of reinsurance assets

The Group performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Group considers whether (i) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not be able to receive all amounts due to it under the terms of the contract; and (ii) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The carrying values of reinsurance assets are disclosed in note 22.

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

Estimation uncertainty *(continued)*

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

The Group makes judgement on whether there is an indication that non-current assets other than financial assets may be impaired as at the end of the reporting period. When any such indication exists, the Group performs impairment testing for the asset or a group of assets and makes estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group determines the recoverable amount according to the higher of the fair value less costs of disposal and the present value of expected future cash flows. Fair value less costs of disposal is determined with reference to the prices in sales agreements or observable market prices of similar assets in fair transactions. When using the present value of estimated future cash flows, management must use the estimated future cash flows of the asset or a group of assets, and select the appropriate discount rate to determine the present value of the future cash flows. The carrying values of non-current assets other than financial assets are disclosed in note 27 to note 29.

(4) Valuation of insurance contract liabilities

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

The main assumptions made in measuring these liabilities are as follows:

- For insurance contracts under which future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of the yield curve of China's treasury bonds published by China Government Securities Depository Trust & Clearing Co., Ltd., with consideration of the tax effect and liquidity premiums. As the difference between the yield curve of the interbank policy finance bonds and the yield curve of the interbank treasury bonds, the Group set the premiums to be 50-112 basis points as at 31 December 2014 (31 December 2013: 50-107 basis points). The discount rates including premiums as at 31 December 2014 were 3.67%-6.38% (31 December 2013: 3.57%-6.42%).

  For insurance contracts which future insurance benefits will be affected by investment income of the underlying asset portfolio, the discount rates are determined based on expected future investment returns of the investment portfolio backing the liabilities. The discount rates used by the Group as at 31 December 2014 were 5.00%-5.50% (31 December 2013: 5.00%-5.50%).

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

(Amounts in millions of Renminbi, unless otherwise stated)

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

Estimation uncertainty *(continued)*

(4) Valuation of insurance contract liabilities (continued)

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

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

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

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

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

Type	2014	2013
Agricultural insurance	**33.8%**	39.5%
Motor vehicle insurance	**3.0%**	3.0%
Other non-life insurance	**6.0%**	3.0%
Short-term health insurance	**3.0%**	3.0%

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

Type	2014	2013
Agricultural insurance	**33.3%**	39.0%
Motor vehicle insurance	**2.5%**	2.5%
Other non-life insurance	**5.5%**	2.5%
Short-term health insurance	**2.5%**	2.5%

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

Estimation uncertainty *(continued)*

(4) Valuation of insurance contract liabilities (continued)

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

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

The carrying values of insurance contract liabilities are disclosed in note 36.

(5) Deferred tax assets

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

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

The carrying values of deferred tax assets are disclosed in note 30.

(6) Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional valuers. Valuation of investment properties involves various assumptions and techniques. The principal assumptions and valuation methodology of investment properties are set out in note 26 to these consolidated financial statements.

(7) Retirement benefit liabilities

The Group measured certain employee retirement benefits using projected unit credit method, when these benefit plans met the definition of defined benefit plans as set out in IAS 19. Carrying value of these liabilities and the principal assumptions used in measuring these liabilities are set out in note 38 to these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on segment profit/(loss).

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

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

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

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2014

	Non-life insurance *in RMB million*	Life insurance *in RMB million*	Health insurance *in RMB million*	Asset management *in RMB million*	Head-quarters *in RMB million*	Others *in RMB million*	Eliminations *in RMB million*	Total *in RMB million*
Net earned premiums	211,797	79,822	13,995	–	–	–	–	305,614
Reinsurance commission income	9,988	30	91	–	–	–	–	10,109
Investment income	13,079	18,017	1,533	480	2,826	129	(2,638)	33,426
Other income	1,323	277	90	921	14	401	(679)	2,347
TOTAL INCOME – SEGMENT REVENUE	236,187	98,146	15,709	1,401	2,840	530	(3,317)	351,496
– External income	236,118	98,060	15,704	946	458	210	–	351,496
– Intersegment income	69	86	5	455	2,382	320	(3,317)	–
Claims and policyholders' benefits	136,322	88,663	13,775	–	–	–	–	238,760
Handling charges and commissions	23,388	3,029	321	7	–	–	(281)	26,464
Finance costs	1,631	1,810	575	14	994	29	–	5,053
Exchange losses, net	(4)	(16)	–	–	(14)	–	–	(34)
Other operating and administrative expenses	56,139	4,612	1,426	818	673	452	(442)	63,678
TOTAL BENEFITS, CLAIMS AND EXPENSES	217,476	98,098	16,097	839	1,653	481	(723)	333,921
Share of profits and losses of associates	2,598	2,287	–	10	1,126	–	(176)	5,845
PROFIT/(LOSS) BEFORE TAX	21,309	2,335	(388)	572	2,313	49	(2,770)	23,420
Income tax (expense)/credit	(4,335)	(464)	2	(181)	255	(30)	48	(4,705)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	16,974	1,871	(386)	391	2,568	19	(2,722)	18,715

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2013

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

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2014 and 2013, and other segment information for the year ended 31 December 2014 and 2013

	Non-life insurance *in RMB million*	Life insurance *in RMB million*	Health insurance *in RMB million*	Asset management *in RMB million*	Head-quarters *in RMB million*	Others *in RMB million*	Eliminations *in RMB million*	Total *in RMB million*
31 December 2014								
Segment assets	**365,846**	**354,044**	**33,605**	**8,216**	**103,438**	**5,654**	**(88,582)**	**782,221**
Segment liabilities	**280,372**	**323,756**	**30,267**	**1,891**	**20,765**	**1,879**	**(2,286)**	**656,644**
Other segment information:								
Capital expenditures	**2,116**	**1,178**	**40**	**121**	**42**	**367**	**–**	**3,864**
Depreciation and amortisation	**2,414**	**97**	**39**	**22**	**69**	**119**	**53**	**2,813**
Interest income	**10,854**	**14,167**	**1,375**	**174**	**447**	**8**	**–**	**27,025**
Impairment losses	**1,025**	**926**	**10**	**42**	**216**	**–**	**–**	**2,219**
31 December 2013								
Segment assets	321,971	366,913	29,144	7,448	105,503	5,413	(81,073)	755,319
Segment liabilities	262,799	344,195	27,841	1,631	24,749	1,653	(2,350)	660,518
Other segment information:								
Capital expenditures	1,807	1,608	25	120	150	66	–	3,776
Depreciation and amortisation	1,934	87	42	18	58	116	(8)	2,247
Interest income	8,785	12,189	942	133	402	12	–	22,463
Impairment losses	1,539	1,946	25	–	–	30	–	3,540
Gain on reclassification of available-for-sale financial assets to an associate	1,282	990	–	–	176	–	–	2,448

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

(Amounts in millions of Renminbi, unless otherwise stated)

5. GROSS AND NET WRITTEN PREMIUMS

		2014	2013
(a)	Gross written premiums		
	Long-term life insurance premiums	**86,965**	74,723
	Short-term health insurance premiums	**9,038**	8,076
	Non-life insurance premiums	**253,166**	223,622
	Total	**349,169**	306,421
(b)	Premiums ceded to reinsurers		
	Long-term life insurance premiums ceded to reinsurers	**(302)**	(271)
	Short-term health insurance premiums ceded to reinsurers	**(1,713)**	(2,229)
	Non-life insurance premiums ceded to reinsurers	**(30,773)**	(31,311)
	Total	**(32,788)**	(33,811)
	Net written premiums	**316,381**	272,610
(c)	Change in unearned premium reserves		
	Change in gross unearned premium reserves	**(9,122)**	(11,088)
	Less: Change in reinsurer's share of unearned premium reserves	**(1,645)**	1,738
	Net	**(10,767)**	(9,350)

6. INVESTMENT INCOME

	2014	2013
Dividend, interest and rental income (a)	**31,843**	27,248
Realised gains (b)	**2,852**	3,570
Fair value gains (c)	**386**	334
Impairment losses (d)	**(1,655)**	(3,323)
TOTAL	**33,426**	27,829

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(a) Dividend, interest and rental income

	2014	2013
Operating lease income from investment properties	272	278
Interest income		
Current and term deposits	9,315	7,495
Debt securities		
– Held-to-maturity	6,085	5,969
– Available-for-sale	5,713	4,656
– Held-for-trading	104	74
Derivative financial assets	15	32
Loans and receivables	5,793	4,237
SUBTOTAL	27,025	22,463
Dividend and trust income		
– Available-for-sale	3,936	4,340
– Held-for-trading	610	167
SUBTOTAL	4,546	4,507
TOTAL	31,843	27,248

(b) Realised gains

	2014	2013
Debt securities		
– Available-for-sale	161	(85)
– Held-for-trading	39	(9)
Equity securities		
– Available-for-sale	2,553	3,673
– Held-for-trading	99	(9)
TOTAL	2,852	3,570

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(c) Fair value gains

	2014	2013
Debt securities		
– Held-for-trading	**57**	(42)
Equity securities		
– Held-for-trading	**308**	87
Derivative financial instruments		
– Held-for-trading	**–**	(7)
Investment properties *(note 26)*	**21**	296
TOTAL	**386**	334

(d) Impairment losses

	2014	2013
Equity securities		
– Available-for-sale	**1,655**	3,323

7. OTHER INCOME

	2014	2013
Commission income arising from the tax collection of motor vehicles and vessels	**662**	613
Management fee charged to policyholders	**232**	421
Disposal gains from property and equipment, and intangible assets	**71**	83
Government grants	**137**	99
Others	**1,245**	956
TOTAL	**2,347**	2,172

(Amounts in millions of Renminbi, unless otherwise stated)

8. CLAIMS AND POLICYHOLDERS' BENEFITS

	2014		
	Gross	**Ceded**	**Net**
Life insurance death and other benefits paid	**95,428**	**6**	**95,422**
Claims incurred, net	**162,107**	**20,950**	**141,157**
– Short-term health insurance	**6,720**	**1,886**	**4,834**
– Non-life insurance	**155,387**	**19,064**	**136,323**
Changes in long-term life insurance contract liabilities	**(2,174)**	**(3)**	**(2,171)**
Policyholder dividends	**4,352**	**–**	**4,352**
TOTAL	**259,713**	**20,953**	**238,760**

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

9. FINANCE COSTS

	2014	2013
Interest expenses		
Subordinated debts	**2,313**	1,892
Interest credited to policyholders *(note 37)*	**1,338**	1,941
Securities sold under agreements to repurchase	**1,255**	1,545
Pension benefit obligation unwound *(note 38)*	**118**	107
Due to banks and other financial institutions	**39**	27
Others	**–**	3
Less: amounts capitalised in qualifying assets	**(10)**	(3)
TOTAL	**5,053**	5,512

(Amounts in millions of Renminbi, unless otherwise stated)

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2014	2013
Employee costs	**23,965**	19,092
Business taxes and surcharges	**12,791**	11,322
Depreciation and amortisation	**2,477**	1,935
Insurance guarantee fund	**2,232**	1,988
Impairment losses *(note 11)*	**564**	217
Others	**21,649**	21,378
TOTAL	**63,678**	55,932

11. PROFIT BEFORE TAX

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

	2014	2013
Employee costs (a) *(note)*	**28,317**	23,411
Depreciation of property and equipment *(note 27) (note)*	**2,567**	2,031
Impairment losses recognised on insurance receivables *(note 21(a))*	**517**	188
Impairment losses recognised on property and equipment *(note 27)*	**26**	1
Impairment losses recognised on other assets *(note 31(e))*	**21**	28
Minimum lease payments under operating leases in respect of land and buildings	**819**	582
Amortisation of intangible assets *(note 28) (note)*	**115**	90
Amortisation of prepaid land premium *(note 29) (note)*	**131**	126
Auditors' remuneration	**26**	28

(a) Employee costs:

	2014	2013
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	**26,103**	21,516
– Pension scheme contributions	**2,214**	1,895
TOTAL	**28,317**	23,411

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

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

The total compensation package for the Company's key management for the year ended 31 December 2014 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2014 financial statements.

Directors', supervisors' and senior management's remuneration for the years 2014 and 2013, are disclosed as follows:

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during 2014 and 2013 were as follows:

	2014 *(in RMB'000)*	2013 *(in RMB'000)* (Restated)
Mr. Xiang Huaicheng (i)	**–**	–
Mr. Lau Hon Chuen	**288**	200
Mr. Du Jian (i)	**–**	–
Mr. Cai Weiguo (ii)	**179**	200
Mr. Xu Dingbo	**300**	200
	767	600

There were no other emoluments payable to the Independent Non-executive Directors during the year (2013: Nil).

(i) For the year ended 31 December 2014, Mr. Xiang Huaicheng and Mr. Du Jian did not receive any remuneration from the Company.

(ii) Mr. Cai Weiguo has not received any remuneration from the Company since September 2014.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Chairman and Vice Chairman of the Board, Directors and Supervisors

	Year ended 31 December 2014			
	Fees *(in RMB'000)*	Salaries and allowances *(in RMB'000)*	Social insurance, housing fund and other benefits *(in RMB'000)*	Total *(in RMB'000)*
Chairman of the Board:				
Mr. Wu Yan	–	682	284	966
Vice chairman:				
Mr. Wang Yincheng (i)	–	675	270	945
Executive Directors:				
Mr. Li Liangwen (ii)	–	115	47	162
Ms. Zhuang Chaoying (iii)	–	560	207	767
Mr. Zhou Liqun (iii)	–	560	213	773
Non-executive Directors:				
Mr. Cao Guangsheng (iv)	–	–	–	–
Mr. Liu Yeqiao (iv)	–	–	–	–
Mr. Qi Shaojun (iv)	–	–	–	–
Mr. Yao Zhiqiang (v)	–	–	–	–
Mr. Wang Qiao (v)	–	–	–	–
Ms. Li Shiling (v)	–	–	–	–
Ms. Zhang Hanlin	–	–	–	–
Mr. Ma Qiang (v)	–	–	–	–
Supervisors:				
Mr. Lin Fan	–	675	270	945
Mr. Yu Ning (vi)	250	–	–	250
Mr. Xu Yongxian	–	579	211	790
Ms. Li Yongmei (vi)	–	374	215	589
Ms. Yao Bo	–	493	272	765
	250	4,713	1,989	6,952

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

	Year ended 31 December 2013 (Restated)			
	Salaries and allowances *(in RMB'000)*	Performance related bonuses *(in RMB'000)*	Social insurance, housing fund and other benefits *(in RMB'000)*	Total *(in RMB'000)*
Chairman of the Board:				
Mr. Wu Yan	803	561	428	1,792
Vice Chairman:				
Mr. Wang Yincheng (i)	723	626	388	1,737
Executive Director:				
Mr. Li Liangwen (ii)	723	626	435	1,784
Non-executive Directors:				
Mr. Cao Guangsheng (iv)	–	–	–	–
Mr. Liu Yeqiao (iv)	–	–	–	–
Mr. Qi Shaojun (iv)	–	–	–	–
Ms. Zhang Hanlin	–	–	–	–
Supervisors:				
Mr. Lin Fan	723	626	400	1,749
Mr. Xu Yongxian	463	696	258	1,417
Ms. Yao Bo	422	563	323	1,308
	3,857	3,698	2,232	9,787

The compensation amounts for the Chairman, Vice chairman, directors and supervisors during their appointment were stated above. The compensation amounts for these directors and supervisors for the year ended 31 December 2013 were restated based on the finalised amounts determined during 2014.

(i) Mr. Wang Yincheng was partially remunerated by a subsidiary of the Group in 2013.

(ii) Mr. Li Liangwen resigned in March 2014.

(iii) Ms. Zhuang Chaoying and Mr. Zhou Liqun were appointed as executive directors in March 2014.

(iv) Mr. Cao Guangsheng, Mr. Liu Yeqiao and Mr. Qi Shaojun resigned in March 2014.

(v) Mr. Yao Zhiqiang, Mr. Wang Qiao, Ms. Li Shiling and Mr. Ma Qiang were appointed as non-executive directors in March 2014.

(vi) Mr. Yu Ning and Ms. Li Yongmei were appointed as supervisors in March 2014.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(c) Senior Management

The information set out below does not include remunerations of directors or supervisors, nor remunerations of Ms. Zhuang Chaoying and Mr. Zhou Liqun after they have been appointed as executive directors in March 2014. The relevant information is disclosed in note12(b).

	2014 *(in RMB'000)*	2013 *(in RMB'000)*
Salaries and allowances	**5,225**	6,840
Performance related bonuses	**–**	5,947
Social insurance, housing fund and other benefits	**1,988**	3,586
	7,213	16,373

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

	2014	2013
RMB0 to RMB500,000	**2**	–
RMB500,001 to RMB1,000,000	**8**	1
RMB1,000,001 to RMB1,500,000	**–**	1
RMB1,500,001 to RMB2,000,000	**–**	9
	10	11

(Amounts in millions of Renminbi, unless otherwise stated)

13. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Company for the year ended 31 December 2014 are directors and supervisors, please go to note 12 for details. For the year ended 31 December 2013, the five highest paid individuals included three directors/supervisors. Details of the remaining two highest paid individuals are set out below:

	2013 *(in RMB'000)* (Restated)
Salaries, allowances	1,446
Performance related bonuses	1,252
Social insurance and housing fund	880
	3,578

The above two highest paid individuals whose remuneration fell within the following bands for the year ended 31 December 2013 is as follows:

	2013
HKD2,000,001 to HKD2,500,000	2

The compensation amounts for these two highest paid individuals for the year ended 31 December 2013 were restated based on the finalised amounts determined during 2014.

14. INCOME TAX EXPENSE

	2014	2013
Current income tax		
– Charge for the year	**5,616**	2,976
– Adjustments in respect of current tax of previous periods	**23**	1
Deferred income tax *(note 30)*	**(934)**	638
TOTAL	**4,705**	3,615

In accordance with the relevant PRC income tax rules and regulations, the Company and Company's subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% (2013: 25%) on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(Amounts in millions of Renminbi, unless otherwise stated)

14. INCOME TAX EXPENSE *(continued)*

The People's Insurance Company of China (Hong Kong) Limited ("PICC Hong Kong"), a subsidiary incorporated in Hong Kong, was subject to a profits tax rate of 16.5% in 2014 (2013: 16.5%).

A reconciliation of the tax expense applicable to profit before tax using the CIT rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	2014	2013
Profit before tax	**23,420**	15,670
Tax at the statutory tax rate	**5,855**	3,918
Adjustments in respect of current tax of previous periods	**23**	1
Tax effect of share of profits and losses of associates	**(1,461)**	(743)
Income not subject to tax	**(930)**	(1,002)
Expenses not deductible for tax	**408**	343
Utilisation of tax losses previously not recognised	**–**	(88)
Unrecognised deductible temporary differences and tax losses	**814**	1,191
Effects of different tax rates applied to subsidiaries	**(4)**	(5)
Tax charge at the Group's effective tax rate	**4,705**	3,615
Effective tax rate	**20.1%**	23.1%

15. EARNINGS PER SHARE

The calculation of basic earnings per share for the years 2014 and 2013 is based on the profit attributable to equity holders of the parent and the number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to equity holders of the parent for the year	**13,109**	8,121
Number of ordinary shares (in million shares)	**42,424**	42,424
Basic earnings per share (in RMB)	**0.31**	0.19

No diluted earnings per share has been presented for the years 2014 and 2013 as the Group had no potential ordinary shares in issue during the periods.

(Amounts in millions of Renminbi, unless otherwise stated)

16. DIVIDENDS

	2014	2013
Dividends recognised as distributions during the year:		
2013 Final, paid – RMB0.83 cent per share		
(2013: 2012 Final, paid – RMB0.38458 cent per share)	352	163

As at 27 March 2015, final dividend in respect of the year ended 31 December 2014 of RMB0.94671 cent per share (2013: RMB0.83 cent per share in respect of the year ended 31 December 2013) has been proposed by the Board of Directors and is subject to approval by the shareholders at the forthcoming general meeting.

17. CASH AND CASH EQUIVALENTS

The Group	31 December 2014	31 December 2013
Cash on hand	1	6
Money at call and short notice	33,175	36,076
Securities purchased under resale agreements with original maturity of less than three months	5,636	6,583
Deposits with banks with original maturity of less than three months	495	3,942
TOTAL	39,307	46,607

The Company	31 December 2014	31 December 2013
Money at call and short notice	3,792	2,254
Securities purchased under resale agreements with original maturity of less than three months	–	299
Deposits with banks with original maturity of less than three months	4	323
TOTAL	3,796	2,876

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

(Amounts in millions of Renminbi, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2014		
	Notional amount	**Derivative financial assets**	**Derivative financial liabilities**
Interest rate swaps			
– Hedging instruments	**5,600**	**23**	**(2)**
TOTAL	**5,600**	**23**	**(2)**

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

Interest rate swaps are stated at their fair values.

The Group is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to manage its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate.

(Amounts in millions of Renminbi, unless otherwise stated)

19. DEBT SECURITIES

The Group	31 December 2014	31 December 2013
Classification of debt securities		
Held for trading, at fair value		
– Government bonds	**253**	962
– Corporate bonds	**444**	178
– Financial bonds	**1,245**	827
Available-for-sale, at fair value		
– Government bonds	**7,883**	12,390
– Corporate bonds	**72,991**	73,638
– Financial bonds	**28,840**	30,945
Held-to-maturity, at amortised cost		
– Government bonds	**5,839**	5,839
– Corporate bonds	**34,996**	35,089
– Financial bonds	**83,414**	83,888
Total debt securities	**235,905**	243,756
Listed debt securities		
– Hong Kong	**833**	960
– Elsewhere	**39,258**	40,764
Unlisted debt securities	**195,814**	202,032
Total debt securities	**235,905**	243,756

The Company	31 December 2014	31 December 2013
Classification of debt securities		
Held for trading, at fair value		
– Corporate bonds	**–**	69
– Financial bonds	**–**	2
Available-for-sale, at fair value		
– Corporate bonds	**2,035**	4,441
Total debt securities	**2,035**	4,512
Listed debt securities		
– Hong Kong	**560**	507
– Elsewhere	**201**	199
Unlisted debt securities	**1,274**	3,806
Total debt securities	**2,035**	4,512

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

(Amounts in millions of Renminbi, unless otherwise stated)

20. EQUITY SECURITIES AND TRUST SCHEMES

The Group	31 December 2014	31 December 2013
Investments, at fair value		
Mutual funds	50,227	49,169
Shares	18,997	20,031
Subtotal	69,224	69,200
Investments, at cost less impairment		
Shares	3,113	3,112
Total equity securities	72,337	72,312
Trust schemes	20,300	25,300

As at 31 December 2014, the Group is the sole funding provider of a trust investment of carrying value of RMB20,300 million (31 December 2013: RMB25,300 million). The Group concludes it does not control this trust as investment decisions are made by a trust manager, which can only be removed in limited situations.

The trust invests in predominantly debt instruments and it offers the Group an expected return of not more than 7.5% (31 December 2013: 7.5%). Its actual returns and eventual repayment of initial investments, however, depend on the performance underlying investments, which are predominantly debts in nature. The Group received returns at 7.5% (year ended 31 December 2013: 7.5%) from this trust for the year ended 31 December 2014. The life of this trust arrangement is 5 years but can be extended for another 2 years upon mutual consent. The Group's maximum loss is limited to its investments and has no contractual obligations or intention to provide any financial support to the trust.

(Amounts in millions of Renminbi, unless otherwise stated)

20. EQUITY SECURITIES AND TRUST SCHEMES *(continued)*

The Group ***(continued)***	**31 December 2014**	31 December 2013
Classification of equity securities		
Held for trading, at fair value		
– issued by banks and other financial institutions	**15,595**	16,677
– issued by corporate entities	**15**	103
Available-for-sale, at fair value		
– issued by banks and other financial institutions	**42,038**	36,764
– issued by corporate entities	**10,924**	14,880
– issued by public sector entities	**482**	585
– issued by others	**170**	191
Available-for-sale, at cost less impairment		
– issued by banks and other financial institutions	**3,033**	2,972
– issued by corporate entities	**80**	140
Total equity securities	**72,337**	72,312
Classification of trust schemes		
Available-for-sale		
– issued by banks and other financial institutions	**20,300**	25,300
Listed equity securities		
– Hong Kong	**2,794**	2,264
– Elsewhere	**13,880**	18,536
Unlisted equity securities and trust schemes	**75,963**	76,812
Total equity securities and trust schemes	**92,637**	97,612

(Amounts in millions of Renminbi, unless otherwise stated)

20. EQUITY SECURITIES AND TRUST SCHEMES *(continued)*

The Company	31 December 2014	31 December 2013
Investments, at fair value		
Mutual funds	**499**	6,129
Shares	**4,408**	3,437
Subtotal	**4,907**	9,566
Investments, at cost less impairment		
Shares	**268**	268
Total equity securities	**5,175**	9,834
Classification of equity securities		
Held for trading, at fair value		
– issued by banks and other financial institutions	**24**	5,340
– issued by corporate entities	**–**	103
Available-for-sale, at fair value		
– issued by banks and other financial institutions	**3,693**	2,534
– issued by corporate entities	**733**	1,141
– issued by public sector entities	**331**	268
– issued by others	**126**	180
Available-for-sale, at cost less impairment		
– issued by banks and other financial institutions	**268**	268
Total equity securities	**5,175**	9,834
Listed equity securities		
– Hong Kong	**1,643**	1,589
– Elsewhere	**2,765**	1,848
Unlisted equity securities	**767**	6,397
Total equity securities	**5,175**	9,834

(Amounts in millions of Renminbi, unless otherwise stated)

21. INSURANCE RECEIVABLES, NET

The Group	31 December 2014	31 December 2013
Insurance receivables	21,164	29,075
Less: Impairment provision on insurance receivables	(2,689)	(2,313)
TOTAL	18,475	26,762

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

	2014	2013
At 1 January	2,313	2,414
Impairment losses recognised *(note 11)*	517	188
Amount written off as uncollectible	(141)	(289)
At 31 December	2,689	2,313

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

	31 December 2014	31 December 2013
Not yet due and within 3 months	16,519	24,813
3 to 6 months	677	1,031
6 to 12 months	917	671
1 to 2 years	280	177
Over 2 years	82	70
Total	18,475	26,762

22. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

The Group	31 December 2014	31 December 2013
Reinsurers' share of		
Unearned premium reserves	9,555	11,200
Claim reserves	16,237	15,954
Long-term life insurance reserves	65	68
TOTAL	25,857	27,222

(Amounts in millions of Renminbi, unless otherwise stated)

23. TERM DEPOSITS

The original maturities of the term deposits are as follows:

The Group	31 December 2014	31 December 2013
More than 3 months to 1 year	4,385	9,885
1 to 2 years	–	6
2 to 3 years	1,967	2,311
More than 3 years	158,056	125,405
TOTAL	164,408	137,607

The Company	31 December 2014	31 December 2013
More than 3 months to 1 year	548	5,970

These term deposits of the Group and the Company bear fixed or variable interests and range from 0.75%-6.60% and 0.75%-4.43% per annum as at 31 December 2014, respectively (31 December 2013: range from 0.75%-7.50% and 0.75%-5.20% per annum). Certain of these deposits are range floaters but the relevant embedded derivatives are considered closely related to the economic risks and characteristics of the host contracts. Therefore, these embedded derivatives are not separated from the host contracts.

24. INVESTMENTS IN SUBSIDIARIES

The Company	31 December 2014	31 December 2013
Unlisted investments, at cost	43,603	41,963
Shares listed in Hong Kong, at cost	37,485	32,485
TOTAL	81,088	74,448
Market value of shares listed in Hong Kong	121,686	84,850

As at 31 December 2014, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong, except for PICC Property and Casualty Company Limited ("PICC P&C"), which is listed on the Main Board of the Hong Kong Stock Exchange.

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) General information of subsidiaries

The particulars of the principal subsidiaries as of 31 December 2014 and 2013 are set out below:

Name	Place of incorporation/ registration	Nominal value of registered share capital	Proportion of shareholders' interest and voting rights 31 December 2014 Direct	31 December 2014 Indirect	31 December 2013 Direct	31 December 2013 Indirect	Principal activities/ place of operation
PICC P&C	Beijing	RMB 14,828,510,202	68.98%	–	68.98%	–	Non-life insurance, China
PICC Asset Management Company Limited ("PICC AMC")	Shanghai	RMB 800,000,000	81.00%	–	81.00%	–	Management of insurance investments, China
PICC Capital Investment Management Company Limited ("PICC Capital")	Beijing	RMB 200,000,000	100.00%	–	100.00%	–	Investment management, China
PICC Health Insurance Company Limited ("PICC Health")	Beijing	RMB 6,449,770,670	92.10%	1.85%	89.87%	2.38%	Health insurance, China
PICC Life Insurance Company Limited ("PICC Life")	Beijing	RMB 25,761,104,669	71.08%	8.92%	71.08%	8.92%	Life insurance, China
PICC Investment Holding Company Limited ("PICC Investment Holding")	Beijing	RMB 800,000,000	100.00%	–	100.00%	–	Investment holding, China
PICC Hong Kong	Hong Kong	HKD 360,000,000	75.00%	–	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited	Beijing	RMB 170,727,800	92.71%	–	92.71%	–	Insurance and reinsurance brokerage, China
PICC Services (Europe) Ltd.	London	GBP 500,000	100.00%	–	100.00%	–	Claim handling agency, London
No. 88 Development Company	Beijing	RMB 500,596,647	100.00%	–	100.00%	–	Estate services and property management, China
PICC Asset Management (Hong Kong) Company Limited	Hong Kong	HKD 50,000,000	100.00%	–	–	–	Management of insurance investments, Hong Kong

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

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

Borrowings and subordinated debts issued by these subsidiaries are set out in notes 34 and 35 to these consolidated financial statements.

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

Principal activity subsidiaries	Place of incorporation and operation	Number of subsidiaries 31 December 2014	31 December 2013
Insurance intermediaries	Beijing, Shanghai, Shenzhen and others	**5**	5
Insurance training services	Hainan	**1**	1
Property development and management	Beijing, Shanghai and others	**5**	5
Hotels and restaurants	Sichuan and Zhejiang	**2**	2
		13	13

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownerships' interests and voting rights held by non-controlling interests 31 December 2014	31 December 2013	Profit allocated to non-controlling interests 31 December 2014	31 December 2013	Accumulated non-controlling interests 31 December 2014	31 December 2013
PICC P&C and its subsidiaries	Beijing	**31.02%**	31.02%	**4,689**	3,275	**26,611**	17,841
PICC Life and its subsidiaries	Beijing	**20.00%**	20.00%	**374**	165	**6,058**	4,544

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

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

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

PICC P&C

	31 December 2014	31 December 2013
Total assets	366,130	319,424
Total liabilities	280,355	261,920
Total shareholders' equity	85,775	57,504

	2014	2013
Total income	224,820	204,738
Total benefits, claims and expenses	(205,686)	(191,376)
Share of profits and losses of associates	307	77
Income tax expense	(4,326)	(2,881)
Profit for the year	15,115	10,558
Other comprehensive income/(expense) for the year	8,943	(941)
Total comprehensive income for the year	24,058	9,617
Dividends paid to non-controlling interests	933	1,025
Net cash inflow from operating activities	31,467	21,409
Net cash outflow from investing activities	(25,140)	(13,517)
Net cash inflow/(outflow) from financing activities	1,558	(4,510)
Net cash inflow	7,885	3,382

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

PICC Life

	31 December 2014	31 December 2013
Total assets	**354,044**	366,913
Total liabilities	**323,756**	344,195
Total shareholders' equity	**30,288**	22,718

	2014	2013
Total income	**98,146**	90,848
Total benefits, claims and expenses	**(98,098)**	(90,848)
Share of profit of an associate	**2,287**	1,134
Income tax expense	**(464)**	(308)
Profit for the year	**1,871**	826
Other comprehensive income/(expense) for the year	**5,837**	(1,345)
Total comprehensive income/(expense) for the year	**7,708**	(519)
Dividends paid to non-controlling interests	**33**	–
Net cash (outflow)/inflow from operating activities	**(33,688)**	32,212
Net cash inflow/(outflow) from investing activities	**25,302**	(28,351)
Net cash outflow from financing activities	**(5,372)**	(15,789)
Net cash outflow	**(13,753)**	(11,938)

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

(c) Changes in ownership interests in subsidiaries

During the year, as certain non-controlling interests did not subscribe for new shares issued by PICC Health, the ownership interests of the Company in this subsidiary was increased from 92.25% to 93.95% and amount of RMB74 million, which represent the difference between the considerations paid and the Company's share of net assets of this subsidiary, was debited to other reserves.

(d) Significant restrictions

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

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

(a) The Group's and the Company's investments in the associates and a joint venture as at 31 December 2014 and 2013 are as follows:

The Group	31 December 2014	31 December 2013
Associates		
Share of net assets:		
Listed investments in Mainland China	26,718	22,472
Unlisted investments	6,515	5,796
Subtotal	33,233	28,268
A joint venture		
Share of net assets:		
Unlisted investment	2,895	–
Total	36,128	28,268
Fair value of shares listed in Mainland China	30,253	18,679

On 31 December 2014, except for Industrial Bank which was listed on The Shanghai Stock Exchange, Mainland China, all other associates and a joint venture that the Group holds interests in are unlisted companies.

The Company	31 December 2014	31 December 2013
An associate		
Share of net assets:		
Unlisted investment	4,259	3,671

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows:

Associates	Place of registration	Principal activities/ Place of operation	Percentage of ownership interest and voting rights held by the Group 31 December 2014 Direct	Indirect	31 December 2013 Direct	Indirect
Industrial Bank (1)	Fujian	Banking, China	0.91%	9.96%	0.91%	9.96%
China Credit Trust Company Limited ("China Credit Trust")	Beijing	Trust business, China	32.92%	–	32.92%	–
China Aerospace Investment Holdings Limited ("Aerospace Investment")	Beijing	Investment holding, China	–	16.84%	–	16.84%

The Group accounts for its interests in these entities as associates as it has representatives in boards of directors in these entities.

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

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

Joint venture	Place of registration	Principal activities/ Place of operation	Percentage of ownership interest and voting rights held by the Group 31 December 2014 Ownership interest	Voting rights	31 December 2013 Ownership interest	Voting rights
Guangdong (PICC) Yuedongxibei Development Industry Investment Fund (LP) ("Yuedongxibei")	Guangdong	Equity Investment, China	49.60%	20.00%	–	–

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

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows: *(continued)*

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

Industrial Bank

	30 September 2014	30 September 2013
Total assets	**3,995,577**	3,633,650
Total liabilities	**3,758,661**	3,437,840
Attributable to		
Equity holders of Industrial Bank	**233,990**	194,477
Non-controlling interests	**2,926**	1,333
Total equity	**236,916**	195,810

	Period from 1 October 2013 to 30 September 2014	Period from 8 May 2013 to 30 September 2013
Revenue	**119,833**	43,822
Profit attributable to		
Equity holders of Industrial Bank	**46,413**	17,853
Non-controlling interests	**341**	118
Profit for the period	**46,754**	17,971
Other comprehensive income/(expense) attributable to		
Equity holders of Industrial Bank	**1,864**	(1,542)
Non-controlling interests	**12**	–
Other comprehensive income/(expense) for the period	**1,876**	(1,542)
Total comprehensive income attributable to		
Equity holders of Industrial Bank	**48,277**	16,311
Non-controlling interests	**353**	118
Total comprehensive income for the period	**48,630**	16,429
Dividends received from the associate during the period	**952**	787

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows: *(continued)*

Industrial Bank *(continued)*

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

	30 September 2014	30 September 2013
Net assets of Industrial Bank attributable to equity holders of Industrial Bank	233,990	194,477
Proportion of the Group's shareholders' interest in Industrial Bank	10.87%	10.87%
The Group's shareholders' interest in net assets of Industrial Bank	25,435	21,140
Net fair value adjustment to the investee's identifiable assets and liabilities	1,351	1,351
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	(68)	(19)
Carrying amount of the Group's interest in Industrial Bank	26,718	22,472

Industrial Bank is a listed company and its annual results are usually public available after the results announcement of the Group. Therefore, as permitted by IAS 28 "Investments in Associates", the Group account for its share of the profit of Industrial Bank from 1 October 2013 to 30 September 2014 (31 December 2013: 8 May 2013 to 30 September 2013).

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows: *(continued)*

China Credit Trust

	31 December 2014	31 December 2013
Total assets	14,560	13,012
Total liabilities	1,580	1,831
Attributable to		
Equity holders of China Credit Trust	12,938	11,151
Non-controlling interests	42	30
Total shareholders' equity	12,980	11,181

	2014	2013
Revenue	2,518	2,679
Profit attributable to		
Equity holders of China Credit Trust	2,149	1,939
Non-controlling interests	33	2
Profit for the year	2,182	1,941
Other comprehensive income/(expense) attributable to		
Equity holders of China Credit Trust	81	(3)
Non-controlling interests	1	(1)
Other comprehensive income/(expense) for the year	82	(4)
Total comprehensive income attributable to		
Equity holders of China Credit Trust	2,230	1,936
Non-controlling interests	34	1
Total comprehensive income for the year	2,264	1,937
Dividends received from the associate during the year	146	283

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows: *(continued)*

China Credit Trust *(continued)*

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

	31 December 2014	31 December 2013
Net assets of China Credit Trust attributable to equity holders of China Credit trust	12,938	11,151
Proportion of the Group's shareholders' interest in China Credit Trust	32.92%	32.92%
Carrying amount of the Group's interest in China Credit Trust	4,259	3,671

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

	2014	2013
The Group's share of profit/(loss)	142	(4)
The Group's share of other comprehensive expense	(2)	–
The Group's share of total comprehensive income/(expense)	140	(4)
Aggregate carrying amount of the Group's interests in these associates	2,256	2,125

The aggregate carrying amount of the Group's interests in associates include an amount of RMB2,113 million investment in Aerospace Investment (31 December 2013: RMB2,000 million) and certain immaterial associates with aggregated carrying amount of RMB143 million (31 December 2013: RMB125 million).

Since the audited financial statements of Aerospace Investment for the year ended 31 December 2014 were not available at the date of approving these consolidated financial statements, the Group has recognised its share of Aerospace Investment's result for the period from 1 October 2013 to 30 September 2014 based on the unaudited management accounts.

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE *(continued)*

(b) Particulars of the principal associates and a joint venture are as follows: *(continued)*

Information of a joint venture Yuedongxibei:

	2014	2013
The Group's share of profit/(loss)	**–**	–
The Group's share of other comprehensive income	**–**	–
The Group's share of total comprehensive income	**–**	–
Carrying amount of the Group's interest in a joint venture	**2,895**	–

26. INVESTMENT PROPERTIES

The Group	**31 December 2014**	31 December 2013
Beginning of year	**10,075**	8,450
Additions	**80**	85
Transfers from property and equipment *(note 27)*	**556**	1,542
Transfer from prepaid land premium *(note 29)*	**119**	51
Gains on revaluation of properties upon transfer from property and equipment	**269**	288
Gains on revaluation of properties upon transfer from prepaid land premiums	**173**	81
Increase in fair value of investment properties *(note 6(c))*	**21**	296
Transfer to property and equipment *(note 27)*	**(434)**	(358)
Transfer to prepaid land premium *(note 29)*	**(131)**	(189)
Disposals	**(46)**	(171)
End of year	**10,682**	10,075

The Company	**31 December 2014**	31 December 2013
Beginning of year	**1,136**	1,075
Additions	**19**	61
Increase in fair value of investment properties	**16**	–
Disposals	**(30)**	–
End of year	**1,141**	1,136

26. INVESTMENT PROPERTIES *(continued)*

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB3,101 million as at 31 December 2014 (31 December 2013: RMB3,068 million). The Company had proper legal titles to all of its investment properties.

Investment properties with a carrying value of RMB18 million were pledged by The Group as at 31 December 2014 (31 December 2013: RMB18 million). The Company has not pledged any investment properties as at 31 December 2014 (31 December 2013: Nil).

The Group's investment properties were revalued at the end of the reporting period by independent professional valuers. The investment properties held by PICC P&C and PICC Life were revalued by DTZ Debenham Tie Leung Limited and Beijing Lixindonghua Assets Evaluation Company Limited, respectively. The investment properties held by PICC Investment Holding and the Company were revalued by Beijing Guorongxinghua Assets Appraisal Company Limited. Valuations were based on combination of the following two approaches:

(1) the direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market; or

(2) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

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

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 4.0% to 8.0% as at 31 December 2014 (31 December 2013: 4.0% to 8.0%). A slight increase in the capitalisation rate used would result in a significant decrease in fair value measurement of investment properties, and vice versa.

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

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT

The Group	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2014	22,228	6,585	1,811	1,703	32,327
Additions	570	754	320	686	2,330
Transfer of construction in progress	633	22	–	(655)	–
Transfer from investment property *(note 26)*	434	–	–	–	434
Transfer to investment property *(note 26)*	(683)	–	–	–	(683)
Disposals	(53)	(279)	(171)	(20)	(523)
As at 31 December 2014	23,129	7,082	1,960	1,714	33,885
ACCUMULATED DEPRECIATION					
As at 1 January 2014	4,844	3,583	978	–	9,405
Depreciation *(note 11)*	694	1,564	309	–	2,567
Transfer to investment properties *(note 26)*	(104)	–	–	–	(104)
Disposals	(14)	(265)	(163)	–	(442)
As at 31 December 2014	5,420	4,882	1,124	–	11,426
IMPAIRMENT LOSSES					
As at 1 January 2014	832	–	–	36	868
Additions *(note 11)*	24	2	–	–	26
Transfer to investment properties *(note 26)*	(23)	–	–	–	(23)
Disposals	(2)	–	–	–	(2)
As at 31 December 2014	831	2	–	36	869
NET CARRYING VALUES					
As at 31 December 2014	16,878	2,198	836	1,678	21,590
As at 1 January 2014	16,552	3,002	833	1,667	22,054

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT *(continued)*

The Group ***(continued)***	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2013	19,520	6,487	1,775	3,168	30,950
Additions	867	642	222	1,678	3,409
Transfer of construction in progress	3,132	2	–	(3,134)	–
Transfer from investment property *(note 26)*	358	–	–	–	358
Transfer to investment property *(note 26)*	(1,610)	–	–	–	(1,610)
Disposals	(39)	(546)	(186)	(9)	(780)
As at 31 December 2013	22,228	6,585	1,811	1,703	32,327
ACCUMULATED DEPRECIATION					
As at 1 January 2013	4,286	2,976	879	–	8,141
Depreciation *(note 11)*	637	1,119	275	–	2,031
Transfer to investment properties *(note 26)*	(68)	–	–	–	(68)
Disposals	(11)	(512)	(176)	–	(699)
As at 31 December 2013	4,844	3,583	978	–	9,405
IMPAIRMENT LOSSES					
As at 1 January 2013	831	–	–	36	867
Provision *(note 11)*	1	–	–	–	1
As at 31 December 2013	832	–	–	36	868
NET CARRYING VALUES					
As at 31 December 2013	16,552	3,002	833	1,667	22,054
As at 1 January 2013	14,403	3,511	896	3,132	21,942

The Group was still in the process of applying for title certificates for its buildings with a carrying value of 1,378 million as at 31 December 2014 (31 December 2013: RMB1,429 million). The Directors are of the opinion that the Group has ownership of these buildings.

A building of a carrying amount of RMB3,554 million (31 December 2013: RMB3,533 million) was pledged to a bank for a loan as at 31 December 2014. Details are set out in note 32(b).

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT *(continued)*

The Company	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2014	108	232	22	–	362
Additions	–	11	–	9	20
As at 31 December 2014	108	243	22	9	382
ACCUMULATED DEPRECIATION					
As at 1 January 2014	25	99	11	–	135
Additions	3	52	2	–	57
As at 31 December 2014	28	151	13	–	192
NET CARRYING VALUES					
As at 31 December 2014	80	92	9	9	190
As at 1 January 2014	83	133	11	–	227

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

The Company had proper legal title to its buildings and had not pledged any building for borrowings as at 31 Decembers 2014 and 31 December 2013.

The Group's and the Company's buildings are held under medium term leases.

(Amounts in millions of Renminbi, unless otherwise stated)

28. INTANGIBLE ASSETS

The Group	Software 31 December 2014	31 December 2013
COST		
Beginning of the year	**894**	672
Additions	**391**	226
Disposals	**(3)**	(4)
End of the year	**1,282**	894
ACCUMULATED AMORTISATION		
Beginning of the year	**361**	274
Amortisation *(note 11)*	**115**	90
Disposals	**(2)**	(3)
End of the year	**474**	361
NET CARRYING VALUES		
End of the year	**808**	533
Beginning of the year	**533**	398

The Company	Software 31 December 2014	31 December 2013
COST		
Beginning of the year	**50**	23
Additions	**3**	27
End of the year	**53**	50
ACCUMULATED AMORTISATION		
Beginning of the year	**12**	4
Amortisation	**11**	8
End of the year	**23**	12
NET CARRYING VALUES		
End of the year	**30**	38
Beginning of the year	**38**	19

(Amounts in millions of Renminbi, unless otherwise stated)

29. PREPAID LAND PREMIUMS

The Group	Prepaid land premiums 31 December 2014	31 December 2013
COST		
Beginning of the year	**4,862**	4,722
Additions	**294**	56
Transfer to investment properties *(note 26)*	**(161)**	(73)
Transfer from investment properties *(note 26)*	**131**	189
Disposals	**(33)**	(32)
End of the year	**5,093**	4,862
ACCUMULATED AMORTISATION		
Beginning of the year	**1,064**	965
Amortisation *(note 11)*	**131**	126
Transfer to investment properties *(note 26)*	**(42)**	(22)
Disposals	**(6)**	(5)
End of the year	**1,147**	1,064
IMPAIRMENT LOSSES		
Beginning of the year	**44**	49
Disposals	**–**	(5)
End of the year	**44**	44
NET CARRYING VALUES		
End of the year	**3,902**	3,754
Beginning of the year	**3,754**	3,708

(Amounts in millions of Renminbi, unless otherwise stated)

29. PREPAID LAND PREMIUMS *(continued)*

The Company	Prepaid land premiums 31 December 2014	31 December 2013
COST		
Beginning of the year	**81**	81
End of the year	**81**	81
ACCUMULATED AMORTISATION		
Beginning of the year	**9**	7
Amortisation	**1**	2
End of the year	**10**	9
NET CARRYING VALUES		
End of the year	**71**	72
Beginning of the year	**72**	74

The Group's and the Company's prepaid land premiums pertain to lands located in Mainland China and are mainly held under medium-term leases.

30. DEFERRED TAX ASSETS AND LIABILITIES

The Group	31 December 2014	31 December 2013
Deferred tax assets	**1,086**	1,545
Deferred tax liabilities	**(915)**	(435)
	171	1,110

(Amounts in millions of Renminbi, unless otherwise stated)

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

The movements of deferred tax assets and liabilities of the Group during 2014 and 2013 are as follows:

	2014			
The Group	**As at 1 January**	**(Charged)/ credited to the income statement during the year**	**Charged to equity during the year**	**As at 31 December**
Provision for impairment losses	1,149	(337)	–	812
Employee benefits payable	1,003	591	–	1,594
Adjustments related to available-for-sale financial assets	939	–	(1,759)	(820)
Fair value adjustments to financial assets carried at fair value through profit or loss	8	(89)	–	(81)
Cash flow hedging	(2)	–	(4)	(6)
Fair value adjustments arising from investment properties	(1,481)	(5)	(110)	(1,596)
Insurance contract liabilities	(353)	581	–	228
Others	(153)	193	–	40
Net value	1,110	934	(1,873)	171

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

(Amounts in millions of Renminbi, unless otherwise stated)

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

Unrecognised deductible temporary differences and deductible tax losses arising from entities in the Group, which do not have sufficient future taxable profits available for realisation, amounted to RMB11,271 million as at 31 December 2014 (31 December 2013: RMB14,516 million), of which deductible tax losses amounted to RMB10,191 million as at 31 December 2014 (31 December 2013: RMB7,856 million).

The expiry dates of unused tax losses are as follows:

The Group	31 December 2014	31 December 2013
Expiry dates:		
31 December 2014	–	275
31 December 2015	–	784
31 December 2016	904	1,279
31 December 2017	1,142	1,057
31 December 2018	5,104	4,461
31 December 2019	3,041	–
TOTAL	10,191	7,856

The Company	31 December 2014	31 December 2013
Deferred tax assets	420	162
Deferred tax liabilities	(420)	(162)
TOTAL	–	–

The movements of deferred tax assets and liabilities of the Company during 2014 and 2013 are as follows:

	2014			
The Company	As at 1 January	Credited/ (charged) to the income statement during the year	Charged to equity during the year	As at 31 December
Provision for impairment losses	22	54	–	76
Employee benefits payable	47	16	–	63
Adjustments related to available-for-sale financial assets	(44)	–	(255)	(299)
Fair value adjustments to financial assets carried at fair value through profit or loss	(1)	–	–	(1)
Fair value adjustments arising from investment properties	(80)	(4)	–	(84)
Deductible tax losses	88	189	–	277
Others	(32)	–	–	(32)
Net value	–	255	(255)	–

(Amounts in millions of Renminbi, unless otherwise stated)

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

The Company *(continued)*	2013 As at 1 January	Credited/ (charged) to the income statement during the year	Charged to equity during the year	As at 31 December
Provision for impairment losses	22	–	–	22
Employee benefits payable	28	19	–	47
Adjustments related to available-for-sale financial assets	(25)	–	(19)	(44)
Fair value adjustments to financial assets carried at fair value through profit or loss	–	(1)	–	(1)
Fair value adjustments arising from investment properties	(80)	–	–	(80)
Deductible tax losses	86	2	–	88
Others	(31)	(1)	–	(32)
Net value	–	19	(19)	–

Unrecognised deductible tax losses arising from the Company, which do not have sufficient future taxable profits available for realisation, amounted to RMB2,977 million as at 31 December 2014 (31 December 2013: RMB3,665 million).

The expiry dates of unused tax losses are as follows:

The Company	**31 December 2014**	31 December 2013
Expiry dates:		
31 December 2014	**–**	275
31 December 2015	**–**	784
31 December 2016	**386**	760
31 December 2017	**955**	955
31 December 2018	**891**	891
31 December 2019	**745**	–
TOTAL	**2,977**	3,665

(Amounts in millions of Renminbi, unless otherwise stated)

31. OTHER ASSETS

Carrying values of other assets are as follows:

The Group	Note	31 December 2014	31 December 2013
Loans and debts	(a)	98,130	73,542
Interest receivables		11,184	9,528
Policy loans	(b)	4,603	6,203
Other receivables	(c)	2,046	1,943
Amount due from MOF	(d)	344	707
Dividends receivables		306	296
Others		6,723	9,604
TOTAL		123,336	101,823
Less: Impairment provision on other assets	(e)	(1,269)	(1,307)
Net value		122,067	100,516

The Company	Note	31 December 2014	31 December 2013
Loans and debts		3,766	406
Other receivables		694	768
Amount due from the MOF	(d)	344	707
Dividends receivable		294	296
Interests receivable		49	148
Others		159	179
TOTAL		5,306	2,504
Less: Impairment provision on other assets		(90)	(90)
Net value		5,216	2,414

(Amounts in millions of Renminbi, unless otherwise stated)

31. OTHER ASSETS *(continued)*

(a) Loans and debts

	31 December 2014	31 December 2013
Long-term debt investment schemes	81,980	72,122
Asset management products	12,930	–
Reinsurance arrangement classified as investment contract	2,000	–
Subordinated debts held	1,220	1,420
TOTAL	98,130	73,542

Long-term debt investment schemes and asset management products offer either fixed or variable interests. The interest rates of these loans and debts are 4.25%-8.30% (31 December 2013: 4.75%-7.50%) per annum as at 31 December 2014.

Included in the balance of reinsurance arrangement classified as an investment contract was an amount paid under a reinsurance arrangement which did not transfer significant insurance risk. This arrangement offered a fixed interest rate of 4.25% per annum. Both the Group and the reinsurer have a right to terminate the arrangement at the end of or subsequent to the fifth anniversary of the effective date of the reinsurance contract.

The original terms of subordinated debts are 10 years with a redemption right at its face value exercisable by the issuer at the end of fifth year after its issue. The interest rates of these debts are 4.20%-5.80% per annum as at 31 December 2014 (31 December 2013: 4.20%-5.80%).

(b) Policy loans are secured by cash values of the relevant insurance policies and carry interest rate at 6.00%-6.45% (31 December 2013: 6.00%-6.46%) per annum as at 31 December 2014.

(c) Other receivables

The Group	31 December 2014	31 December 2013
Prepayments and deposits	1,229	517
Other receivables	656	826
Securities settlement account	161	600
TOTAL	2,046	1,943
Less: Impairment provision	(400)	(702)
Net value	1,646	1,241

(Amounts in millions of Renminbi, unless otherwise stated)

31. OTHER ASSETS *(continued)*

(d) The balance included an amount of RMB344 million as at 31 December 2014 (31 December 2013: RMB707 million), which is recoverable from the MOF as a result of the Group's assumption of a post-employment benefit obligation as further described in note 41(d)(3).

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

The Group	31 December 2014	31 December 2013
At 1 January	1,307	1,307
Impairment losses recognised *(Note 11)*	21	28
Amount written off as uncollectible	(59)	(28)
At 31 December	1,269	1,307

32. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(a) Deposits with restricted rights or ownership

As at 31 December 2014, term deposits amounting to RMB1,073 million (31 December 2013: RMB1,005 million) was subject to various restrictions, in particular for the Group's involvement in agricultural insurance and satellite launch risk insurance against non-commercial use satellites.

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

No. 88 Development Company pledged its land and building located on No. 88 West Chang'an Avenue with a carrying amount of RMB3,554 million as at 31 December 2014 (31 December 2013: RMB3,533 million) to China Construction Bank with a loan balance of RMB687 million as at 31 December 2014 (31 December 2013: RMB496 million).

(c) Securities pledged for repurchase transactions

As described in note 33 to these financial statements, the Group entered into a number of arrangements to sell certain bond securities with commitments to repurchasing in the future. These bond securities are continued to be recognised in these consolidated financial statements and classified as held-for-trading, available-for-sale, or held-to-maturity securities, but they are in effect pledged as collaterals for these transactions. As at 31 December 2014, the carrying amount and fair values of the Group's bonds amounted to RMB44,415 million (31 December 2013: RMB52,483 million) and RMB44,444 million (31 December 2013: RMB49,749 million), respectively. For the Company, the carrying amount and fair values of the securities sold under agreement to repurchase both amounted to RMB362 million as at 31 December 2014 (31 December 2013: both RMB1,964 million).

(Amounts in millions of Renminbi, unless otherwise stated)

33. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Group	31 December 2014	31 December 2013
Transactions by market places:		
Stock exchange	24,669	20,459
Inter-bank market	10,819	23,989
TOTAL	35,488	44,448

The Company	31 December 2014	31 December 2013
Transactions by market places:		
Stock exchange	185	–
Inter-bank market	160	1,955
TOTAL	345	1,955

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

Debt securities are pledged for these transactions and details are set out in note 32(c) to these consolidated financial statements.

34. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group	31 December 2014	31 December 2013
Short-term borrowings within one year	–	5
Long-term borrowings		
– Due more than 5 years	687	496
TOTAL	687	501

Maturity profile of borrowings is disclosed in note 43(b)(2).

(Amounts in millions of Renminbi, unless otherwise stated)

35. SUBORDINATED DEBTS

The Group	31 December 2014	31 December 2013
Carrying amount repayable:		
More than one year, but not exceeding two years	3,062	–
More than two years, but not exceeding five years	844	3,091
More than five years	44,008	43,746
TOTAL	47,914	46,837

The Company	31 December 2014	31 December 2013
Carrying amount repayable:		
More than five years	15,963	17,856
TOTAL	15,963	17,856

Terms of these subordinated debts are ten years. With proper notice to the counterparties, the Group has an option to redeem the subordinated debts at par values at the end of the fifth year from the date of issue. The interest rates of the Group's subordinated debts are 4.08%-6.19% in the first five years (2013: 4.20%-5.80%) and 6.08%-8.19% in the second five years (2013: 5.50%-6.65%).

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES

The Group	31 December 2014 Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health insurance contracts (a)	**276,238**	**65**	**276,173**
Short-term health insurance contracts (b)			
– Claim reserves	**2,575**	**564**	**2,011**
– Unearned premium reserves	**1,467**	**93**	**1,374**
Non-life insurance contracts (c)			
– Claim reserves	**102,702**	**15,673**	**87,029**
– Unearned premium reserves	**95,658**	**9,462**	**86,196**
Total insurance contract liabilities	**478,640**	**25,857**	**452,783**

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

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(a) Long-term life and health insurance contracts

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2013	227,206	71	227,135
Additions	79,804	(8)	79,812
Payments	(6,201)	5	(6,206)
Surrenders	(22,397)	–	(22,397)
At 31 December 2013	278,412	68	278,344
Additions	93,254	3	93,251
Payments	(39,955)	(6)	(39,949)
Surrenders	(55,473)	–	(55,473)
At 31 December 2014	276,238	65	276,173

(b) Short-term health insurance contracts

(1) Claim reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2013	3,377	1,292	2,085
Claims incurred	5,924	2,114	3,810
Claims paid	(5,991)	(2,365)	(3,626)
At 31 December 2013	3,310	1,041	2,269
Claims incurred	6,720	1,886	4,834
Claims paid	(7,455)	(2,363)	(5,092)
At 31 December 2014	2,575	564	2,011

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term health insurance contracts *(continued)*

(2) Unearned premiums reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2013	1,262	179	1,083
Premiums written	8,076	2,229	5,847
Premiums earned	(7,946)	(2,220)	(5,726)
At 31 December 2013	1,392	188	1,204
Premiums written	9,038	1,713	7,325
Premiums earned	(8,963)	(1,808)	(7,155)
At 31 December 2014	1,467	93	1,374

(c) Non-life insurance contracts

(1) Claim reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2013	84,079	13,050	71,029
Claims incurred	141,216	19,860	121,356
Claims paid	(133,244)	(17,997)	(115,247)
At 31 December 2013	92,051	14,913	77,138
Claims incurred	155,387	19,064	136,323
Claims paid	(144,736)	(18,304)	(126,432)
At 31 December 2014	102,702	15,673	87,029

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts

(2) Unearned premium reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2013	75,653	9,283	66,370
Premiums written	223,622	31,311	192,311
Premiums earned	(212,664)	(29,582)	(183,082)
At 31 December 2013	86,611	11,012	75,599
Premiums written	253,166	30,773	222,393
Premiums earned	(244,119)	(32,323)	(211,796)
At 31 December 2014	95,658	9,462	86,196

37. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

The Group	31 December 2014	31 December 2013
Interest-bearing deposits	23,734	39,747
Non-interest-bearing deposits	1,786	1,893
Total	25,520	41,640

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

The Group	31 December 2014	31 December 2013
Beginning of year	41,640	50,312
Deposits received after deducting fees	5,111	18,152
Deposits withdrawn	(22,569)	(28,765)
Interest credited *(note 9)*	1,338	1,941
End of year	25,520	41,640

The original maturities of these investment contracts are from repayable to demand to more than five years. These liabilities bear no interests or variable interest rates, which are declared by the Group regularly. The range of variable interest rates is from 2.5%-6.0% per annum as at 31 December 2014 (31 December 2013: 2.5%-5.0%).

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION

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

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

The Group and the Company	**31 December 2014**	31 December 2013
Beginning of year	**2,614**	2,952
Interest cost on benefit obligation *(note 9)*	**118**	107
Actuarial losses/(gains) arising from changes in financial assumptions	**286**	(260)
Actuarial losses arising from experience adjustments	**98**	73
Benefits paid	**(254)**	(258)
End of year	**2,862**	2,614

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

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

In aggregate, actuarial losses of RMB384 million (2013: actuarial gains of RMB187 million) were credited to other comprehensive income for the current year of 2014.

Ernest & Young Consulting (China) Ltd. (31 December 2013: Mercer Consulting (China) Ltd.) was engaged by the Group to measure the retirement benefit plans at the end of each annual reporting period.

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION *(continued)*

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

The Group and the Company	31 December 2014	31 December 2013
Discount rates:		
– Early retirement benefits	**3.40%**	4.40%
– Retirement benefits	**3.65%**	4.60%
– Supplementary medical benefits	**3.75%**	4.90%
Average annual benefit growth rates		
– Early retirement benefits	**2.50%**	2.50%
– Medical expenses	**8.00%**	8.00%

Discount rates are set to be the government bond yields with similar maturities and vary for different types of benefits. As at 31 December 2014, the durations of early retirement benefits, retirement benefits and supplementary medical benefits are 3.4, 8.5 and 12.6 as at 31 December 2014. (31 December 2013: 3.2, 8.4 and 12.3).

The maturity of these benefits, in terms of undiscounted cash flows, is presented in note 43(b)(2).

In order to reimburse the Company for this pension benefit obligation, a receivable of RMB2,847 million was recognised on the restructuring and reorganisation of the Company, as described in note 41(d)(3).

(c) **Sensitivity analysis**

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

	Change in assumptions	Effect on the pension benefit obligation 2014	2013
Discount rate	+50bp	**(140)**	(133)
Discount rate	-50bp	**153**	133
Average annual benefit growth rate	+50bp	**152**	132
Average annual benefit growth rate	-50bp	**(140)**	(132)

(Amounts in millions of Renminbi, unless otherwise stated)

39. OTHER LIABILITIES

The Group	Notes	31 December 2014	31 December 2013
Premiums received in advance		11,495	9,989
Due to reinsurers		11,482	19,543
Salaries and welfare payable		8,726	6,206
Claims payable		7,371	4,223
Business tax and other tax payable		4,872	4,133
Handling charges and commission payable		3,776	3,237
Interests payable	(a)	916	939
Insurance security fund		813	716
Others		6,220	5,408
TOTAL		55,671	54,394

The Company	31 December 2014	31 December 2013
Salaries and welfare payable	321	241
Interests payable	423	498
Other payables	708	1,382
Others	144	156
TOTAL	1,596	2,277

Premiums received in advance represent amounts collected from policies not yet effective as at the 31 December 2014 and 31 December 2013, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

(a) Interests payable

The Group	31 December 2014	31 December 2013
Subordinated debts	886	926
Securities sold under agreements to repurchase	26	10
Others	4	3
TOTAL	916	939

(Amounts in millions of Renminbi, unless otherwise stated)

40. SHARE CAPITAL

The Group and the Company	31 December 2014	31 December 2013
Issued and fully paid ordinary shares of RMB 1 each (in million shares)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424
Share capital (in RMB million)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424

41. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

(a) General risk reserve

In accordance with the relevant regulations, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance businesses. The Group's respective entities would need to make appropriations to such reserves based on their respective year-end profit or risk assets as determined based on applicable financial regulations in the PRC in their annual financial statements. This reserve is not available for profit distribution or transfer to capital.

(b) Agriculture catastrophic loss reserve

According to the relevant regulations of the PRC, which became effective on 1 January 2014, the Group is required to make appropriations to a reserve when the agriculture insurance records underwriting profits. This reserve cannot be used for dividend distribution, but can be utilised when there are catastrophic losses. The reserve can be transferred to general risk reserve if the Group ceases writing agriculture insurance business.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RESERVES ***(continued)***

(c) Surplus reserve fund

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

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

The Group	**Transactions with non-controlling interests** *(1)*	**Transfer to share capital** *(2)*	**Compensation for post-employment benefit obligation** *(3) (Note 38)*	**Total**
As at 1 January 2014	**106**	**(17,942)**	**2,847**	**(14,989)**
Changes	**(76)**	**–**	**–**	**(76)**
As at 31 December 2014	**30**	**(17,942)**	**2,847**	**(15,065)**

The Group	Transactions with non-controlling interests *(1)*	Transfer to share capital *(2)*	Compensation for post-employment benefit obligation *(3) (Note 38)*	Total
As at 1 January 2013	206	(17,942)	2,847	(14,889)
Changes	(100)	–	–	(100)
As at 31 December 2013	106	(17,942)	2,847	(14,989)

(Amounts in millions of Renminbi, unless otherwise stated)

41. RESERVES *(continued)*

(d) Principal items of other reserves were summarised as follows: *(continued)*

(1) The amount represents certain transactions with non-controlling interests, including direct acquisition of ownership interests in subsidiary from non-controlling interests, or deemed acquisitions or disposals of ownership interests in subsidiaries without loss of control. The principal reason for movement was set out in note 24(c) to these consolidated financial statements.

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

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

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

The Company	Available-for-sale investment revaluation reserve	Share premium account	Surplus reserve fund	Other reserves	Retained profits	Total
At 1 January 2014	271	19,925	579	11,672	5,625	38,072
Profit for the year	–	–	–	–	2,231	2,231
Other comprehensive income	792	–	–	–	(384)	408
Appropriations to surplus reserve fund	–	–	223	–	(223)	–
Dividends paid to shareholders	–	–	–	–	(352)	(352)
At 31 December 2014	1,063	19,925	802	11,672	6,897	40,359

The Company	Available-for-sale investment revaluation reserve	Share premium account	Surplus reserve fund	Other reserves	Retained profits	Total
At 1 January 2013	216	19,925	317	11,672	3,244	35,374
Profit for the year	–	–	–	–	2,619	2,619
Other comprehensive income	55	–	–	–	187	242
Appropriations to surplus reserve fund	–	–	262	–	(262)	–
Dividends paid to shareholders	–	–	–	–	(163)	(163)
At 31 December 2013	271	19,925	579	11,672	5,625	38,072

(Amounts in millions of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT FRAMEWORK

(a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

(b) Capital management approach

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to adjust the capital position of the Group in light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity shareholders' funds and borrowings. The Group also makes reinsurance arrangements to manage its regulatory capital requirements.

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

The solvency margin ratios of the Group's principal subsidiaries are listed below:

	31 December 2014			31 December 2013		
(in RMB million)	**Regulatory capital held**	**Minimum regulatory capital**	**Solvency margin ratio**	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
PICC P&C	**79,440**	**33,290**	**239%**	52,026	28,867	180%
PICC Life	**34,654**	**11,529**	**301%**	24,992	12,386	202%
PICC Health	**3,206**	**1,718**	**187%**	1,575	1,356	116%

According to "Solvency Regulations of Insurance Companies", the solvency margin ratio is computed by dividing the regulatory capital held by the minimum regulatory capital. The China Insurance Regulatory Commission closely monitors those insurance companies with solvency margin ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends; insurance companies with solvency margin ratio between 100% and 150% would be required to submit and implement plans preventing capital from being inadequate; insurance companies with solvency margin ratio above 100% but significant solvency risk noticed would be required to take necessary rectification action.

42. RISK MANAGEMENT FRAMEWORK *(continued)*

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Insurance risk

(1) Insurance risk types

The risk under an insurance contract is the possibility of occurrence of insured events and uncertainty of the amount and timing of the resulting claims. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk-the possibility that the number of insured events will differ from that expected.

Severity risk-the possibility that the costs of the events will differ from those expected.

Development risk-the possibility that changes may occur in the amount of a policyholder's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful risk selection and implementation of underwriting strategy and guidelines.

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

Insurance risk of life insurance contracts is also affected by the policyholders' rights to terminate the contracts, to pay reduced premiums, refuse to pay premiums or to avail annuity conversion rights. Therefore, the resultant insurance risk is subject to policyholders' behaviour and decisions.

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

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

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(2) Insurance risk concentration

Non-life claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC (including Hong Kong).

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

	2014		2013	
	Gross	Net	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	114,758	99,501	99,486	80,259
North-eastern China	16,833	14,509	15,323	13,386
Northern China	33,937	30,822	32,388	29,861
Central China	32,304	28,545	27,895	25,161
Western China	55,334	49,016	48,530	43,644
Total premiums written from non-life insurance contracts	253,166	222,393	223,622	192,311

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

(3) Reinsurance

The Group limits its exposure to losses within non-life and short-term health insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on the quota share basis or the surplus line basis with retention limits varying by product lines. There are profit commission, sliding, scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of the its direct obligations to its policyholders and thus a credit exposure exists with respect of the businesses ceded, to the extent that any of these reinsurer are unable to meet its obligations assumed under such reinsurance agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(3) Reinsurance (continued)

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to parts of non-life insurance contracts.

Reinsurance	**Estimation method**
Proportional treaty	As a certain percentage of gross claim liabilities
Facultative	Case estimates of individual large claims multiplied by an IBNR ratio
Other treaties	Incurred claims loss development method and Bornhuetter-Ferguson method

(4) Key assumptions and sensitivity analysis

Long-term life insurance contracts

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the pre-tax impact on profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions have to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reasons for the asymmetry of sensitivities. The impacts to future dividend distributions to policyholders are considered in determining the impact of changes in individual assumptions.

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

	Change in assumptions	**Pre-tax impact on profit and equity**	
		2014	2013
Discount rate	+50bp	**2,720**	1,614
Discount rate	-50bp	**(2,883)**	(1,739)
Mortality/morbidity	10%	**(153)**	(88)
Mortality/morbidity	-10%	**156**	90
Lapse and surrenders rate	25%	**358**	204
Lapse and surrenders rate	-25%	**(384)**	(225)
Expenses	110%	**(82)**	(93)
Expenses	90%	**82**	93

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Long-term life insurance contracts *(continued)*

Sensitivity analysis (continued)

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

	Change in assumptions	Pre-tax impact on profit and equity 2014	2013
Discount rate	+25bp	**27**	19
Discount rate	-25bp	**(27)**	(21)
Mortality/morbidity	10%	**(5)**	(7)
Mortality/morbidity	-10%	**4**	6
Lapse and surrenders rate	10%	**3**	3
Lapse and surrenders rate	-10%	**(4)**	(4)
Expenses	110%	**3**	1
Expenses	90%	**(3)**	(1)

The above analysis does not take into account the mitigation effect from asset-liability management and possible actions taken by management in view of these changes. Any change in discount rate is assumed to be a parallel shift in yield curve.

Non-life insurance and short-term health insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The range of reasonable estimates of claim reserve, projected using different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

The sensitivity of certain variables like legislative change and uncertainty in the estimation process is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claim reserve is not quantifiable with certainty at the end of 2014 and 2013.

If the average cost per claim or the number of claims changes, the claim reserves will change proportionately. When the other assumptions remain unchanged, if the future average cost per claim increases by 5%, the net claim reserves of the Group will increase by approximately RMB4,452 million as at 31 December 2014 (31 December 2013: RMB3,970 million).

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts *(continued)*

Key assumptions (continued)

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

The following analysis shows the development of non-life claims over a period of time on a gross basis:

	Accident year – gross					
	Year ended 31 December					
	2010	2011	2012	2013	**2014**	Total
Estimated cumulative claims:						
At the end of current year	86,419	98,932	113,746	138,469	**150,988**	588,554
One year later	85,537	98,061	113,822	138,677	–	436,097
Two years later	85,241	97,132	113,831	–	–	296,204
Three years later	83,796	95,892	–	–	–	179,688
Four years later	82,645	–	–	–	–	82,645
Estimated cumulative claims	82,645	95,892	113,831	138,677	**150,988**	582,033
Cumulative claims paid	(76,767)	(86,812)	(108,805)	(124,572)	**(92,341)**	(489,297)
Subtotal as at 31 December 2014						92,736
Unpaid claims prior to 2010, unallocated loss adjustment expenses, discount and risk margin						9,966
Non-life unpaid claim reserves, gross						102,702

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts *(continued)*

Key assumptions (continued)

The following analysis shows the development of non-life claims over a period of time on a net basis:

	Accident year – net					
	Year ended 31 December					
	2010	2011	2012	2013	2014	Total
Estimated cumulative claims:						
At the end of current year	77,623	83,966	95,126	120,250	131,568	508,533
One year later	77,118	83,307	95,343	120,311	–	376,079
Two years later	76,667	82,656	95,213	–	–	254,536
Three years later	75,294	81,604	–	–	–	156,898
Four years later	74,405	–	–	–	–	74,405
Estimated cumulative claims	74,405	81,604	95,213	120,311	131,568	503,101
Cumulative claims paid	(69,082)	(74,082)	(91,322)	(110,613)	(80,556)	(425,655)
Subtotal as at 31 December 2013						77,446
Unpaid claims prior to 2010, unallocated loss adjustment expenses, discount and risk margin						9,583
Non-life unpaid claim reserves, net						87,029

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years.

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

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, subordinated debts, debt investment schemes, interests receivable, other receivables, investments in debt securities, investments in trust schemes, insurance receivables and reinsurance arrangements. The Group holds a diversified portfolio of debt instrument and do not have concentration risk except for treasury bonds issued by Ministry of Finance. The amounts of government issued debt securities is disclosed in note 19.

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

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which the Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged.

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A- (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch, Moody's) or above. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Credit exposure

The table below shows the maximum exposure to credit risk without taking into account collateral for the components of the consolidated statement of financial position:

The Group	**31 December 2014**	31 December 2013
Cash and cash equivalents	**39,306**	46,601
Derivative financial assets	**23**	16
Debt securities	**235,905**	243,756
Trust schemes	**20,300**	25,300
Insurance receivables	**18,475**	26,762
Reinsurance assets	**25,857**	27,222
Term deposits	**164,408**	137,607
Restricted statutory deposits	**9,346**	8,992
Other financial assets	**120,038**	98,293
Total credit risk exposure	**633,658**	614,549

The Company	**31 December 2014**	31 December 2013
Cash and cash equivalents	**3,796**	2,876
Debt securities	**2,035**	4,512
Term deposits	**548**	5,970
Other financial assets	**5,214**	2,412
Total credit risk exposure	**11,593**	15,770

Included in cash and cash equivalents are certain securities purchased under resale agreements and the relevant collaterals are disclosed in note 17.

Included in other financial assets are debt investment schemes which are guaranteed by banks or other corporates. Their carrying values are disclosed in note 31(a).

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets

The Group	As at 31 December 2014						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	39,306	–	–	–	–	–	39,306
Derivative financial assets	23	–	–	–	–	–	23
Debt securities	235,905	–	–	–	–	–	235,905
Trust schemes	20,300	–	–	–	–	–	20,300
Insurance receivables	14,729	494	1,172	893	2,559	3,876	21,164
Reinsurance assets	25,857	–	–	–	–	–	25,857
Term deposits	164,408	–	–	–	–	–	164,408
Restricted statutory deposits	9,346	–	–	–	–	–	9,346
Other financial assets	116,656	462	374	1982	2,818	1,833	121,307
Total	626,530	956	1,546	2,875	5,377	5,709	637,616
Less: impairment losses	–	–	–	–	–	(3,958)	(3,958)
Net	626,530	956	1,546	2,875	5,377	1,751	633,658

The Group	As at 31 December 2013						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	46,601	–	–	–	–	–	46,601
Derivative financial assets	16	–	–	–	–	–	16
Debt securities	243,756	–	–	–	–	–	243,756
Trust schemes	25,300	–	–	–	–	–	25,300
Insurance receivables	20,934	1,148	2,629	952	4,729	3,412	29,075
Reinsurance assets	27,222	–	–	–	–	–	27,222
Term deposits	137,607	–	–	–	–	–	137,607
Restricted statutory deposits	8,992	–	–	–	–	–	8,992
Other financial assets	95,474	1,488	252	1,079	2,819	1,307	99,600
Total	605,902	2,636	2,881	2,031	7,548	4,719	618,169
Less: impairment losses	–	–	–	–	–	(3,620)	(3,620)
Net	605,902	2,636	2,881	2,031	7,548	1,099	614,549

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets (continued)

	As at 31 December 2014						
		Past due but not impaired financial assets					
The Company	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	3,796	–	–	–	–	–	3,796
Debt securities	2,035	–	–	–	–	–	2,035
Term deposits	548	–	–	–	–	–	548
Other financial assets	5,214	–	–	–	–	90	5,304
Total	11,593	–	–	–	–	90	11,683
Less: impairment losses	–	–	–	–	–	(90)	(90)
Net	11,593	–	–	–	–	–	11,593

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

For receivables arising from direct insurance business, the Group assesses any impairment on a collective basis according to default history of similar lines of business and ageing. For financial assets other than receivables arising from direct insurance companies, the Group considers, on an individual basis, any default on amounts due, financial strength and repayment histories of the relevant counterparties when arriving at the amount of impairment.

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds, and most of the debt securities are guaranteed by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2014, 99.82% (31 December 2013: 98.52%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2014, 99.15% (as at 31 December 2013: 99.21%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks, and CSDCC have a high credit quality.

The credit risk associated with securities purchased under agreements to resell will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2014 and 2013.

(2) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet the Group's obligations as they become due.

The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. As disclosed in note 31, the Group holds certain financial instruments that are classified as loans and receivables as active markets do not exist for these instruments. The Group also classified certain debt securities as held-to-maturity financial assets and is only allowed to dispose of these financial assets prior to maturities in limited situation without tainting held-to-maturity financial assets. Therefore, the Group's ability to manage liquidity risks by disposing of these financial assets will be limited by these factors. Moreover, quoted financial assets held by the Group are mainly traded on the stock exchanges or in inter-bank markets in the Mainland China. Any significant decrease in liquidity in these markets will impair the Group's ability to manage its liquidity risk. The Group manages liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its insurance policies and to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The Group held cash and cash equivalents which accounted for 5% of total assets as at 31 December 2014 (31 December 2013: 6%).

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

The table below summarises the remaining contractual maturity profile of the financial assets and liabilities, the expected timing of insurance contract liabilities, reinsurance assets and pension benefit obligations of the Group and the Company based on undiscounted cash flows.

	As at 31 December 2014						
The Group	**Past due/ repayable on demand**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**No maturity date**	**Total**
Cash and cash equivalents	32,816	6,503	–	–	–	–	39,319
Derivative financial assets	–	2	12	5	–	–	19
Debt securities	–	3,441	18,518	93,491	230,159	–	345,609
– Held for trading	–	256	158	1,192	624	–	2,230
– Available-for-sale	–	2,893	14,393	61,272	59,137	–	137,695
– Held-to-maturity	–	292	3,967	31,027	170,398	–	205,684
Equity securities and trust schemes	–	–	–	20,300	2,500	69,837	92,637
Insurance receivables, net	4,201	10,480	2,692	1,033	69	–	18,475
Reinsurance assets	–	5,402	12,713	4,939	3,066	–	26,120
Term deposits	–	550	27,199	139,131	17,112	–	183,992
Restricted statutory deposits	–	16	1,170	8,754	–	–	9,940
Other financial assets	7,738	11,814	20,830	68,306	42,271	–	150,959
Total financial assets	44,755	38,208	83,134	335,959	295,177	69,837	867,070
Securities sold under agreements to repurchase	–	35,516	–	–	–	–	35,516
Derivative financial liabilities	–	–	1	–	–	–	1
Due to banks and other financial institutions	10	11	35	811	120	–	987
Subordinated debts	–	–	1,635	14,756	54,313	–	70,704
Insurance contract liabilities	–	63,466	162,084	186,536	125,511	–	537,597
Investment contract liabilities for policyholders	1,853	990	1,041	669	1,936	19,069	25,558
Policyholder dividends payable	7,966	–	–	–	–	–	7,966
Pension benefit obligation	–	51	152	783	3,462	–	4,448
Other financial liabilities	9,578	20,633	6,850	2,132	86	–	39,279
Total financial liabilities	19,407	120,667	171,798	205,687	185,428	19,069	722,056

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2013						
The Group ***(continued)***	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	34,534	12,181	–	–	–	–	46,715
Derivative financial assets	–	–	4	7	–	–	11
Debt securities	–	1,898	19,696	101,692	253,888	–	377,174
– Held for trading	–	435	415	992	353	–	2,195
– Available-for-sale	–	1,251	15,386	72,035	74,105	–	162,777
– Held-to-maturity	–	212	3,895	28,665	179,430	–	212,202
Equity securities and trust schemes	–	–	–	25,300	1,500	70,812	97,612
Insurance receivables, net	6,285	15,220	2,552	2,685	20	–	26,762
Reinsurance assets	–	5,802	13,409	7,409	833	–	27,453
Term deposits	–	7,873	7,767	133,898	8,818	–	158,356
Restricted statutory deposits	–	13	73	10,170	–	–	10,256
Other financial assets	3,941	13,653	13,830	40,311	50,243	–	121,978
Total financial assets	44,760	56,640	57,331	321,472	315,302	70,812	866,317
Securities sold under agreements to repurchase	–	44,476	–	–	–	–	44,476
Derivative financial liabilities	–	2	2	(1)	–	–	3
Due to banks and other financial institutions	36	13	25	478	216	–	768
Subordinated debts	–	7	1,413	13,380	53,949	–	68,749
Insurance contract liabilities	–	53,650	134,603	254,292	73,065	–	515,610
Investment contract liabilities for policyholders	35,141	792	1,523	632	3,591	–	41,679
Policyholder dividends payable	7,806	–	–	–	–	–	7,806
Pension benefit obligation	–	51	154	788	3,595	–	4,588
Other financial liabilities	9,358	24,905	4,666	1,183	126	–	40,238
Total financial liabilities	52,341	123,896	142,386	270,752	134,542	–	723,917

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2014						
The Company	**Past due/ repayable on demand**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**No maturity date**	**Total**
Cash and cash equivalents	3,278	523	–	–	–	–	3,801
Debt securities	–	250	960	437	789	–	2,436
– Available-for-sale	–	250	960	437	789	–	2,436
Equity securities	–	–	–	–	–	5,175	5,175
Term deposits	–	–	557	–	–	–	557
Other financial assets	3,747	2	1,465	–	–	–	5,214
Total financial assets	7,025	775	2,982	437	789	5,175	17,183
Securities sold under agreements to repurchase	–	345	–	–	–	–	345
Subordinated debts	–	–	369	3,488	20,448	–	24,305
Pension benefit obligation	–	51	152	783	3,462	–	4,448
Other financial liabilities	828	320	423	–	–	–	1,571
Total financial liabilities	828	716	944	4,271	23,910	–	30,669

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2013						
The Company ***(continued)***	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	701	2,195	–	–	–	–	2,896
Debt securities	–	41	3,598	597	862	–	5,098
– Held for trading	–	–	70	–	2	–	72
– Available-for-sale	–	41	3,528	597	860	–	5,026
Equity securities	–	–	–	–	–	9,834	9,834
Term deposits	–	5,870	118	–	–	–	5,988
Other financial assets	2,264	133	15	–	–	–	2,412
Total financial assets	2,965	8,239	3,731	597	862	9,834	26,228
Securities sold under agreements to repurchase	–	1,956	–	–	–	–	1,956
Subordinated debts	–	7	365	3,699	23,593	–	27,664
Pension benefit obligation	–	51	154	788	3,595	–	4,588
Other financial liabilities	1,500	312	427	–	–	–	2,239
Total financial liabilities	1,500	2,326	946	4,487	27,188	–	36,447

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group uses multiple methods managing market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal operations and transactions are conducted in RMB, and is also exposed to foreign exchange risk respect to United States dollar ("USD") because certain non-life insurance contracts are denominated in USD. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2014	RMB	HKD	USD	Others	Total
Cash and cash equivalents	33,004	3,220	3,049	34	39,307
Derivative financial assets	23	–	–	–	23
Debt securities	234,248	648	1,009	–	235,905
Equity securities and trust schemes	90,214	1,761	662	–	92,637
Insurance receivables	14,884	80	3,458	53	18,475
Reinsurance assets	24,696	88	1,051	22	25,857
Term deposits	159,898	–	4,504	6	164,408
Restricted statutory deposits	9,346	–	–	–	9,346
Other financial assets	119,651	12	363	12	120,038
Total assets	685,964	5,809	14,096	127	705,996
Securities sold under agreements to repurchase	35,488	–	–	–	35,488
Derivative financial liabilities	2	–	–	–	2
Due to banks and other financial institutions	687	–	–	–	687
Subordinated debts	47,914	–	–	–	47,914
Insurance contract liabilities	476,629	248	1,704	59	478,640
Investment contract liabilities for policyholders	25,520	–	–	–	25,520
Policyholder dividends payable	7,966	–	–	–	7,966
Pension benefit obligation	2,862	–	–	–	2,862
Other financial liabilities	34,894	1,775	2,537	73	39,279
Total liabilities	631,962	2,023	4,241	132	638,358

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2013	RMB	HKD	USD	Others	Total
Cash and cash equivalents	42,064	1,351	3,153	39	46,607
Derivative financial assets	16	–	–	–	16
Debt securities	241,697	276	1,783	–	243,756
Equity securities and trust schemes	95,504	1,993	115	–	97,612
Insurance receivables	21,046	45	5,636	35	26,762
Reinsurance assets	26,259	77	880	6	27,222
Term deposits	132,596	–	5,011	–	137,607
Restricted statutory deposits	8,992	–	–	–	8,992
Other financial assets	97,774	21	487	11	98,293
Total assets	665,948	3,763	17,065	91	686,867
Securities sold under agreements to repurchase	44,448	–	–	–	44,448
Derivative financial liabilities	10	–	–	–	10
Due to banks and other financial institutions	501	–	–	–	501
Subordinated debts	46,837	–	–	–	46,837
Insurance contract liabilities	459,931	198	1,606	41	461,776
Investment contract liabilities for policyholders	41,640	–	–	–	41,640
Policyholder dividends payable	7,806	–	–	–	7,806
Pension benefit obligation	2,614	–	–	–	2,614
Other financial liabilities	35,639	119	4,461	19	40,238
Total liabilities	639,426	317	6,067	60	645,870

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

The table below summarises the Company's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2014	RMB	HKD	USD	Others	Total
Cash and cash equivalents	2,930	677	187	2	3,796
Debt securities	1,475	–	560	–	2,035
Equity securities	3,445	1,296	434	–	5,175
Term deposits	46	–	502	–	548
Other financial assets	5,194	–	20	–	5,214
Total financial assets	13,090	1,973	1,703	2	16,768
Securities sold under agreements to repurchase	345	–	–	–	345
Subordinated debts	15,963	–	–	–	15,963
Pension benefit obligation	2,862	–	–	–	2,862
Other financial liabilities	1,474	22	75	–	1,571
Total liabilities	20,644	22	75	–	20,741

31 December 2013	RMB	HKD	USD	Others	Total
Cash and cash equivalents	1,824	728	320	4	2,876
Debt securities	4,005	–	507	–	4,512
Equity securities	8,245	1,589	–	–	9,834
Term deposits	5,045	–	925	–	5,970
Other financial assets	2,386	–	26	–	2,412
Total financial assets	21,505	2,317	1,778	4	25,604
Securities sold under agreements to repurchase	1,955	–	–	–	1,955
Subordinated debts	17,856	–	–	–	17,856
Pension benefit obligation	2,614	–	–	–	2,614
Other financial liabilities	2,133	31	74	1	2,239
Total liabilities	24,558	31	74	1	24,664

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The Group

	31 December 2014	
Exchange rate of foreign currencies *(in millions of RMB)*	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**478**	**682**
-5%	**(478)**	**(682)**

	31 December 2013	
Exchange rate of foreign currencies *(in millions of RMB)*	Pre-tax impact on profit	Pre-tax impact on equity
+5%	553	724
-5%	(553)	(724)

The Company

	31 December 2014	
Exchange rate of foreign currencies *(in millions of RMB)*	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**65**	**179**
-5%	**(65)**	**(179)**

	31 December 2013	
Exchange rate of foreign currencies *(in millions of RMB)*	Pre-tax impact on profit	Pre-tax impact on equity
+5%	95	200
-5%	(95)	(200)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Based on asset liability matching gap analysis, the Group implements sensitive analysis and stress tests to monitor and to evaluate interest rate risk regularly. The Group manages interest rate risk by monitoring the average duration and expiry dates as well as adjusting composition of portfolio.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days at a confidence level of 99% for bond investments measured at fair value.

	As at 31 December	
The Group	**2014**	2013
Interest rate VaR	**1,286**	1,226

	As at 31 December	
The Company	**2014**	2013
Interest rate VaR	**37**	30

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group holds a diversified portfolio of equity instruments and therefore do not have significant concentration risk in any particular individual instrument. An analysis of sectors that the Group invest in is disclosed in note 20. However, the Group principally invest in the stock markets of Hong Kong and Mainland China and is subject to price risk arising from volatilities of these markets.

The Company hold a 0.91% interest in Industrial Bank and accounted for it as an available-for-sale financial instrument in its separate financial statements. It is the largest single equity instrument held by the Company other than interests in subsidiaries and associates. Its fair value was disclosed in note 44(c).

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk (continued)

The Group's price risk policy requires setting and managing investment objectives. Subject to laws and regulatory policies, the Group manages price risk by diversification of investments, setting limits for investments in different securities, etc.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and fund investments measured at fair value over a holding period of 10 trading days at a confidence level of 99%.

The VaR methodology quantifies the potential loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
The Group	**2014**	2013
Equity price VaR	**6,150**	2,934

	As at 31 December	
The Company	**2014**	2013
Equity price VaR	**767**	351

44. FAIR VALUE AND FAIR VALUE HIERARCHY

This note provides information on how the Group and Company determine the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 26 to these financial statements.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(a) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's and the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Items	The Group 31 December 2014	The Group 31 December 2013	The Company 31 December 2014	The Company 31 December 2013	Fair value hierarch	Valuation technique(s) and key input(s)
Derivative financial assets – Interest rate swaps	23	16	–	–	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities – Interest rate swaps	2	10	–	–	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the Group's credit risk.
Trading debt securities	3	12	–	2	Level 1	Quoted bid prices in an active market.
Trading debt securities	1,939	1,955	–	69	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale debt securities	21,596	34,180	761	704	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	88,118	82,793	1,274	3,737	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Trading equity securities	15,610	16,780	24	5,443	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities	49,000	52,420	2,331	2,547	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities	3,614	–	–	–	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend rates, discounted at a rate that reflects the risk characteristic of the instrument.
Available-for-sale equity securities	1,000	–	2,552	1,576	Level 3	The fair value is determined with reference to the quoted market prices, latest round financing price with an adjustment of discount for lack of marketability.

As at 31 December 2014, the Group transferred certain debt securities with a carrying amount of RMB14,965 million from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. No transfer from L2 to L1 in both 2014 and 2013 for the Group. The Company does not have any assets transferred between fair value hierarchy Level 1 and Level 2. No transfers in or out of Level 3 in 2014 and 2013 for the Group and the Company.

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of held-to-maturity financial assets, loans and debts held and subordinated debts issued, which are not carried at fair value. Except for those disclosed below, the fair values of the financial assets and financial liabilities are considered approximate to their carrying values recognised in these consolidated financial statements.

	As at 31 December 2014	
The Group	**Carrying amounts**	**Fair value**
Financial assets		
Held-to-maturity financial assets	**124,249**	**124,140**
Loans and debts	**98,130**	**102,721**
Financial liabilities		
Subordinated debts	**47,914**	**51,376**

	As at 31 December 2013	
The Group	Carrying amounts	Fair value
Financial assets		
Held-to-maturity financial assets	124,816	111,579
Loans and debts	73,542	72,786
Financial liabilities		
Subordinated debts	46,837	46,422

	As at 31 December 2014	
The Company	**Carrying amounts**	**Fair value**
Financial assets		
Loans and debts	**3,766**	**3,777**
Financial liabilities		
Subordinated debts	**15,963**	**16,560**

	As at 31 December 2013	
The Company	Carrying amounts	Fair value
Financial assets		
Loans and debts	406	406
Financial liabilities		
Subordinated debts	17,856	17,652

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) Fair value of financial assets and liabilities not carried at fair value *(continued)*

The Group	Fair value hierarchy at 31 December 2014 Level 1	Level 2	Total
Financial assets			
Held-to-maturity financial assets	**7,454**	**116,686**	**124,140**
Loans and debts	**–**	**102,721**	**102,721**
Financial liabilities			
Subordinated debts	**–**	**51,376**	**51,376**

The Group	Fair value hierarchy at 31 December 2013 Level 1	Level 2	Total
Financial assets			
Held-to-maturity financial assets	7,354	104,225	111,579
Loans and debts	–	72,786	72,786
Financial liabilities			
Subordinated debts	–	46,422	46,422

The Company	Fair value hierarchy at 31 December 2014 Level 1	Level 2	Total
Financial assets			
Loans and debts	**–**	**3,777**	**3,777**
Financial liabilities			
Subordinated debts	**–**	**16,560**	**16,560**

The Company	Fair value hierarchy at 31 December 2013 Level 1	Level 2	Total
Financial assets			
Loans and debts	–	406	406
Financial liabilities			
Subordinated debts	–	17,652	17,652

The fair values of the financial assets and financial liabilities included in the level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties or the Group/Company.

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(c) Reconciliation of Level 3 fair value measurements

The Group	31 December 2014	31 December 2013
Available-for-sale shares with sale restriction		
Opening balance	–	18,500
Addition	1,000	–
Gains recognised in other comprehensive income and then reclassified to the profit or loss	–	2,448
Transfers out as an associate	–	(20,948)
Closing balance	1,000	–

The Group used the latest round financing price and did not consider any other unobservable inputs in the fair value estimation for the addition during the year.

The Company	31 December 2014	31 December 2013
Available-for-sale shares with sale restriction		
Opening balance	1,576	1,585
Gains/(loss) recognised in other comprehensive profit/(expenses)	976	(9)
Closing balance	2,552	1,576

Since Industrial Bank shares are subject to a lock-up period of 36 months, in estimation of their fair value, the Group and the Company used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Group and the Company used the historical volatility of share prices as the significant unobservable input in the fair value measurement of the non-marketability discount. An increase or decrease in historical volatility of shares would have a significant impact on the fair value measurement of non-marketability discount and the recorded fair value. Therefore, the interests in Industrial Bank were classified to level 3 fair value hierarchy. These fair values are determined by the finance departments of the relevant companies.

The historical volatilities used in measuring the fair value of shares of Industrial Bank as at 31 December 2014 are 34.61% (31 December 2013: 30.02%). If this input was made higher/lower by 5% while all the other variables were held constant, the fair value of the Company's shares as at 31 December 2014 would be lower/higher by approximately RMB19 million (31 December 2013: RMB13 million).

The fair value of investments in Industrial Bank is disclosed in note 25 to these consolidated financial statements was also based on the valuation methods described above.

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements are presented in note 26 to these consolidated financial statements.

45. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

(1) Due to the nature of the insurance business, the Group is subject to legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and the losses incurred will be partly indemnified by reinsurers or other recoveries including salvage and subrogation. Provision has been made for the probable losses to the Group, including those claims where management can reasonably estimate the outcome of the litigation taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or an outflow of resources embodying economic benefits is not probable.

(2) The Company underwent restructuring and reorganisation during the period from 1996 and 1998. As a result of the restructuring and reorganisation, the Company and another insurance company were spun off from the predecessor company, the People's Insurance Company of China, and each spun-off entity inherited certain assets and liabilities. During the process, the Company owed certain amounts to that insurance company and settled these debts by cash payments, assets or by certain offsetting arrangements. Due to the long history and turnover of staff, the Company is not able to reach an agreement with that insurance company regarding the balances of debts that have been repaid in the form of assets or offsetting. Potentially, certain receivables or payables may exist between these two entities. However, the Company's management is of the opinion that the debts have been fully repaid, and therefore any contingent indebtedness will not significantly impact these consolidated financial statements.

(3) As at the report date, there were various title defects for certain investment properties, property and equipment, prepaid land premiums and other assets held by the Group. The Group may be required to incur costs including relevant taxes to remediate these defects. The cost that will be incurred for the remediation cannot be quantified at this stage.

(4) Due to historical reasons, the Group owned a large number of branches and subsidiaries. Although these branches or subsidiaries may have been closed or liquidated, the Group may still have exposures to any non-compliance committed by these branches or subsidiaries.

Other than the above, as at the end of 2014, the Group had no significant contingencies to disclose.

(Amounts in millions of Renminbi, unless otherwise stated)

45. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases

(1) Capital commitments

The Group	**31 December 2014**	31 December 2013
Property and equipment commitments:		
Contracted, but not provided for	**1,434**	896
Authorised, but not contracted for	**3,500**	3,210
Investments:		
Contracted, but not provided for	**2,890**	–
TOTAL	**7,824**	4,106

The Company	**31 December 2014**	31 December 2013
Property and equipment commitments:		
Contracted, but not provided for	**15**	37
Authorised, but not contracted for	**2,236**	2,175
Equity investment commitment in a subsidiary:		
Authorised, but not contracted for	**227**	1,600
TOTAL	**2,478**	3,812

(Amounts in millions of Renminbi, unless otherwise stated)

45. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 26) under operating lease arrangements, with lease terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of 2014 and 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

The Group	**31 December 2014**	31 December 2013
Within one year	**192**	216
In the second to third years, inclusive	**182**	206
After three years	**166**	143
TOTAL	**540**	565

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Lease terms for properties range from one to ten years.

Future minimum lease payments under non-cancellable operating leases as at the end of 2014 and 2013 are as follows:

The Group	**31 December 2014**	31 December 2013
Within one year	**287**	425
In the second to third years, inclusive	**448**	517
After three years	**531**	470
TOTAL	**1,266**	1,412

(Amounts in millions of Renminbi, unless otherwise stated)

46. RELATED PARTY DISCLOSURES

(a) The Company is a state-owned enterprise and its controlling shareholder is MOF. The consolidated financial statements include the financial statements of the Company and its subsidiaries. Please refer to note 24 for more details of the Company's major subsidiaries.

(b) During the year, the Group had the following significant related party transactions:

The Group	**2014**	2013
Transactions with associates:		
Gross written premiums		
Industrial Bank	**928**	170
China Credit Trust	**26**	–
Interest income		
Industrial Bank	**202**	188
Management fees expenses		
China Credit Trust	**580**	330
Claims and policyholders' benefits		
Industrial Bank	**205**	74
Finance costs		
Industrial Bank	**55**	54

The Company	**2014**	2013
Transactions with subsidiaries:		
Rental income	**103**	148
Rental expenses	**25**	17
Management fees expenses	**68**	64
Capital injection	**6,640**	12,437
Dividend income	**2,258**	2,936
Transactions with associates:		
Dividend received		
China Credit Trust	**146**	283

Other transactions with these associates were conducted on a basis with reference to prevailing rates with other third parties.

Transactions between the Company and its subsidiary are based on prices negotiated among the Company and its subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

46. RELATED PARTY DISCLOSURES *(continued)*

(c) Compensation of key management personnel

Key management personnel of the Company include Chairman, Vice Chairman and Executive Directors. The summary of compensation of key management personnel for 2014 and 2013 is as follows. The total compensation amounts for the year ended 31 December 2013 were restated based on the finalised amounts determined during 2014:

	2014 *(in RMB'000)*	2013 *(in RMB'000)* (Restated)
Short-term employee benefits	**2,592**	2,249
Other long-term benefits	**–**	1,813
Post-employment benefits	**1,021**	1,251
Total compensation paid to key management personnel	**3,613**	5,313

Further details of directors' emoluments are included in note 12 to the consolidated financial statements.

(d) Balances with related parties

The Group – Receivables from related parties	**31 December 2014**	31 December 2013
Cash and cash equivalents		
Industrial Bank	**5,369**	301
Debt securities		
Industrial Bank	**3,115**	2,138
A trust scheme		
China Credit Trust	**20,300**	25,300
Term deposits		
Industrial Bank	**814**	1,774
Other assets		
The MOF	**344**	707
China Credit Trust	**294**	294
Industrial Bank	**202**	67
TOTAL	**30,438**	30,581

A trust scheme of RMB20,300 million (31 December 2013: RMB25,300 million) is controlled by China Credit Trust.

(Amounts in millions of Renminbi, unless otherwise stated)

46. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties *(continued)*

The Group – Payables to related parties	31 December 2014	31 December 2013
Subordinated debts:		
Industrial Bank	2,405	2,835
Other liabilities:		
China Credit Trust	–	687
Industrial Bank	51	54
TOTAL	2,456	3,576

The Company	31 December 2014	31 December 2013
Receivables from related parties		
Other assets		
The MOF	344	707
China Credit Trust	294	294
Subsidiaries	1,100	1,174
TOTAL	1,738	2,175
Payables to related parties		
Subordinated debts		
Industrial Bank	1,638	1,638
Other liabilities		
China Credit Trust	–	687
Subsidiaries	585	532
TOTAL	2,223	2,857

46. RELATED PARTY DISCLOSURES *(continued)*

(e) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks and postal offices for insurance policies distributed.

Management considers that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

47. EVENT AFTER THE REPORTING PERIOD

On 27 March 2015, the Board of Directors of the Company proposed a final dividend of RMB0.94671 cent per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

48. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors of the Company on 27 March 2015.

Corporate Information

REGISTERED NAME

Chinese name: 中國人民保險集團股份有限公司

Abbreviation of Chinese name: 中國人保集團

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

Abbreviation of English name: PICC Group

REGISTERED OFFICE

No. 69 Dong He Yan Street, Xuanwu District,
Beijing 100052, the PRC

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC Group

STOCK CODE

1339

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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PICC

中国人民保险集团股份有限公司

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