中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

Stock Code : 2328

Annual Report 2015

Company Profile

The Company, the largest property and casualty insurance company in Mainland China, was established in July 2003 with PICC Group as its sole promoter. The Company became the first domestic financial enterprise listed overseas when the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 6 November 2003. The Company currently has a total share capital of 14,828,510,202 shares, of which 69% are held by PICC Group.

Principal Activities

Motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, marine hull insurance, agriculture insurance, surety insurance and other insurance business, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds application business permitted under the relevant laws and regulations of the PRC.

Competitive Advantages

- Brand Excellence: The "PICC" brand name has grown up with the PRC and has wide influence and outstanding reputation domestically and abroad. The Company became the insurance partner of the Beijing 2008 Olympic Games, the World Expo 2010 Shanghai China, the Guangzhou 2010 Asian Games and the East Asian Games 2013 successively. In June 2015, Moody's Investors Service upgraded the insurance financial strength rating of the Company from A1 to Aa3, the highest credit rating level in Mainland China.

- Talent Excellence: The Company adheres to its talent strategy of "being managed by experts and winning by competence". The Company attaches great importance to and strengthens expert team building and talents training, and has trained up a large number of managerial experts with substantial experience and professional technical talents covering every core business area of the property and casualty insurance business.

- Product and Technology Excellence: The Company has an advanced product research and development system and a full range of products, and the business scope covers all areas of national economy and people's livelihood. Meanwhile, the Company makes great efforts in implementing product innovation and upgrading strategy, and has achieved innovation and breakthroughs in a number of areas and satisfied the diversified demand of customers.

- Business Network and Service Excellence: The Company has business offices and service outlets covering both urban and rural areas across the country, including more than 10 thousand business offices and outlets, over 320 underwriting, claim handling/customer service and financial centers at district (city) level, 22 thousand insurance stations at township level and 270 thousand insurance outlets at village level, forming a strong sales and service network. Meanwhile, the Company has launched the 24/7 nationwide service hotline 95518, the official direct sales platform www.epicc.com.cn and the telephone sales hotline 4001234567 to provide customers with high quality insurance services including insurance purchase consultation and claim settlement inquiries anywhere and anytime.

Contents

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

RESULTS

	Year ended 31 December				
	2011	2012	2013	2014	2015
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Gross written premiums	173,962	193,487	223,525	253,037	**281,698**
Underwriting profit	8,016	7,581	5,960	7,291	**8,604**
Investment income	6,529	8,387	9,939	12,141	**14,268**
Net realised and unrealised gains/(losses) on investments	(2,600)	(913)	(342)	1,319	**6,562**
Profit before tax	10,286	13,349	13,439	19,441	**28,203**
Income tax expense	(2,259)	(2,944)	(2,881)	(4,326)	**(6,356)**
Profit attributable to owners of the parent	8,027	10,405	10,558	15,115	**21,847**

Only certain material items of the consolidated income statement are extracted and presented in the table above.

ASSETS AND LIABILITIES

	At 31 December				
	2011	2012	2013	2014	2015
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Total assets	265,644	290,424	319,424	366,130	**420,420**
Total liabilities	230,484	244,974	261,920	280,355	**311,469**
Thereinto: subordinated debts	19,299	19,427	19,562	22,449	**16,297**
Total equity	35,160	45,450	57,504	85,775	**108,951**

Mr Wu Yan
Chairman

Dear Shareholders,

2015 was the final year of the Company's "Twelfth Five-Year Plan". In 2015, by strictly adhering to the key principles of "deepening reform and innovation, maintaining a steady growth and focusing more on value creation", the Company, guided by the target of building up an upgraded PICC P&C, implemented market benchmarking, focused on problems and directly addressed challenges, thereby achieving the best-ever operating results in its history. In 2015, the Company recorded an annual premium income of RMB281,010 million and the ratio of the growth rate of its premium income to the average growth rate of the property and casualty insurance market reached the highest level since the Company's listing. Both the gross profit and the net profit exceeded the RMB20 billion mark, representing excellent achievements in both of the Company's business development and profitability.

Development capabilities continuously improved, both our business scale and size of assets recorded stable growth. In 2015, we adhered to the market benchmarking, strengthened the operation planning and promptly seized development opportunities, thereby achieving stable growth of our premium income and assets and steady improvement of our comprehensive strengths. **Firstly, our business grew steadily.** In 2015, the Company recorded a premium income of RMB281,010 million, representing a year-on-year increase of 11.3%. The ratio of the growth rate of its premium income to the average growth rate of the property and casualty insurance market reached 97.2%, the highest level since the Company's listing in 2003. **Secondly, the Company's market position was continuously consolidated.** In 2015, the Company achieved a market share of 33.4% in the PRC property and casualty insurance market in terms of premium income, marking the year with the most stable market share since the Company's listing. The incremental premiums reached RMB28,591 million, maintaining the number one ranking in the market. **Thirdly, the Company's comprehensive strengths continuously improved.** As at the end of 2015, the total assets of the Company and its subsidiaries reached RMB420,420 million, representing a year-on-year increase of 14.8%. The total equity surpassed RMB100,000 million and reached RMB108,951 million, representing a year-on-year increase of 27.0%. The solvency margin ratio reached 226%, continuously maintaining the level II Solvency Adequacy. Moody's Investors Service raised the insurance financial strength rating of the Company from A1 to Aa3 in June 2015, which is the highest rating in Mainland China. In addition, the Company was included in the "Top 100 Comprehensive Strengths Hong Kong Stocks" of "Top 100 Hong Kong-listed Companies" for four successive years, with its ranking jumping from the 44th in 2014 to the 13th in 2015.

Value-oriented policies effectively implemented, profit hit another record high in succession. In 2015, the Company implemented its corporate philosophy of value creation, effectively advanced the cost-leadership strategy, continuously enhanced the quality control of its underwriting business, deepened the refined management of claim settlement, optimised the expenses structure, and consistently adhered to its steady and prudent investment principles, thus achieving another best-ever operating results in its history. **Firstly, both the gross profit and the net profit of the Company exceeded RMB20 billion.** In 2015, the profit before tax and the profit attributable to owners of the parent of the Company and its subsidiaries were RMB28,203 million and RMB21,847 million respectively, representing a year-on-year increase of 45.1% and 44.5% respectively, which were again record highs in the Company's history; the return on equity ratio was 22.4%, representing a year-on-year increase of 1.3 percentage points. **Secondly, our underwriting profitability continuously outperformed the industry average.** In 2015, the underwriting profit of the Company and its subsidiaries was RMB8,604 million, representing a year-on-year increase of 18.0%. The combined ratio of the Company and its subsidiaries was 96.5%, which was at the same level as that of the previous year, and continuously outperforming the industry average. **Thirdly, total investment income increased significantly on a year-on-year basis.** In 2015, the total investment income of the Company and its subsidiaries reached RMB21,303 million, representing a year-on-year increase of 54.7%.

Comprehensive service capabilities continuously improved, social responsibilities effectively discharged. In 2015, the Company proactively aligned with the State policies. In building up an overall structure for development, the Company seized opportunities presented by the policies, continuously provided assistance for the transformation of the society and the economy, continuously improved our comprehensive service capabilities and effectively discharged our social responsibilities, thereby achieving a mutual promotion between economic and social benefits. **Firstly, the ability to serve the modern agricultural industrialisation continuously enhanced.** The Company diligently implemented the policy of establishing a modern agricultural industrialisation system. Whilst consolidating the traditional agriculture insurance of plant insurance and livestock and aquaculture insurance, the Company strongly promoted innovative services for "agriculture, rural areas and farmers" and continuously enhanced its ability to serve modern agriculture industrialisation. In 2015, the premium income from the agriculture insurance of the Company reached RMB18,867 million, representing a year-on-year increase of 10.1% and achieved a market share of 50.3%. The insured amount of agriculture insurance (including farm buildings) was RMB2.43 trillion, providing coverage for farmlands of 587 million mu, forests of 1,254 million mu, and policy-supported farm buildings of 93.57 million households. **Secondly, development ability in the critical illness insurance continuously increased.** In 2015, seizing opportunities arising from the full scale roll-out of critical illness insurance for both urban and rural residents, the Company improved its operation management practice, established the Social and Medical Insurance Service Center, reinforced specialised management and operation of critical illness insurance and expanded the customer coverage of critical illness insurance with 0.31 billion people insured, representing a premium income of RMB8,206 million. **Thirdly, ability to support the development of the real economy continuously increased.** The Company proactively aligned its business with the State policies and served the strategy of innovation-driven development. It spearheaded the establishment of a consortium to provide insurance for the first set of major technical equipment, with the insured amount totaling RMB14.2 billion. The amount of risk liabilities underwritten by the Company through science and technology insurance was RMB136.5 billion. Serving the "go-global" investment strategy of the State, the Company proactively developed the export credit insurance and the amount of risk liabilities underwritten reached RMB70 billion. **Fourthly, ability to serve innovative social management continuously increased.** By seizing the opportunities presented by the full promotion of the rule of law and the development opportunities in liability insurance, the Company achieved a number of breakthroughs in medical liability insurance and food safety liability insurance business, achieving premium income of RMB11,556 million from liability insurance, representing a year-on-year increase of 15.1%, with an insured amount of RMB33.8 trillion. The Company also served the construction of a catastrophe risk management system, participated as a principal in the catastrophe insurance programs, and spearheaded the establishment of a consortium to provide housing insurance for urban and rural residents against earthquake/catastrophe.

Internal control and compliance management continuously strengthened, enhancement achieved in internal control and compliance as well as development. Firstly, the Company cooperated with and completed the central special visits and inspections, the audit by the National Audit Office and the CIRC "Two Strengthenings and Two Restraints" (namely, strengthening internal control and external monitoring and restraining from illegal operations and illegal/criminal acts) inspection. The Company proactively cooperated with the central investigation group, the National Audit Office and the CIRC. In respect of the issues identified, the Company made no delay in taking actions immediately after notice, made prompt rectifications, introduced rules and established systems to eliminate loopholes and to regulate operational behaviours. **Secondly, the Company strengthened supervision, discipline enforcement and accountability.** The Company pushed forward the establishment of a discipline inspection and supervision system to strengthen anti-corruption risk management and control, and enhanced the intensity of inspections on illegal behaviours or non-compliance with rules and regulations. **Thirdly, risk management system continuously improved.** The Company improved its risk preference system and framework, deepened the construction of its comprehensive risk management system and established a mechanism for risk management and control with a long-term effect to safeguard the development of the Company.

2015 marked the final year of "Twelfth Five-Year Plan" of the Company. Looking back the past five years, faced with deepened economic development and reform as well as complex and intertwined market conditions, and with the new era development strategy as the guideline, the Company strived for building up an upgraded PICC P&C, deepened the reform and promoted transformation, served the macroeconomy and social development while looking for development opportunities, and continuously made new historical progresses.

The past five years were five years of far-reaching changes and reforms as well as five years of leapfrog development for the Company. **The incremental premiums exceeded one hundred billion in Renminbi.** The average annual growth of premium income achieved 12.8%. **Quadrupling of profit.** The Company's underwriting profitability was persistently the market-leader and more than tripled over the past five years. Both of the Company's gross profit and net profit exceeded RMB20 billion and witnessed a quadruple over the last five years. **Excellence of internal quality.** The Company's solvency margin ratio increased to 226% in 2015 from 115% in 2010, and its return on equity was consistently over 20%. Since 2012, the Company was included in the "Top 100 Hong Kong-listed Companies" for four successive years. In addition to having been awarded A1 rating for the insurance financial strength by Moody's Investors Service for seven successive years, the Company's rating was raised to Aa3 in 2015, which was the highest rating in Mainland China. **Doubling of assets.** The total assets and investment assets of the Company doubled and its total equity quadrupled. **Demonstration of service capabilities.** Over the past five years, the insurance liability amount underwritten by the Company amounted to RMB746 trillion in aggregate and the Company paid tax of RMB78 billion in aggregate. The Company processed 0.11 billion claims of all types with claims settled by the Company amounting to RMB603.1 billion, making significant contributions to the development of the economy and the society.

China's economic development has entered into the new normal and the development environment for the insurance financial industry is experiencing profound changes. **From the perspective of macroeconomy**, China's economy is moving towards a more advanced stage with a more reasonable structure, and the long term positive trend in the fundamentals of economic development remains unchanged. **From the perspective of policy direction**, the move towards supply-side reform will accelerate the upgrade of driving forces for the industry. In particular, innovation in the national policy will turn the huge potential demands for insurance in areas such as agriculture and liability insurance into actual demands. **From the perspective of regulatory trend**, the deepening of the market-oriented insurance reform will force the industry to focus more on refined management and value transformation. The CIRC will speed up the market-oriented reform through "opening up the front-end and managing the back-end". In the front-end, following the rolling out of deregulation of premium rates, market players will take more seriously the development of refined management ability. As for the back-end, with the implementation of C-ROSS, the new development direction featuring low capital consumption and high value creation will become the realistic choice for major entities in the industry. **From the perspective of market competition**, the Internet backed organisational reform and model innovation will make system-oriented competition and platform-oriented development the new industry trends.

In 2016, the beginning year of the Company's "Thirteenth Five-Year Plan", the Company will firmly establish the development concepts of innovation, coordination, environmentally friendly, openness and sharing, continue to promote customer-oriented transformation, maintain steady growth, join efforts in reform and innovation, strengthen value creation, improve professional capabilities, deepen transformation and development, secure the bottom line of risk control, to strive towards achieving a good start for the Company's "Thirteenth Five-Year Plan". **Firstly, the Company will persevere and firmly promote its development and transformation.** The Company will accelerate the change in the expansion mode of the motor vehicle insurance. While enhancing refined management and innovating pricing model and services, the Company will strengthen the comprehensive development of existing clients and effectively respond to the deregulation of clauses and premium rates of commercial motor vehicle insurance. In addition, the Company will also actively seize development opportunities arising from improvement in the social governance system, business start-ups and innovations by the general public, implementation of the regional development strategies etc. to foster the new growth point in the non-motor insurance market. **Secondly, the Company will intensify horizontal benchmarking and match its market strategies with its target more accurately.** The Company will continuously pay close attention to market changes. The Company will not only conduct market benchmarking to continue to seek market demands and development opportunities under the new normal and explore potential growth points in business, but also conduct benchmarking against the industry peers to understand the development models of major market players, draw on experience of industry peers, in order to accurately and firmly grasp the initiative in market expansion. **Thirdly, the Company will enhance vertical analysis, conclude and refine the Company's successful experience and models.** The Company has 38 provincial branches around the country with widely different market competitiveness among these branches. The Company will carefully analyse and find out the differences among these branches, conclude and refine their good experience model, timely and systematically promote their experience to enhance the supports by the headquarters to the weak entities. **Fourthly, the Company will optimise allocation, further improve the stability and return of capital utilisation.** The investment outlook of this year appears very complex and the Company will enhance its analysis, research and judgment on the market, strengthen the construction of its investment capabilities, optimise the allocation of investment assets with a view to increasing the stability and profitability of its investment returns. **Fifthly, the Company will strengthen internal control and solidify the safety defense to prevent financial risks.** The Company will ensure that no systematic risk arise, enhance the forewarning and control of key risks and highlight and stress emphasis on the construction of the internal control system at its basic level.

In 2016, based on a new starting point and faced with new challenges, we will, under the guidance of new development concepts, lead the Company towards new development momentum, new breakthroughs in reform, new achievements in value creation so as to create more value for its shareholders and make new and greater contributions to the economic and social development and transformation.

Wu Yan
Chairman

Beijing, China
27 March 2016

DIRECTORS

Wu Yan, aged 55, Chairman of the Board of Directors and an Executive Director of the Company. Mr Wu is currently the Chairman of the Board of Directors of PICC Group* and a Director of The Geneva Association. Mr Wu is also the Chairman of the Board of Directors of PICC Life Insurance Company Limited, PICC Asset Management Company Limited and PICC Health Insurance Company Limited, a member of the 18th National Congress of the Communist Party of China and a member of the 12th National Committee of the Chinese People's Political Consultative Conference. Mr Wu was a member of the 17th National Congress of the Communist Party of China and a member of the 11th National Committee of the Chinese People's Political Consultative Conference. From 1985 to 1998, Mr Wu was the Deputy Secretary of the Communist Youth League of Xinjiang Autonomous Region, the Party Secretary of the Communist Party Committee of the city of Bole, a member of the Standing Committee of Beortalar Autonomous County Communist Party Committee, the Party Secretary of the Communist Youth League of Xinjiang Autonomous Region, and the Vice Minister of the Organisation Department of the Central Committee of the Communist Youth League. From 1998 to 2003, Mr Wu was the Vice Minister of the United Front and Mass Work Department of the Central Finance League, the Party Secretary of the Finance League of the Central Committee of the Communist Youth League and the President of the National Finance Youth Union. Mr Wu was the Vice President of China Life Insurance (Group) Company from 2003 to January 2007, a Director and the President of China Life Insurance Asset Management Company Limited and a Non-executive Director of China Life Insurance Company Limited** from 2003 to 2005, and an Executive Director and the President of China Life Insurance Company Limited** from January 2006 to January 2007. From January 2007 to March 2012, Mr Wu was the Chairman of the Board of Directors and President of PICC Group*. Mr Wu was awarded the special government allowance by the State Council in March 2011. Mr Wu graduated from Xinjiang College of Finance and Economics and the Graduate School of Chinese Academy of Social Sciences, respectively majoring in finance, international finance and applied economics, with a doctorate degree in economics.

* This company is listed on the Hong Kong Stock Exchange.
** This company is listed on the New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange.

Guo Shengchen, aged 60, a university graduate, a senior economist, Vice Chairman of the Board of Directors, an Executive Director and the President of the Company. Mr Guo joined The People's Insurance Company of China ("PICC") in 1984 and was previously the Assistant General Manager, Deputy General Manager and General Manager of PICC Beijing Branch, and a Vice President of the Company. He has 42 years of operation and management experience in the PRC financial and insurance industries.

Wang Yincheng, aged 55, Ph.D, a senior accountant, a Non-executive Director of the Company. Mr Wang is currently the Vice Chairman of the Board of Directors, an Executive Director and the President of PICC Group*. Mr Wang is also a Vice Chairman of the Insurance Institute of China. Mr Wang joined PICC in 1982 and was previously the Deputy General Manager (in charge) of the Planning and Finance Department of PICC Property Insurance Company, General Manager of PICC Shenzhen Branch, Assistant General Manager of PICC, and Vice President, Chief Financial Officer, Vice Chairman of the Board of Directors and President of the Company. Mr Wang was an Executive Director of the Company from July 2003 to December 2013. Mr Wang graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. He has 34 years of operation and management experience in the PRC insurance industry.

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Yu Xiaoping, aged 58, a senior economist, a Non-executive Director of the Company. Ms Yu is currently a Vice President of PICC Group* and the Chairman of the Board of Directors of Beijing No. 88 West Chang'an Avenue Development Company Limited. Ms Yu was previously the Manager of the Mortgage Division and Deputy General Manager of the Mortgage Department of the People's Construction Bank of China, Deputy Director of the International Finance Bureau, President of the Wuhan Branch and President of the Shenzhen Branch of China Development Bank, and the Chief Investment Officer of PICC Group*. Ms Yu graduated from Shanghai Tongji University with a bachelor's degree in engineering in 1982 and graduated from Renmin University of China with a bachelor's degree in economics in 1988. She has 34 years of operation and management experience in the PRC financial sector.

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Li Tao, aged 50, Ph.D, a senior economist, a Non-executive Director of the Company. Mr Li is currently the Secretary of the Board of Directors of PICC Group*. Mr Li began his career in 1985 and previously lectured at Beijing University of Aeronautics and Astronautics. He joined PICC in 1998 and was previously the Deputy General Manager of the Research and Development Center and the Planning and Statistics Department of PICC, Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company, and the General Manager of the Development and Reform Department, General Manager of the Policy Research Office and a Senior Specialist of The People's Insurance Company (Group) of China. Mr Li graduated from Renmin University of China with a master's degree in philosophy in 1993 and graduated from the Party School of the Central Committee of the Communist Party of China with a doctorate degree in economics in 1998. He has 31 years of experience in research and management, etc.

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Wang He, aged 58, Ph.D, a senior economist, an Executive Director and an Executive Vice President of the Company. Mr Wang is also a Deputy Secretary-General of the Insurance Institute of China and a Vice Chairman of the China Association of Actuaries. Mr Wang joined PICC in 1988 and was the Manager of the Operations Department of PICC Fujian Provincial Branch, Deputy General Manager of PICC Xiamen Branch and Executive Deputy General Manager of the Products Development Center of PICC. Mr Wang graduated from Xiamen University with a doctorate degree in public finance in 2004. He has 28 years of operation and management experience in the PRC insurance industry.

Lin Zhiyong, aged 53, a postgraduate, a Master, a senior economist, an Executive Director and an Executive Vice President of the Company. Mr Lin joined PICC in 1980 and was previously the Deputy General Manager and General Manager of Quanzhou Branch of PICC Property Insurance Company, Deputy General Manager and General Manager of PICC Fuzhou Branch, and Deputy General Manager and General Manager of PICC Fujian Provincial Branch. Mr Lin was granted the "National May Day Labor Medal" in 1998 and won the honorary title of "National Excellent Communist Party Member" in 1999. In 2010, Mr Lin was elected an "Excellent Entrepreneur of Fujian Province". He has 36 years of operation and management experience in the PRC insurance industry.

Lin Hanchuan, aged 67, Ph.D, a professor, a doctoral supervisor, enjoying the special government allowance awarded by the State Council, an Independent Non-executive Director of the Company. Mr Lin is a member of the University Council, the Deputy Director of the University Academic Committee and the Deputy Director of the Academic Degree Committee of the University of International Business and Economics, the Chief Expert of Beijing Center for Enterprise Globalization and Management Research, and concurrently the Vice Chairman of the Chinese Industrial Economic Association and an Executive Director of the Chinese Institute of Business Administration. Mr Lin was formerly the Dean of the School of Economics of Zhongnan University of Economics and Law, and an Independent Director of Hubei Kaile Science and Technology Co., Ltd.*. He has received over 20 awards at or above provincial and ministerial level such as the First Class Award for Outstanding Achievements in Humanities and Social Science Studies by National Institute of Higher Education. Mr Lin graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. Mr Lin has substantial experience in the areas of economic and management research.

* This company is listed on the Shanghai Stock Exchange.

Lo Chung Hing (Silver Bauhinia Star), aged 64, an Independent Non-executive Director of the Company. Mr Lo is currently the Chairman of the Hospital Governing Committee of Hong Kong Kowloon Hospital and Eye Hospital. Mr Lo was a member of the Selection Committee of the 1st and the 2nd Government of Hong Kong, a member of the Election Meeting of the 9th to the 12th National People's Congress of Hong Kong, a member of the 9th National People's Congress of China and a member of the Executive Officer Election Committee of Hong Kong in 2007 and 2012. Mr Lo was previously an Independent Non-executive Director and the Vice Chairman of the Airport Authority of Hong Kong, an Independent Non-executive Director of Mass Transit Railway Corporation Limited (now known as "MTR Corporation Limited"*) and MTR Corporation Limited*, a member of the Hospital Authority of Hong Kong, an Independent Non-executive Director of the Urban Renewal Authority of Hong Kong and a member of the Financial Services Advisory Committee of the Trade Development Council of Hong Kong. Mr Lo was also a Deputy General Manager of the Hong Kong Branch of Bank of China (now known as "Bank of China (Hong Kong) Limited"**) and he worked in Bank of China (Hong Kong) Limited** as the Chief Adviser of the Operation Committee and so on. During his employment in these two banks, he was a Rotating Alternate Chairman of the Hong Kong Association of Banks. Mr Lo graduated from The University of Hong Kong with an MBA degree and has extensive experience in public management and financial industry.

* These companies are listed on the Hong Kong Stock Exchange and traded in the form of American depositary receipts in U.S.A.
** This company is the major operating subsidiary of and wholly owned by BOC Hong Kong (Holdings) Limited*.

Na Guoyi, aged 59, Ph.D, a professor, an Independent Non-executive Director of the Company. Mr Na is an independent scholar and concurrently the Head of the Practice of Management Team of Peking University, a visiting professor of Tsinghua University, Beijing Normal University, Lingnan (University) College of Sun Yat-sen University, Southwestern University of Finance and Economics and Raffles Business Institute of Singapore. Mr Na graduated from the Department of Foreign Languages of Hebei Normal University with a Bachelor of Arts degree in English Language and afterwards graduated from the Department of English of Northern Arizona University, U.S.A. with a Master of Arts degree and Southern California University for Professional Studies (now known as "California Southern University"), U.S.A. with a degree of Doctor of Business Administration. Mr Na has substantial experience in the area of management research.

Ma Yusheng, aged 55, an Independent Non-executive Director of the Company. Mr Ma is currently the Assistant President and the Chief Representative in Beijing of China Europe International Business School. Mr Ma previously worked in the National Organization Cadre Training Center of the Organization Department of the Central Committee of the Communist Party of China, and in the Secretariat of the Library and Information Committee of the National Colleges and Universities under the National Education Committee. Mr Ma was the Director of Human Resources of Philips (China) Investment Services Company Limited. Mr Ma graduated from the Department of Psychology of Peking University with a bachelor's degree in science and afterwards graduated from China Europe International Business School with an MBA degree. Mr Ma has substantial experience in public and business management.

SUPERVISORS

Wang Yueshu, aged 60, a postgraduate, a senior economist, Chairman of the Supervisory Committee of the Company since November 2013. Mr Wang is currently the Deputy Secretary of the Party Committee and Secretary of the Commission for Discipline Inspection of the Company, and a Supervisor of PICC Life Insurance Company Limited. Mr Wang joined PICC in 1979 and was previously the Manager of the Operations Division of PICC Hebei Provincial Branch, General Manager of PICC Handan Branch in Hebei Province, Chief Economist and Deputy General Manager of PICC Hebei Provincial Branch, General Manager of Hebei Provincial Branch of the Company, a Vice President of PICC Health Insurance Company Limited, and the Responsible Compliance Officer and the Responsible Auditing Officer of the Company. Mr Wang has 37 years of operation and management experience in the PRC insurance industry.

Li Zhuyong, aged 43, Ph.D, a senior economist, a Supervisor of the Company since June 2015. Mr Li is currently the Legal Director and General Manager of the Legal and Compliance Department of PICC Group*, a Director of The People's Insurance Company of China (Hong Kong), Ltd. and Beijing No. 88 West Chang'an Avenue Development Company Limited, an Adjunct Professor of China University of Political Science and Law, and an Arbitrator of China International Economic and Trade Arbitration Commission and Beijing Arbitration Commission. Mr Li began his career in 1994. He joined PICC in 1998 and was previously the Deputy Manager and Manager of the Legal Department of PICC, Deputy General Manager and General Manager of the Department of Law and Compliance of PICC Holding Company and General Manager of the Risk Management Department/Legal and Compliance Department of The People's Insurance Company (Group) of China. Mr Li graduated from Capital University of Economics and Business with a master's degree in law and afterwards graduated from China University of Political Science and Law with a doctorate degree in law. Mr Li is a practicing corporation lawyer in China and has 21 years of work experience in the field of legal compliance and risk management.

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Ding Ningning, aged 68, Ph.D, an Independent Supervisor of the Company since June 2015. Mr Ding is currently a researcher of the Social Development Research Department of the Development Research Center ("DRC") of the State Council of the PRC, a Director of the China Development Research Foundation, a Director of the China Energy Research Society, a Director of the China International Association for Urban and Rural Development and an Independent Non-executive Director of Huabao International Holdings Limited*. Mr Ding has been conducting research at the DRC for 34 years since 1982, and was the Director of the Enterprise Economic Research Department of the DRC from 1993 to 1998 and the Director of the Social Development Research Department of the DRC from 1998 to 2008. He was a member of the Listed Company Supervisory Committee of China Securities Regulatory Commission for four sessions from 1993 to 2000. Mr Ding was previously an Independent Non-executive Director of the Company. Mr Ding graduated from the Department of Electrical Engineering of Tsinghua University with a bachelor's degree in engineering and graduated from the Party School of the Central Committee of the Communist Party of China in its first doctorate course in economics. Mr Ding studied and conducted research on the British economic history at the Centre of Chinese Study of Oxford University, England. He has substantial experience in the area of economic research.

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Lu Zhengfei, aged 52, Ph.D, a professor, a doctoral supervisor, an Independent Supervisor of the Company since January 2011. Mr Lu is currently a Professor of Accounting and Doctoral Supervisor of Guanghua School of Management of Peking University, the Director of the Research Center for Financial Analysis and Financial Investment of Peking University, a consultant to the Chinese Accounting Standards Committee of the Ministry of Finance of the PRC, an Executive Director and the Deputy Director of the Professional Committee for Financial Management of the Chinese Accounting Association, a Director of the Chinese Tax Institute and a Director of China Cost Research Society. Mr Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sinotrans Limited*, Sino Biopharmaceutical Limited*, China National Materials Company Limited*, Lian Life Insurance Co., Ltd., MIT Automobile Service Company Limited and Bank of China Limited**. Mr Lu was previously an Independent Non-executive Director of the Company. Mr Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005, the "Accountant Specialist Training Project" of the Ministry of Finance of the PRC in 2013, and as a Cheung Kong Chair Professor of the Ministry of Education of the PRC in 2014. Mr Lu graduated from Nanjing University with a doctorate degree in economics and completed the post-doctoral research on economics (accounting) at Renmin University of China.

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** This company is listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

Qu Yonghuan, aged 60, a senior accountant, an Employee Representative Supervisor of the Company since January 2011. Ms Qu joined PICC in 1983 and was previously the Assistant General Manager of China Insurance Group Investment Company Limited, Deputy General Manager of New Century Securities Limited, Deputy Manager of the Property Insurance Audit Division under the Auditing Department of The People's Insurance Company (Group) of China, Manager of the Accounting Division under the Planning and Finance Department and Deputy General Manager of the Auditing Department of PICC, Deputy General Manager and General Manager of the Capital Operation Department of the Company, a Senior Specialist of the Company and concurrently the General Manager of the Capital Operation Department of the Company, a Senior Specialist of the Company and a Director of PICC Asset Management Company Limited. Ms Qu graduated from Liaoning College of Finance and Economics. She has 32 years of extensive experience in insurance operation and management both in and outside the PRC.

Shen Ruiguo, aged 59, a postgraduate, a senior accountant, an Employee Representative Supervisor of the Company since January 2011. Mr Shen is currently the General Manager of the Monitoring Department/Auditing Department of the Company and Chairman of the Supervisory Committee of PICC Community Insurance Sales and Service Co., Ltd. Mr Shen joined PICC in 1984 and was previously the Deputy Manager, Manager and Chief Accountant of the Finance and Accounting Division of PICC Changchun Branch in Jilin Province, Chief Auditor of Changchun Branch in Jilin Province of PICC Property Insurance Company, Manager of the Planning and Finance Division of Jilin Provincial Branch of PICC Property Insurance Company, Manager of the Planning and Finance Division, Chief Auditor and Deputy General Manager of PICC Jilin Provincial Branch, Deputy General Manager of Jilin Provincial Branch of the Company, General Manager of Jilin Provincial Branch of PICC Holding Company, and General Manager of the Shenyang Monitoring and Auditing Center of the Company. Mr Shen graduated from the Party School of The CPC Jilin Provincial Committee. He has 32 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Yun Zhen, aged 57, a university graduate, a senior economist, an Executive Vice President of the Company, Chairman of PICC Community Insurance Sales and Service Co., Ltd. Mr Yun joined PICC in 1985 and was previously the Deputy General Manager and General Manager of PICC Hohhot Central Sub-branch, Deputy General Manager and General Manager of Inner Mongolia Branch of the Company, General Manager of Shandong Provincial Branch of the Company and a Vice President of PICC Life Insurance Company Limited. Mr Yun has 31 years of operation and management experience in the PRC insurance industry.

Wang Dedi, aged 58, a senior economist, an Executive Vice President and the Director of Trade Union Work Committee of the Company. Mr Wang joined PICC in 1992 and was previously the Deputy General Manager and General Manager of PICC Anshan Branch in Liaoning Province, Assistant General Manager, Deputy General Manager and General Manager of PICC Liaoning Provincial Branch, and General Manager of Beijing Branch of the Company. Mr Wang has 24 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, aged 50, Ph.D, a senior economist, an Executive Vice President of the Company. Mr Jiang is currently also the President of the Shanghai Institute of Marine Insurance, Chairman on Duty of China Agriculture Insurance and Reinsurance Community, General Conference Chairman and Council President of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool, Director of the Non-Auto Insurance Committee of the Insurance Association of China and Vice President of PICC Philanthropy Charity Foundation. Mr Jiang joined PICC in 1988 and was seconded to New York, U.S.A. for 2 years. Mr Jiang was previously the General Manager of the International Insurance Department of PICC Tianjin Branch, Deputy General Manager of PICC Tianjin Branch, General Manager of the Property Insurance Department of PICC, General Manager of the Group Insurance Marketing and Management Department and General Manager of the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of Shenzhen Branch of the Company, General Manager of the Agriculture Insurance Department of the Company, and a Senior Specialist and the General Manager of the Business Development Department of The People’s Insurance Company (Group) of China. Mr Jiang has 28 years of operation and management experience in the PRC insurance industry.

Xie Xiaoyu, aged 54, a postgraduate, a Master, a researcher, an Executive Vice President of the Company. Ms Xie joined the Company in 2013 and was previously the Deputy Director and Director of the News and Publication Division and Director of the Legal Affairs and Publicity Division of the Department of Human Resources, Labor, Policies and Regulations under the State Administration of Traditional Chinese Medicine of the PRC, Director of the Secretariat Division and Deputy Director-General of the Department of Drug Registration under the China Drug Administration, Deputy Director-General of the Department of Drug Registration, Deputy Director-General of the Department of Food Safety Supervision and Deputy Director-General of the Department of Food Licensing under the China Food and Drug Administration, Director of the Division of Essential Medicine System of the Department of Medicine Policy and Essential Medicine System under the Ministry of Health of the PRC, and the Chief Operation Officer of Health Management and a Vice President of PICC Health Insurance Company Limited. Ms Xie has 24 years of extensive experience in management.

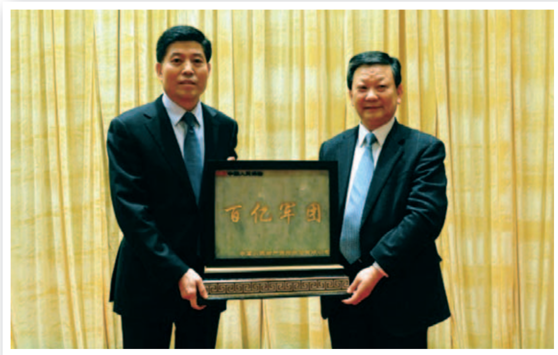
Zhang Xiaoli, aged 51, a postgraduate, a Master, an Executive Vice President, Secretary of the Board of Directors, the Responsible Compliance Officer, the Responsible Auditing Officer, concurrently General Manager of the Secretariat of the Board of Directors and Office of the Supervisory Committee of the Company. Mr Zhang is also the Director of the Corporate Governance Committee of the Insurance Association of China. Mr Zhang was a troop leader of the Chinese People's Liberation Army from 1980 to 2000. He joined PICC in 2000 and was previously the Manager of the Disciplinary and Supervisory Office of PICC, Deputy General Manager of the Monitoring Department of the Company, and General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited. Mr Zhang graduated from China Europe International Business School with an MBA degree. Mr Zhang has 16 years of management experience in the PRC insurance industry.

Hua Shan, aged 51, a doctoral postgraduate, Ph.D, an Executive Vice President of the Company. Mr Hua joined PICC in 1984 and was previously the Deputy General Manager of PICC Wuxi Branch, Assistant General Manager of PICC Jiangsu Provincial Branch, Assistant General Manager of Jiangsu Provincial Branch of the Company, Deputy General Manager of Jiangsu Provincial Branch and concurrently General Manager of Nanjing Branch of the Company, General Manager of Jiangsu Provincial Branch of the Company and an Assistant to the President of the Company. Mr Hua has 32 years of operation and management experience in the PRC insurance industry.

Gu Wei, aged 47, a postgraduate, a Master of Economics, a Master of Management, a senior economist, an Executive Vice President and the Chief Claims Assessor of the Company. Mr Gu joined PICC in 1995 and was previously the Manager and Assistant General Manager of PICC Beijing Branch, Deputy General Manager of Beijing Branch of the Company, General Manager of the Claims Management Department, General Manager of the Claims Management Unit and an Assistant to the President of the Company. Mr Gu has 21 years of operation and management experience in the PRC insurance industry.

Shen Dong, aged 47, a postgraduate, a senior accountant, the Responsible Financial Officer, the Chief Accountant and General Manager of the Finance and Accounting Department of the Company. Mr Shen joined PICC in 1992 and was previously the Assistant Manager, Deputy Manager and Manager of the Finance and Accounting Division and the Reinsurance Division of PICC Guangxi Provincial Branch, Deputy General Manager of Guangxi Provincial Branch of the Company, and Deputy General Manager and General Manager of the Finance and Accounting Department of the Company. Mr Shen graduated from Xiamen University with a bachelor's degree in economics and afterwards graduated from Beijing University of Aeronautics and Astronautics with a master's degree in software engineering. Mr Shen has 24 years of financial management experience in the PRC insurance industry.

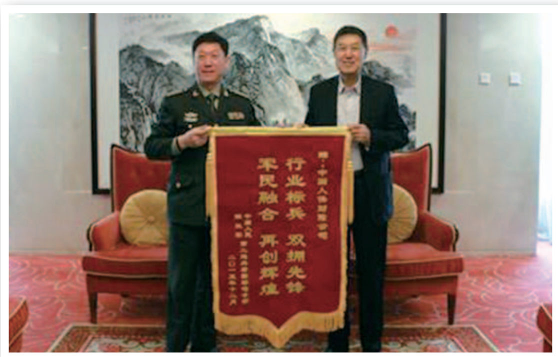
On 2 August 2015, Wu Yan (middle), Chairman of the Company, attended the Claim Settlement Ceremony held in Lhasa for the Tibet “4.25” Earthquake. Chairman Wu Yan introduced the work of claim settlement, and delivered the cheque for claims to the local government.



In 2015, Hubei Provincial Branch of the Company recorded an annual premium income of over RMB10 billion and became the eighth provincial branch of the Company with an annual premium income exceeding RMB10 billion. Pictured above is Guo Shengchen (left), Vice Chairman and President of the Company, presenting the award recognising this honour to Hubei Provincial Branch.

On 29 October 2015, Wang Yueshu (middle in the rear), Chairman of the Supervisory Committee of the Company, met and held talks with officers from Lloyd’s and Tokio Marine Kiln on cooperation in intellectual property insurance products, and three parties signed a Cooperation Memorandum and a Licence Agreement on intellectual property insurance at the meeting.

On 15 February 2015, before the Lunar New Year, Wang He (middle), Executive Director and Vice President of the Company, went to Ningbo to visit Cen Yunguo (left), Director of Shiqi Marketing Services Division of Yinzhou Sub-branch of the Company, who felt unwell but still adhered to the forefront of the business.

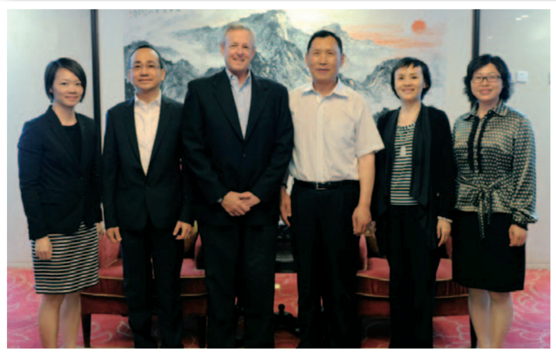


On 29 December 2015, the PLA Second Artillery Corps Logistics presented a silk banner to the Company to express gratitude to the Company for addressing the difficulties faced by nearly 20 thousand soldiers and officers away from the military medical institutions in seeking medical treatment. Yun Zhen (right), Vice President of the Company, attended the event.

On 30 January 2015, the Company and the Credit Information Center of the People’s Bank of China signed a cooperation agreement at the Company’s headquarters in respect of the access to the credit information system of the People’s Bank of China. Wang Dedi (fifth from the right), Vice President of the Company, attended the signing ceremony.

On 30 July 2015, Jiang Caishi (second from the left), Vice President of the Company, attended 2015 China Risk Management Summit and made a keynote speech.

On 7 November 2015, Lin Zhiyong, Executive Director and Vice President of the Company, attended the 4th Forum on Risk Management and Agricultural Development in Fuzhou and made the keynote speech as the sole representative from insurance institutions.



On 11 June 2015, Xie Xiaoyu (second from the right), Vice President of the Company, and Jia Haimao (third from the right), former Vice President of the Company, held talks at the Company’s headquarters with the Chief Executive Officer (third from the left) of Chartis Business Consulting (Beijing) Co., Ltd., a subsidiary of AIG, on the cooperation between the two parties.

On 23 December 2015, Zhang Xiaoli (third from the right), Vice President and Secretary of the Board of Directors of the Company, visited and inspected Hohhot Branch in Inner Mongolia and provided work guidance.

On 3 May 2015, the 53rd World Table Tennis Championship was closed in Suzhou. PICC was the sole insurance partner of the event and provided insurance coverage of almost RMB8 billion for the entire event. Pictured above is Hua Shan (middle in the front row), Vice President of the Company, awarding medals for the mixed doubles.

On 8 July 2015, with the coming of the Third National Insurance Awareness Day, Gu Wei (first row, second from the right), Vice President of the Company, attended the customer experience activity “Attention on Safe Driving and Protection from PICC” held at the Borui Xiangxing Audi Asia flagship store in Beijing.

OVERVIEW

In 2015, China's economic development entered into the "new normal", featuring more steady economic growth and more diversified growth momentum, which has imposed a far-reaching influence on China's economy and society and brought new profound changes to the role of the insurance sector in serving economic and social development. In 2015, the Company closely followed the trend of market-oriented insurance regulatory reforms, strengthened market benchmarking, proactively adjusted market strategies to respond to the deregulation of clauses and premium rates of commercial motor vehicle insurance, duly implemented cost-leadership strategy, thereby effectively enhanced its leading market position and continued to raise its profitability.

- **Reform and innovation enhanced, market position effectively consolidated.** In 2015, the gross written premiums of the Company and its subsidiaries reached RMB281,698 million, representing a year-on-year increase of 11.3% and achieved a market share of 33.4% *(Note)* in the property and casualty insurance market of the PRC, with the incremental premiums maintaining number one ranking in the market. Gross written premiums of the motor vehicle insurance segment amounted to RMB204,266 million, representing a year-on-year increase of 10.4%; gross written premiums of the non-motor insurance business amounted to RMB77,432 million, representing a year-on-year increase of 13.9%.

  Note: Calculated based on the PRC insurance industry data for 2015 published on the website of the CIRC.

- **Underwriting and investment, as the twin drivers, continuously improved profitability.** In 2015, the combined ratio of the Company and its subsidiaries was 96.5%, same as that of the previous year; underwriting profit was RMB8,604 million, representing a year-on-year increase of 18.0%; total investment income reached RMB21,303 million, representing a year-on-year increase of 54.7%; profit attributable to owners of the parent was RMB21,847 million, representing a year-on-year increase of 44.5%, net profit exceeded RMB20 billion for the first time; the return on equity ratio was 22.4%, representing a year-on-year increase of 1.3 percentage points, thus maintaining the industry leading position.

- **Steady improvement in capital conditions, upgraded rating on financial strength.** As at the end of 2015, the total assets of the Company and its subsidiaries reached RMB420,420 million, representing a year-on-year increase of 14.8%. The total equity was RMB108,951 million, representing a year-on-year increase of 27.0%. The total amount of investment assets grew steadily, reaching RMB344,025 million. The solvency margin ratio was 226%, continuously maintaining the level II Solvency Adequacy. Due to the Company's outstanding position in the industry and constantly improved comprehensive strengths, Moody's Investors Service raised the insurance financial strength rating of the Company from A1 to Aa3 in June 2015, which is the highest rating in Mainland China.

- **Service capabilities fully demonstrated, brand influence continuously strengthened.** In 2015, the insured amount of the Company and its subsidiaries was RMB247.98 trillion in aggregate, representing a year-on-year increase of 20.0%; the Company and its subsidiaries processed 25.75 million claims of all types and paid aggregate claims of RMB148.6 billion in total. Customer satisfaction was continuously enhanced, as evidenced by a number of honours awarded to the Company, including "Best Property Insurance Company in Asia", and maintained the number one ranking for the sixth consecutive year in terms of competitiveness among the Asian property insurance companies.

(I) Strengthening market benchmarking and adjusting market strategies to respond to market-oriented regulatory reforms

The Company adhered to market benchmarking, implemented proactive financial policies, and took initiative to respond to the deregulation of clauses and premium rates of commercial motor vehicle insurance. By upgrading the mechanism for channel cooperation with auto dealers, implementing plans to improve business renewal rate and the transferred-in rate of high-quality business, and adopting proactive polices on sales expenses and incentive performance appraisals, the Company expedited the profitable development of motor vehicle insurance. With efforts made in the establishment of a mechanism for development of comprehensive insurance products, promotion of the insurance business serving the Internet ecosystem (such as returned goods freight insurance and delayed voyage insurance), and deepening cooperation with banks, the Company effectively consolidated its leading position in the commercial non-motor insurance market. The Company speeded up the construction of the comprehensive information platform for the agriculture insurance, which continuously added to the new competitive edge of the agriculture insurance. The establishment of the Social and Medical Insurance Service Center and the reinforcement of specialised management and operation led to the continued strong growth in the critical illness insurance business. The Company spearheaded the establishment of a consortium to provide insurance for the first set of major technical equipment, and initiated the establishment of a consortium to provide housing insurance for Chinese urban and rural residents against earthquake/catastrophe and a consortium to provide reinsurance services for the Chinese agriculture insurance, thereby facilitating the implementation of the regional catastrophe insurance program and highlighting its leading position in the industry.

(II) Improving quality, enhancing profitability, reducing costs and saving expenses to effectively push forward the cost-leadership strategy

The Company consistently adjusted and optimised its expenses structure, implemented comprehensive budget management, strictly controlled its administrative expenses and increased the sales-related expenditure. Such differentiated allocation of resources showed noticeable effects and the utilisation of resources witnessed an increase in efficiency. The Company continuously enhanced the quality control of its underwriting business, and further improved the construction of the platform for centralised management and control on pricing of motor vehicle insurance, thereby continuously increasing the percentage of high-quality business; improved the mechanism for risk inspection before underwriting and dynamic authorisation relating to commercial non-motor insurance and established a policy evaluation and risk tolerance authorisation system to focus on the control of high risk customers; strengthened its underwriting risk management of the critical illness insurance business, established and enhanced the underwriting management and control system; reasonably arranged reinsurances and strictly managed risk exposure. The Company continuously deepened its dedicated management on claim settlement, and focused on improvement of its management and control capability in respect of property damage in motor vehicle insurance, payment for personal injuries, inspection and liabilities claims, and non-motor insurance claim settlement.

(III) Promoting the launch of the C-ROSS and establishing a risk management and control mechanism with a long-term effect

In 2015, the C-ROSS entered into a transition period. The Company deeply implemented the concept of C-ROSS, proactively adjusted its market strategies, improved the solvency risk management system and the capital management structure and initiated capital tools innovation. In 2015, the Company strengthened its compliance management and regulation on operational activities, achieving progress in both compliance and business development. By improving the risk preference system and framework and deepening the construction of its comprehensive risk management system, the Company continuously improved its solvency and risk management capabilities.

(IV) Serving the PRC's key strategies and fulfilling the social responsibilities of a state-owned enterprise

The Company coordinated and planned the Internet strategic layout, innovated the online and offline service platforms, served the key strategy of "the Belt and Road Initiatives" of China and supported the economic development. The Company acted as the sole or principal underwriter in a number of landmark insurance projects, including the construction of the second airport in the capital and telecommunications satellites APSTAR-9 and Lao Sat-1. The Company proactively coped with natural catastrophes such as the drought in northeast and northern China, Typhoon "Mujigae" and Typhoon "Chan-hom", and properly dealt with major accidents such as the sinking of the cruise ship "Eastern Star" and Tianjin Binhai explosions in a timely manner, which fully demonstrated the Company's service capabilities and responsibilities as a state-owned enterprise.

UNDERWRITING RESULTS

The following table sets forth the selected financial indicators of the insurance business of the Company and its subsidiaries and their percentages to net earned premiums for the relevant periods:

	Year ended 31 December			
	2015		2014	
	RMB million	*%*	*RMB million*	*%*
Net earned premiums	**244,567**	**100.0**	211,169	100.0
Net claims incurred	**(153,419)**	**(62.7)**	(135,947)	(64.4)
Total expenses	**(82,544)**	**(33.8)**	(67,931)	(32.1)
Underwriting profit	**8,604**	**3.5**	7,291	3.5

GROSS WRITTEN PREMIUMS

The following table sets forth the gross written premiums of the Company and its subsidiaries by insurance segments for the relevant periods:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Motor vehicle insurance	**204,266**	185,054
Commercial property insurance	**12,916**	12,929
Accidental injury and health insurance	**18,560**	14,161
Liability insurance	**11,558**	10,041
Cargo insurance	**3,225**	3,556
Agriculture insurance	**18,944**	17,143
Other insurance	**12,229**	10,153
Total	**281,698**	253,037

The following table sets forth a breakdown of the direct written premiums of the Company and its subsidiaries by distribution channels for the relevant periods:

	Year ended 31 December			
	2015		2014	
	Amount	Percentage	Amount	Percentage
	RMB million	*%*	*RMB million*	*%*
Insurance agents	162,617	57.9	145,095	57.5
Among which:				
Individual insurance agents	85,579	30.5	77,395	30.7
Ancillary insurance agents	52,749	18.8	52,012	20.6
Professional insurance agents	24,289	8.6	15,688	6.2
Direct sales	103,755	36.9	93,421	37.0
Insurance brokers	14,638	5.2	13,903	5.5
Total	281,010	100.0	252,419	100.0

Gross written premiums of the Company and its subsidiaries were RMB281,698 million in 2015, representing an increase of RMB28,661 million (or 11.3%) from RMB253,037 million in 2014. The overall steady business growth was largely driven by the development of the motor vehicle insurance, agriculture insurance, accidental injury and health insurance, liability insurance and credit and surety insurance business. Amongst these segments:

Gross written premiums of the motor vehicle insurance segment were RMB204,266 million, representing an increase of RMB19,212 million (or 10.4%) from RMB185,054 million in 2014. With the slowdown in the sales growth of the domestic motor vehicle market in 2015, the Company responded to the deregulation of clauses and premium rates of commercial motor vehicle insurance by adopting proactive policies on sales expenses and incentive performance appraisals, and implemented plans to improve business renewal rate and the transferred-in rate of high-quality business, which led to a higher growth rate in the renewed business and transferred-in business than that of the overall motor vehicle insurance business. The Company upgraded the mechanism for channel cooperation with auto dealers and continuously increased the efforts in marketing of product mix, as a result of which the proportion of customers buying both commercial and compulsory motor vehicle insurance showed significant increase, and the motor vehicle insurance business recorded stable growth.

Gross written premiums of the commercial property insurance segment were RMB12,916 million, representing a decrease of RMB13 million (or -0.1%) from RMB12,929 million in 2014. In 2015, in an effort to proactively respond to the adverse situation arising from economic restructuring and the decline of premium rates of commercial property insurance, the Company accelerated the transformation and upgrading of the customer service model and channel cooperation model and vigorously developed the commercial property insurance business with small and medium-sized enterprises, thus resulting in a stable market share, despite a slight decline in gross written premiums compared to that of the previous year.

Gross written premiums of the accidental injury and health insurance segment were RMB18,560 million, representing an increase of RMB4,399 million (or 31.1%) from RMB14,161 million in 2014. In 2015, through channels and platforms integration and establishment of professional teams, rapid growth was seen in both the traditional business of the Company such as accidental injury insurance for groups, school students and young children and the innovative business such as insurance covering accidental injuries that occurred during medical surgery, travelling and in rural areas. Meanwhile, the critical illness insurance business of the Company continued to hold its rapid growth momentum, bringing the health insurance business to a further increase in terms of market share.

Gross written premiums of the liability insurance segment were RMB11,558 million, representing an increase of RMB1,517 million (or 15.1%) from RMB10,041 million in 2014. In 2015, the Company spearheaded the formation of an insurance consortium for the first set of major technical equipment, continuously bringing into play its advantages in underwriting techniques, product development, industrial research and marketing. There was a relatively fast growth in innovative business, such as comprehensive insurance for the first set of major technical equipment and the liability insurance for the preservation of properties under lawsuit, and the traditional business, such as employer's liability insurance, medical liability insurance and extended warranty liability insurance. Meanwhile, the Company accelerated the business transformation and upgrading, vigorously developed the Internet channel, proactively promoted the rapid development of diversified commercial business, such as returned goods freight insurance, designated driving liability insurance and cloud computing liability insurance.

Impacted by the macroeconomic trend, the sources of cargo insurance business shrank and the premium rates declined remarkably. Gross written premiums of the cargo insurance segment were RMB3,225 million, representing a decrease of RMB331 million (or -9.3%) from RMB3,556 million in 2014.

Gross written premiums of the agriculture insurance segment were RMB18,944 million in 2015, representing an increase of RMB1,801 million (or 10.5%) from RMB17,143 million in 2014. In 2015, the Company strengthened the communication and cooperation with government agencies and steadily developed the insurance business with local characteristics and developed the innovative insurance business, such as insurance for the yield of food crops, price of agricultural products and weather index, maintaining a rapid growth in the agriculture insurance business.

Gross written premiums of the other insurance segment were RMB12,229 million, representing an increase of RMB2,076 million (or 20.4%) from RMB10,153 million in 2014. In 2015, the Company made great efforts in developing short-term export credit insurance and individual credit loan surety insurance to the extent that the risks were controllable, with the gross written premiums of the credit and surety insurance business achieving a relatively rapid growth.

NET EARNED PREMIUMS

The following table sets forth the net earned premiums of the Company and its subsidiaries by insurance segments for the relevant periods:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Motor vehicle insurance	190,067	164,606
Commercial property insurance	7,900	7,921
Accidental injury and health insurance	15,193	11,324
Liability insurance	8,386	7,302
Cargo insurance	2,350	2,523
Agriculture insurance	14,552	12,426
Other insurance	6,119	5,067
Total	244,567	211,169

Net earned premiums of the Company and its subsidiaries were RMB244,567 million in 2015, representing an increase of RMB33,398 million (or 15.8%) from RMB211,169 million in 2014.

NET CLAIMS INCURRED

The following table sets forth the net claims incurred of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the "loss ratio") for the relevant periods:

	Year ended 31 December			
	2015		2014	
	Net claims incurred	Loss ratio	Net claims incurred	Loss ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	(115,085)	(60.5)	(106,587)	(64.8)
Commercial property insurance	(5,243)	(66.4)	(4,663)	(58.9)
Accidental injury and health insurance	(13,695)	(90.1)	(9,063)	(80.0)
Liability insurance	(4,857)	(57.9)	(4,062)	(55.6)
Cargo insurance	(1,155)	(49.1)	(1,261)	(50.0)
Agriculture insurance	(9,425)	(64.8)	(7,385)	(59.4)
Other insurance	(3,959)	(64.7)	(2,926)	(57.7)
Total	(153,419)	(62.7)	(135,947)	(64.4)

Net claims incurred of the Company and its subsidiaries in 2015 were RMB153,419 million, representing an increase of RMB17,472 million (or 12.9%) from RMB135,947 million in 2014. The loss ratio was 62.7% in 2015, decreased by 1.7 percentage points from 64.4% in 2014. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB115,085 million, representing an increase of RMB8,498 million (or 8.0%) from RMB106,587 million in 2014. The loss ratio decreased by 4.3 percentage points from 64.8% in 2014 to 60.5% in 2015. In 2015, the Company strengthened the refined management and control of underwriting and claim settlement, focused on strengthening its ability to obtain high-quality business, optimised its business structure, reinforced the control on property damage in motor vehicle insurance, personal injuries cost, inspection and liabilities claims, etc., and further enhanced its efforts in anti-fraud in claim settlement, the percentage of zero-claim or single-claim business increased while the claim frequency of motor vehicle insurance decreased.

In 2015, due to the Tianjin Binhai explosions and natural catastrophes such as rainstorms and typhoons across China, net claims incurred of the commercial property insurance segment were RMB5,243 million, representing an increase of RMB580 million (or 12.4%) from RMB4,663 million in 2014. The loss ratio increased by 7.5 percentage points from 58.9% in 2014 to 66.4% in 2015.

Net claims incurred of the accidental injury and health insurance segment were RMB13,695 million, representing an increase of RMB4,632 million (or 51.1%) from RMB9,063 million in 2014. The loss ratio increased by 10.1 percentage points from 80.0% in 2014 to 90.1% in 2015. In 2015, market competition in the accidental injury and health insurance segment continued to intensify, leading to a downward trend in premium rate level. In addition, the wider coverage and higher protection offered by critical illness insurance also led to an increase in the overall loss ratio of the accidental injury and health insurance segment.

Net claims incurred of the liability insurance segment were RMB4,857 million, representing an increase of RMB795 million (or 19.6%) from RMB4,062 million in 2014. The loss ratio increased by 2.3 percentage points from 55.6% in 2014 to 57.9% in 2015. Amongst this segment, employer's liability insurance and medical malpractice liability insurance, which grew relatively rapidly, had relatively high loss ratios.

Net claims incurred of the cargo insurance segment were RMB1,155 million, representing a decrease of RMB106 million (or -8.4%) from RMB1,261 million in 2014. The loss ratio decreased by 0.9 percentage points from 50.0% in 2014 to 49.1% in 2015.

Net claims incurred of the agriculture insurance segment were RMB9,425 million, representing an increase of RMB2,040 million (or 27.6%) from RMB7,385 million in 2014. The loss ratio increased by 5.4 percentage points from 59.4% in 2014 to 64.8% in 2015, which was partly due to the severe drought in Liaoning, Hebei and Inner Mongolia in northern China in the summer of 2015.

Net claims incurred of the other insurance segment were RMB3,959 million, representing an increase of RMB1,033 million (or 35.3%) from RMB2,926 million in 2014. The loss ratio increased by 7.0 percentage points from 57.7% in 2014 to 64.7% in 2015. Amongst this segment, the loss ratio of the credit and surety insurance increased as a result of changes in the credit environment in China and abroad.

TOTAL EXPENSES

The following table sets forth the total expenses of the Company and its subsidiaries by insurance segments and their percentages to the net earned premiums of the corresponding insurance segments (the "expense ratio") for the relevant periods:

	Year ended 31 December			
	2015		2014	
	Total expenses	Expense ratio	Total expenses	Expense ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	**(67,596)**	**(35.6)**	(54,229)	(32.9)
Commercial property insurance	**(3,358)**	**(42.5)**	(3,086)	(39.0)
Accidental injury and health insurance	**(2,560)**	**(16.8)**	(2,210)	(19.5)
Liability insurance	**(3,271)**	**(39.0)**	(2,773)	(38.0)
Cargo insurance	**(950)**	**(40.4)**	(1,027)	(40.7)
Agriculture insurance	**(2,680)**	**(18.4)**	(2,965)	(23.9)
Other insurance	**(2,129)**	**(34.8)**	(1,641)	(32.4)
Total	**(82,544)**	**(33.8)**	(67,931)	(32.1)

Total expenses of the Company and its subsidiaries were RMB82,544 million in 2015, increased by RMB14,613 million (or 21.5%) from RMB67,931 million in 2014, with the expense ratio increasing by 1.7 percentage points from 32.1% in 2014 to 33.8% in 2015. In 2015, the Company implemented the comprehensive budget management and cost-leadership strategy, thoroughly advocated thrift practice among its headquarters and branches, strictly controlled and managed the administrative expenses, thereby significantly reducing the expenses relating to travel, conference, foreign affairs and use of motor vehicles as compared to the previous year, significantly improved its cost management and control capability, achieving administrative expenses of RMB7,514 million (representing a decrease of RMB317 million or 4.0% on a year-on-year basis) and an administrative expense ratio of 3.1% (representing a decrease of 0.6 percentage points on a year-on-year basis); in addition, the Company effectively responded to the deregulation of clauses and premium rates of commercial motor vehicle insurance, proactively adjusted the market strategies, implemented the proactive financial policies, sales expenses policies and incentive performance appraisals, thereby striving to improve its ability to obtain high-quality business and achieving an underwriting expense ratio of 30.7%, representing a year-on-year increase of 2.3 percentage points.

UNDERWRITING PROFIT

The following table sets forth the underwriting profit/(loss) of the Company and its subsidiaries by insurance segments and their percentages to the net earned premiums of the corresponding insurance segments (the "underwriting profit/(loss) ratio") for the relevant periods:

	Year ended 31 December			
	2015		2014	
	Underwriting profit/(loss)	Underwriting profit/(loss) ratio	Underwriting profit	Underwriting profit ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	7,386	3.9	3,790	2.3
Commercial property insurance	(701)	(8.9)	172	2.1
Accidental injury and health insurance	(1,062)	(6.9)	51	0.5
Liability insurance	258	3.1	467	6.4
Cargo insurance	245	10.5	235	9.3
Agriculture insurance	2,447	16.8	2,076	16.7
Other insurance	31	0.5	500	9.9
Total	8,604	3.5	7,291	3.5

The Company and its subsidiaries recorded an underwriting profit of RMB8,604 million in 2015, representing an increase of RMB1,313 million (or 18.0%) from RMB7,291 million in 2014; the underwriting profit ratio was 3.5%, remaining the same as that in 2014.

INVESTMENT RESULTS

Composition of Investment Assets

The following table sets forth the composition of investment assets of the Company and its subsidiaries as at the following dates:

	31 December 2015		31 December 2014	
	Balance	Percentage	Balance	Percentage
	RMB million	*%*	*RMB million*	*%*
By category:				
Cash and cash equivalents	22,828	6.6	24,157	8.2
Term deposits	98,663	28.7	88,236	29.9
Debt securities	107,404	31.2	107,789	36.5
Equity securities and mutual funds	68,714	20.0	40,951	13.9
Investments classified as loans and receivables	30,052	8.7	21,752	7.4
Investment properties	4,783	1.4	4,684	1.6
Investments in associates	8,584	2.5	4,750	1.6
Other investment assets *(Note)*	2,997	0.9	2,809	0.9
Total investment assets	344,025	100.0	295,128	100.0

Note: Other investment assets mainly included derivative financial assets and capital security fund.

In 2015, the Company achieved steady growth in the underwriting business, which provided stable cash flow support for the investment business. As at the end of the reporting period, the investment assets increased by RMB48,897 million (or 16.6%) on a year-on-year basis. While increasing the overall size of the investment assets, and based on the operational conditions of the money market and the capital market as well as its own risk preferences, the Company timely adjusted its investment product mix, improved the quality of its investment portfolio and achieved a balance between profit gaining and risk taking.

In 2015, the Company increased its allocations in negotiated deposits, high credit rating and high quality debt investment schemes, asset management products and trust plans, and proactively seized the operating opportunities in the equity market, thus recording a considerable increase in the total investment income.

Investment Income

The following table sets forth the investment income of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Operating lease income from investment properties	209	210
Interest income	12,425	10,823
Dividend income from equity securities and mutual funds	1,634	1,108
Total of investment income	14,268	12,141

Investment income of the Company and its subsidiaries was RMB14,268 million in 2015, representing an increase of RMB2,127 million (or 17.5%) from RMB12,141 million in 2014. The Company adopted a prudent and sound investment strategy and increased its allocations in negotiated deposits, debt investment schemes and asset management products, which offered stable returns, increasing its interest income by RMB1,602 million (or 14.8%) on a year-on-year basis. Meanwhile, with continuous increase and improvement in the level and mechanism for dividend distributions of listed companies, dividend income increased by RMB526 million (or 47.5%) compared to the previous year.

Net Realised and Unrealised Gains on Investments

The following table sets forth the net realised and unrealised gains on investments of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Realised gains on investments	6,343	1,458
Unrealised gains on investments	74	299
Impairment losses on equity securities and mutual funds classified as available-for-sale	–	(502)
Fair value gains on investment properties	145	64
Total of net realised and unrealised gains on investments	6,562	1,319

In 2015, the capital market experienced first a surge and then a fall, and the Company seized the operating opportunities in the equity market, and the realised gains on investments increased by RMB4,885 million (or 335.0%) on a year-on-year basis. Meanwhile, the Company reduced its investment in equity funds and bond funds, and the unrealised gains on investments for the Year were RMB74 million.

OVERALL RESULTS

The following table sets forth the overall results of the Company and its subsidiaries for the relevant periods or as at the relevant dates:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Profit before tax	**28,203**	19,441
Income tax expense	**(6,356)**	(4,326)
Profit attributable to owners of the parent	**21,847**	15,115
Total assets *(Note)*	**420,420**	366,130

Note: Based on the data as at 31 December 2015 and 31 December 2014.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB28,203 million in 2015, representing an increase of RMB8,762 million (or 45.1%) from RMB19,441 million in 2014.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB6,356 million in 2015, representing an increase of RMB2,030 million from RMB4,326 million in 2014.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, there was an increase in the overall profit of the Company and its subsidiaries in 2015, and the profit attributable to owners of the parent increased by RMB6,732 million (or 44.5%) from RMB15,115 million in 2014 to RMB21,847 million in 2015. Basic earnings per share attributable to owners of the parent in 2015 was RMB1.473.

CASH FLOW

The following table sets forth the cash flows of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Net cash flows from operating activities	27,232	31,467
Net cash flows used in investing activities	(26,507)	(25,140)
Net cash flows (used in)/from financing activities	(2,054)	1,558
Net (decrease)/increase in cash and cash equivalents	(1,329)	7,885

In 2015, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB27,232 million, representing a decrease of RMB4,235 million from RMB31,467 million in 2014. In 2015, the Company adhered to market benchmarking, implemented proactive policies on its sales expenses and incentive performance appraisals, and focused on improving its ability to acquire high-quality business. Accordingly, the amounts of the Company's cash expenses such as underwriting expenses and commission expenses increased, and their respective percentages in cash inflow from premiums increased.

In 2015, the Company's underwriting business experienced steady growth and provided stable cash flows to support the investment business. The net cash flows used in investing activities of the Company and its subsidiaries were RMB26,507 million, representing an increase of RMB1,367 million from RMB25,140 million in 2014.

In 2015, the net cash flows used in financing activities of the Company and its subsidiaries were RMB2,054 million, while in 2014, the net cash flows from financing activities were RMB1,558 million. In 2015, the Company's net cash flows from transactions of securities sold under agreements to repurchase were RMB9,447 million and the net cash flows used in redemption of subordinated debts were RMB6,000 million; in 2014, the net cash flows from financing by the Company through a rights issue and subordinated debts were RMB7,220 million and RMB3,000 million, respectively.

As at 31 December 2015, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB22,828 million.

LIQUIDITY

The cash flows of the Company and its subsidiaries is primarily derived from cash generated from operating activities, which is principally insurance premiums received. Additional liquidity sources include interest and dividend incomes, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and performance of other obligations under outstanding insurance policies, capital expenditure, operating expenses, tax payments, dividend payments and investment needs.

In October 2014, June 2011 and December 2006, the Company issued fixed-rate subordinated term debts of RMB8,000 million, RMB5,000 million and RMB3,000 million, respectively, each with a term of 10 years, to institutional investors in the PRC for the primary purpose of increasing the Company's solvency margin.

Save for the subordinated term debts mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can meet their working capital needs in the future with cash generated from operating activities. The Company and its subsidiaries have sufficient working capital.

CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries primarily includes expenditure for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditure of the Company and its subsidiaries was RMB2,141 million in 2015.

SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of laws and regulations regarding financial operations of the Company, including the regulatory requirements for maintaining a stipulated solvency margin and providing for certain funds and reserves. In accordance with the insurance laws and regulations of the PRC, the Company was required to maintain a minimum solvency margin of RMB37,831 million on 31 December 2015. The Company's actual solvency margin was RMB85,356 million on 31 December 2015 as calculated pursuant to the regulations of the CIRC and the solvency margin ratio was 226% *(Note)*.

Note: In calculating the solvency margin, the assessment standards for liability reserves as promulgated by the CIRC shall continue to apply to insurance contract liabilities while PRC Accounting Standards for Business Enterprises shall apply to non-insurance contract liabilities.

GEARING RATIO

As at 31 December 2015, the gearing ratio *(Note)* of the Company and its subsidiaries was 70.2%, representing a decrease of 0.2 percentage points from 70.4% as at 31 December 2014.

Note: Gearing ratio is represented by total liabilities (excluding subordinated term debts) divided by total assets under accounting principles generally accepted in Hong Kong.

CONTINGENT EVENT

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration proceedings. Most of such legal proceedings involve claims on the insurance policies of the Company and its subsidiaries, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Company and its subsidiaries believe that any liabilities resulted therefrom will not have a material adverse effect on the financial positions or operating results of the Company and its subsidiaries.

As at 31 December 2015, there were certain pending legal proceedings for the Company and its subsidiaries. After taking into account professional opinions, the management of the Company believes that such legal proceedings will not cause significant losses to the Company and its subsidiaries.

EVENTS AFTER THE REPORTING PERIOD

On 27 March 2016, the Board proposed a final dividend of RMB0.304 per ordinary share for the Year. This proposal is subject to the approval at shareholders' general meeting of the Company.

Currently, business taxes are imposed on the Company and its subsidiaries mainly for premiums arising from certain insurance contracts and investment income. In March 2016, Ministry of Finance of the PRC announced that, commencing from 1 May 2016, income of financial service sector should be subject to value added taxes ("VAT") instead of business taxes. VAT allow input taxes arising from certain purchases to offset liabilities arising from output taxes. There are also specific requirements on management of VAT invoices. The Company and its subsidiaries are currently assessing the impact of these changes to their financial results and operations.

CREDIT RISK

Credit risk is the risk of economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payments when due. The assets of the Company and its subsidiaries which are subject to credit risk are substantially insurance receivables, reinsurance assets, debt securities and deposits with commercial banks.

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers who purchase part of the insurance policies through insurance intermediaries. The ability to collect premiums in a timely manner remains one of the key performance indicators of the Company. The Company's premiums receivable involves a large number of diversified customers, therefore there are no major credit concentration risks in insurance receivables.

Other than from state-owned reinsurance companies, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A- rating by Standard & Poor's (or equivalent ratings given by other international rating agencies such as A.M. Best, Fitch and Moody's) or above. The management of the Company and its subsidiaries regularly review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies of, and determine reasonable impairment provision on reinsurance assets of, the Company and its subsidiaries.

The Company and its subsidiaries diligently manage credit risk in debt securities mainly by analysing the creditworthiness of investee companies prior to making investments and by strictly conforming to the relevant regulations issued by the CIRC on the investment ratings of corporate bonds. The majority of the corporate bonds held by the Company and its subsidiaries have credit ratings of AA or above.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned banks or state-controlled commercial banks.

EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in RMB, which is also their functional and financial reporting currency. Parts of the business of the Company and its subsidiaries (including parts of commercial property insurance, international cargo insurance and aviation insurance business) are conducted in foreign currencies, primarily in US dollars. The Company and its subsidiaries are also exposed to exchange rate risks for assets which are valued based on foreign currencies such as parts of their bank deposits and debt securities and certain insurance business liabilities which are denominated in foreign currencies, primarily in US dollars.

Foreign exchange transactions under the capital accounts of the Company and its subsidiaries are subject to foreign exchange control and the approval of the administration authority for foreign exchange. Exchange rate fluctuations may arise as a result of the foreign exchange policies of the PRC government.

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 the changes in market interest rates. The Company and its subsidiaries' interest rate risk policy requires the Company and its subsidiaries to manage interest rate risk by maintaining an appropriate match of fixed and floating interest rate instruments. The policy also requires the Company and its subsidiaries to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, re-price interest on floating rate instruments at intervals of less than one year, and manage floating interest rate risk through interest rate swap and other instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

INTEREST RATE SWAPS

The Company's financial assets which bear interest at different rates would generate uncertain cash flows. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As at 31 December 2015, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB1,050 million.

DEVELOPMENT OF NEW PRODUCTS

In 2015, the Company focused on the hot spots of the market and the needs of clients and submitted a total of 840 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 193 national provisions and premium rates, 647 regional provisions and premium rates, and 636 main insurance provisions and premium rates and 204 rider provisions and premium rates. As at 31 December 2015, the Company had 7,174 insurance provisions in use and operation, including 4,597 national provisions and 2,577 regional provisions.

EMPLOYEES

As at the end of 2015, the Company had 167,709 employees. In 2015, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB24,314 million, mainly including basic salaries, performance-related bonus, and various insurance and welfare contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening personnel training, implementing performance appraisal and other measures. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

LOOKING FORWARD

In 2016, the Company will strengthen its organisational leadership on all fronts, and seize two key points, being market benchmarking in terms of development and better than the market profitability. The Company will also make sound business layout, implement gap management, strictly control the operation risks, continuously improve the development capability, profitability and service capability, in order to bring the reform and development of the Company to a new level through new concepts. To ensure achievement of the annual operating targets, the Company will take solid measures in the following eight key areas:

- Adhere to innovation, coordination, environmentally friendly, openness and sharing, and under the guidance of new development concepts, lead the transformation and upgrade of the Company;
- Deepen the market benchmarking, strengthen the operation planning, and through a highly performing operating platform, support the achievement of operating targets;
- Optimise the market layout, upgrade the operational model, and through the new model, rebuild new operational advantages for motor vehicle insurance;
- Upgrade product supply, enlarge development space, and develop new engines for the development of non-motor insurance in the new areas;
- Focus on improving the weakness in business operation, innovate development mechanism, and based on the new mechanism, start a new phenomenon in the development of the Company;
- Strengthen professional competence, optimise operational structure, and through the new structure, cultivate new landscape for the profitability of the Company;
- Grasp the characteristics of the era, achieve new breakthrough in the Company's advantages, and through the new advantages, consolidate the Company's new development momentum;
- Improve the system construction, discharge the main responsibilities, and through strong and vigorous organisational leadership, ensure the healthy development of the Company.

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the Year.

BUSINESS REVIEW

PRINCIPAL ACTIVITIES

The Company is engaged in motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, marine hull insurance, agriculture insurance, surety insurance and other insurance businesses in Mainland China, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds application business permitted under the relevant laws and regulations of the PRC. The Company's subsidiaries are mainly engaged in providing insurance agency services and training services to the Company.

OPERATING RESULTS AND FINANCIAL POSITION

Discussion and analysis of operating results and financial conditions using key financial performance indicators by the Company are set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out in the "Financial Summary" section of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management is an important aspect of the operation and management activities of the Company. The Company adopted a prudent risk management strategy and the risk management service was guided by the overall business strategy of the Company to ensure the Company's major risks being fundamentally controlled, business development maintaining sustainable and healthy and business performance steadily improving. During the Year, the Company attached great importance to the regulatory requirements imposed by C-ROSS, organised and carried out implementation initiatives, intensified the efforts to improve the system and process related to risk management, continuously strengthened the daily management and control of seven major categories of risks, namely insurance risk, market risk, credit risk, operational risk, strategic risk, reputational risk and liquidity risk, from various dimensions such as system design, system management and control, appraisal and assessment, accountability and punishment and methods and tools, and strengthened the monitoring and early warning of risks in key areas and segments.

The major risks currently faced by the Company include insurance risk, market risk, credit risk, operational risk, strategic risk, reputational risk and liquidity risk. At present and for a certain period of time in the future, as a result of the slowdown of economic growth, volatility of the capital market and the full implementation of C-ROSS and the deregulation of clauses and premium rates of commercial motor vehicle insurance, changes in the external policy and environment will bring uncertainties for the Company. **Firstly**, due to the slowdown of economic growth and higher probability of defaults in the real economy and financial system, the credit risk faced by the credit assets of the insurance business, reinsurance business and investment business of the Company may increase. **Secondly**, the increasingly complicated economic conditions and increasingly open financial environment would increase the volatility of the domestic capital market. Uncertainties of interest rate, foreign exchange rate and capital market may bring certain market risks to the Company. **Thirdly**, the formal implementation of C-ROSS will have continuous impact on the business development, investment strategy, reinsurance arrangement, financing model, capital management and other areas of the Company. **Fourthly**, market competition will become more complicated as a result of the gradual implementation of the pilot programme of the deregulation of clauses and premium rates of commercial motor vehicle insurance and it may have certain impact on the motor vehicle insurance business of the Company, which accounts for a relatively high percentage of the Company's business.

PARTICULARS OF IMPORTANT EVENTS AFFECTING THE COMPANY THAT HAVE OCCURRED SINCE THE END OF THE YEAR

Particulars of the important events affecting the Company that have occurred since the end of the Year are set out in the subsection headed "Events after the Reporting Period" of the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

FUTURE DEVELOPMENT

Likely future development in the Company's business is set out in the "Chairman's Statement" and "Discussion and Analysis of Operating Results and Financial Conditions" sections of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company has actively participated in the ecological civilisation construction by providing risk protection for the development of energy conservation and environmental protection projects. In recent years, the Company took the lead in the industry to research and develop a series of environmental pollution liability insurance products, established the system for environmental risk assessment and management and innovated the service models. During the Year, the Company provided risk protection in an aggregate amount of RMB9.5 billion for more than 5,000 enterprises, which mainly were chemical enterprises, heavy metal enterprises, machinery manufacturing enterprises, precision instrument enterprises, etc. More than 30 provincial branches of the Company across the country launched the environmental pollution liability insurance business, explored the establishment of the environmental risk classification and assessment system and strengthened the risk management and control, which provided timely and appropriate risk protection for enterprises, ensured the discharge of compensation liabilities by the enterprises and improved the ability of enterprises to protect themselves against natural disasters and losses.

The Company has actively promoted and advocated the concept of green environment, participated in the environmentally friendly charity activities and supported the environmentally friendly charity business. During the Year, the Company launched a series of environmentally friendly charity projects, including "*I act – change the environment*", "*I participate – farewell bad habits*", "*I put up a show – present landscape*" projects, the clearing sea lettuce environmental protection charity activity, the garbage collection/environment protection/advocate green travel activity at the Pearl Bay, voluntary tree-planting for beautiful life activity and "*Do not let the sky in your memory be always grey*" tree-planting day activity.

The Company has, in its daily operation and management, promoted the concept of green environment and guided employees to follow various low-carbon activities such as energy conservation and emission reduction, low-carbon office and energy saving and environmental protection, in a bid to reduce the energy consumption level. The Company has set the power consumption level requirements in its procurement of computer devices and printers, and when selecting devices, has given preferential consideration to the models with low energy consumption level; and has continuously promoted the electronic support platform and made great efforts to build the fully electronic e-commerce sales and service model for insurance products, including functions such as electronic insurance policy and electronic payment. Over the past three years, the Company produced more than 36 million electronic insurance policies and created two electronic application programmes, entrusted qualified professional institutions with the recycling of wasted electronic devices which were beyond repair or were of no repair value, conducted safe disposal of data contained in wasted devices by punching holes on the hard disks on the spot and after such treatment, such devices underwent detoxification treatment in accordance with the state environmental protection standards.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT

The Company has long adhered to the philosophy of carrying out business in accordance with laws and regulations, complied with the state laws, administrative regulations, and various rules and regulatory documents promulgated by the regulatory authorities. During the Year, the Company actively adapted to the trend of market-oriented reform in the insurance market, researched the impacts of relevant regulations and policies, such as the deregulation of clauses and premium rates of commercial motor vehicle insurance, the reform of the insurance intermediary market and the reform of the application of insurance funds, on the Company's business operation, and took the initiative to adopt various reform initiatives; continuously strengthened the promotion and training regarding law and compliance culture, and through innovative means and methods, promoted the philosophy of carrying out business in accordance with laws and regulations to be deeply rooted among people; through formulating and improving internal rules and systems, implemented various legal and regulatory requirements, improved internal control and management and facilitated the development of a long term mechanism of carrying out business in accordance with laws and regulations, with a view to providing solid support for the steady development of the Company. During the Year, the overall compliance status of the operation and management activities of the Company was good and the compliance risk management system was in normal operation.

No significant systematic compliance risk was found in the Company. However, some branches may have some margins in their compliance with laws and regulations, bringing non-compliance risk to the operation of the Company.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS THAT HAVE A SIGNIFICANT IMPACT ON THE COMPANY

The Company attaches great importance to the relationships with employees, customers and suppliers, and continuously improves communication methods and dialogue mechanism, with a view to achieving cooperation and win-win situation with employees, customers and suppliers. During the Year, the Company maintained close communications with the employees, customers and suppliers.

With respect to maintaining the relationship with employees, the Company cares about employees' development and protects their rights and interests, improves employees' skills and pays attention to their career development, emphasises employees' physical and mental health and values their work-life balance. During the Year, in the election for the "China Best Employer Award" jointly organised by the Corporate Social Responsibility and Employer Brand Communication Research Center of Peking University and www.zhaopin.com, the Company was one of the 10 top enterprises awarded the "2015 Top 10 China Best Employers".

With respect to maintaining the relationship with customers, the Company adheres to customer-oriented and continues to improve the service capability, creates a highly efficient product and service system to satisfy customers' demands for high quality, continues to promote insurance innovation to satisfy customers' demands for diversification, and enhances information security to protect customers' privacy. During the Year, the Company won the "Customer Experience Excellence Award 2015" at the Customer Loyalty Summit & LoyaltyChina Awards 2015 hosted by LoyaltyChina.

With respect to maintaining the relationship with cooperation partners such as suppliers, the Company regulates the management of suppliers and improves cooperation on bidding and procurement, contacts channel suppliers in an orderly manner and jointly improves profit-generating capability. The long term development of the Company is not separable from the joint efforts of the Company and its cooperation partners. Intermediary institutions, auto dealers, banks, hospitals and all the other partners are important links between the Company and customers, and the Company shares resources, seeks joint development and creates an equal and mutually beneficial strategic cooperation relationship with the cooperation partners.

Stakeholders	Employees	Customers	Suppliers and other cooperation partners
Communication channels	Employees representatives meeting and trade union Employees seminar Performance management Face-to-face and online training Inter-communication on internal network information platform Mutual help and care	Customers Festival Seminar and return visit Satisfaction survey New media such as weibo,weixin Service hotline 95518 Official direct sales platform www.epicc.com.cn Tele-sales hotline 4001234567	Strategic cooperation agreement Regulation and appraisal

DIVIDEND

On 27 March 2016, the Board proposed the distribution of a final dividend of RMB0.304 per share (inclusive of applicable tax) for the Year. Such proposal for the payment of the Final Dividend is subject to the approval of the Company's shareholders at the annual general meeting to be held on 24 June 2016 (Friday). If approved, the Final Dividend is expected to be paid on 19 August 2016 to the shareholders whose names appear on the register of members of the Company on 6 July 2016 (Wednesday).

The Company has not paid any interim dividend during the Year.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders who are entitled to receive the Final Dividend, the register of members of the Company will be closed from 1 July 2016 (Friday) to 6 July 2016 (Wednesday), both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 6 July 2016 (Wednesday) are entitled to receive the Final Dividend. In order for holders of H shares of the Company to qualify for the Final Dividend payment, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 30 June 2016 (Thursday) for registration.

In order to determine the list of shareholders who are entitled to attend and vote at the annual general meeting of the Company to be held on 24 June 2016 (Friday), the register of members of the Company will be closed from 25 May 2016 (Wednesday) to 24 June 2016 (Friday), both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 24 June 2016 (Friday) are entitled to attend and vote at the annual general meeting. In order for holders of H shares of the Company to qualify for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar mentioned above no later than 4:30 p.m. on 24 May 2016 (Tuesday) for registration.

WITHHOLDING AND PAYMENT OF FINAL DIVIDEND INCOME TAX

FINAL DIVIDEND INCOME TAX APPLICABLE TO OVERSEAS SHAREHOLDERS

Withholding and Payment of Enterprise Income Tax on behalf of Overseas Non-Resident Enterprise Shareholders

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Notice on the Issues Concerning Withholding and Payment of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han〔2008〕No. 897) issued by the State Administration of Taxation (國家稅務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函〔2008〕897號)), the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes the Final Dividend to overseas non-resident enterprise holders of H shares (including any H shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as a nominee shareholder on behalf of investors who invest in the H shares of the Company through Shanghai-Hong Kong Stock Connect).

Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementing rules, the Tax Notice, the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa〔1993〕No. 045 (Guo Shui Han〔2011〕No. 348) (《國家稅務總局關於國稅發〔1993〕045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函〔2011〕348號)) and other relevant laws, regulations and requirements under normative documents, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of the overseas Individual H Shareholders:

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Individual H Shareholders in the distribution of the Final Dividend;

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these Individual H Shareholders in the distribution of the Final Dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to the competent tax authorities and, after their examination and if and when approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these Individual H Shareholders in the distribution of the Final Dividend; and

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Individual H Shareholders in the distribution of the Final Dividend.

FINAL DIVIDEND INCOME TAX APPLICABLE TO SHAREHOLDERS IN MAINLAND CHINA INVESTING IN H SHARES OF THE COMPANY THROUGH SHANGHAI-HONG KONG STOCK CONNECT

Withholding and Payment of Individual Income Tax on behalf of Domestic Individual Shareholders Investing through Shanghai-Hong Kong Stock Connect

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui〔2014〕No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅〔2014〕81號)), for domestic individual shareholders who invest in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as a nominee shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Final Dividend. For domestic shareholders who are securities investment funds investing in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as a nominee shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Final Dividend.

No Withholding and Payment of Enterprise Income Tax on behalf of Domestic Enterprise Shareholders Investing through Shanghai-Hong Kong Stock Connect

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui〔2014〕No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅〔2014〕81號)), for domestic enterprise shareholders who invest in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as a nominee shareholder), the Company will not withhold or pay enterprise income tax on their behalf in the distribution of the Final Dividend, and the domestic enterprise shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H shares of the Company which have been continuously held by a domestic enterprise shareholder for 12 months shall be exempted from enterprise income tax.

H shareholders of the Company are recommended to consult their own tax advisors on the relevant tax impact in China, Hong Kong and other countries (regions) on the possession and disposal of H shares of the Company.

SHARE CAPITAL

There were no changes in the share capital of the Company during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2015, according to PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB20,595 million and the distributable reserves of the Company were RMB20,614 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB44 million, of which RMB26 million were donations for public benefits.

MAJOR CUSTOMERS

The aggregate gross written premiums of the Company and its subsidiaries attributable to their five largest customers did not exceed 30% of the gross written premiums of the Company and its subsidiaries for the Year.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors in office during the Year and the changes in the members of the Board of Directors and the members of the Supervisory Committee as well as the reasons for resignation of Directors from 1 January 2015 to the date of this report are set out in the "Corporate Governance Report" section of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and other senior management of the Company are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with any Director or Supervisor.

Details of the remuneration of the Directors and Supervisors 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 are set out in note 13 to the consolidated financial statements.

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

None of the Directors and Supervisors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance which subsisted at any time during the Year or at the end of the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life (an associate of the Company) and PICC Health, subsidiaries of PICC Group, the controlling shareholder of the Company, are also engaged in accidental injury insurance and short-term health insurance business.

Mr Wu Yan, the Chairman of the Company, is also the Chairman of PICC Life and PICC Health. Mr Zhou Shurui, a former Non-executive Director of the Company (resigned on 20 March 2015), was formerly the Chairman of PICC Health.

Pursuant to the reorganisation agreement entered into between the Company and PICC Group, PICC Group has undertaken not to carry on any insurance business in the PRC which is of the same or similar nature as, or competes with, the core business of the Company.

Save as disclosed above, none of the Directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2015 to the date of this report.

PERMITTED INDEMNITY PROVISION

At any time during the Year and up to the date of this report, there was or is no permitted indemnity provision being in force for the benefit of any of the Directors of the Company or its associates.

The Company purchased insurance for the Directors which provides appropriate cover of legal liabilities of Directors when performing their duties during the Year. The relevant policies are governed by the PRC laws.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The Directors, Supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as at 31 December 2015 that were required to be recorded in the register as required to be kept under Section 352 of the SFO or required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code.

During the Year, the Company did not grant any rights to its Directors, Supervisors or President of the Company (including their spouses or children under the age of 18) to subscribe for shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2015, the following persons held interests or short positions in the shares or underlying shares of the Company that were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO, or notified to the Company and the Hong Kong Stock Exchange by other means:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
PICC Group	Beneficial owner	10,228,980,980 *(Note 1)*	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
AIG	Interest of corporation controlled by the substantial shareholder	851,022,240 *(Note 2)*	Long position	18.50%	5.74%
AIG Property Casualty Company	Beneficial owner	572,098,015 *(Notes 2 & 3)*	Long position	12.44%	3.86%
Lexington Insurance Company	Beneficial owner	278,924,225 *(Notes 2 & 3)*	Long position	6.06%	1.88%
JPMorgan Chase & Co.	Beneficial owner, investment manager, trustee (excluding bare trustee), custodian corporation/approved lending agent	327,482,549 *(Note 4)*	Long position	7.11%	2.21%
	Beneficial owner	16,851,686 *(Note 4)*	Short position	0.36%	0.11%
	Custodian corporation/ approved lending agent	107,898,614	Lending pool	2.34%	0.73%
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	230,791,422 *(Note 5)*	Long position	5.02%	1.56%
		456,000	Short position	0.01%	0.003%

Notes:

1. The number of shares held by PICC Group and its percentage of shareholding were based on that recorded in the Company's register of members of domestic shareholders as at 31 December 2015.

2. As set out in the latest disclosure of interests notice made by AIG, of 851,022,240 H shares held by AIG in the capacity as interest of corporation controlled by the substantial shareholder, 572,098,015 H shares and 278,924,225 H shares were held by AIG Property Casualty Company and Lexington Insurance Company, being corporations controlled by AIG, respectively. AIG owned 100% shareholding in AIG Property Casualty Company and Lexington Insurance Company.

3. To the knowledge of the Company, the numbers of shares held by Birmingham Fire Insurance Company of Pennsylvania (now known as "AIG Property Casualty Company") and Lexington Insurance Company set out in the disclosure of interests notices available on the website of the Hong Kong Stock Exchange as at 31 December 2015 were the numbers of shares held prior to the rights issues of the Company in 2011, 2013 and 2014 and the other changes of these companies. The updated numbers of shares held by these companies were stated in the above latest disclosure of interests notice made by AIG.

4. Among which, 18,013,502 H shares (Long position) and 12,997,686 H shares (Short position) were held through derivatives as follows:

   - 2,398,000 H shares (Long position) and 2,946,000 H shares (Short position) – through physically settled listed securities
   - 441,066 H shares (Short position) – through cash settled listed securities
   - 9,570,543 H shares (Long position) and 8,729,661 H shares (Short position) – through physically settled unlisted securities
   - 6,044,959 H shares (Long position) and 880,959 H shares (Short position) – through cash settled unlisted securities

5. Among which, 120,000 H shares (Long position) were held through derivatives, categorised as held through cash settled unlisted securities.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company that were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept under Section 336 of the SFO or being substantial shareholders of the Company as at 31 December 2015.

PUBLIC FLOAT

As at the date of this report, 31% of the total number of issued shares of the Company is held by the public and therefore the Company continues to comply with the minimum public float requirement under the Listing Rules.

MANAGEMENT CONTRACT

Pursuant to the asset management agreement entered into between the Company and PICC AMC (a subsidiary of the Company's controlling shareholder, with Mr Wu Yan, the Chairman and an Executive Director of the Company, also being the Chairman of PICC AMC), PICC AMC provides investment management services in respect of certain assets of the Company. The Company pays PICC AMC management fees and, when the investment performance and other factors satisfy the agreed conditions, a performance bonus. The particulars of this agreement are set forth in the subsection headed "Continuing Connected Transactions" below.

SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF THE COMPANY WITH ITS CONTROLLING SHAREHOLDER (AND ITS SUBSIDIARIES)

The particulars of the significant transactions, arrangements and contracts entered into by the Company with its controlling shareholder (and its subsidiaries) during the Year are set out in the "Connected Transaction" and "Continuing Connected Transactions" subsections below.

CONNECTED TRANSACTION

The connected transaction of the Company in the Year that is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules is the joint establishment of the reinsurance company with PICC Group. As PICC Group is the controlling shareholder of the Company, PICC Group is therefore a connected person of the Company according to the Listing Rules.

On 16 April 2015, the Company and PICC Group entered into the promoters' agreement, pursuant to which the two parties agreed to jointly establish a reinsurance company by way of promotion. Pursuant to the agreement, the reinsurance company shall be a joint stock limited liability company incorporated in the PRC, with one billion shares at par value of RMB1.0 each and registered capital of RMB1 billion. PICC Group and the Company shall subscribe for 51% and 49% of the share capital of the reinsurance company, respectively. The Company shall subscribe for 490 million shares of the reinsurance company, with a capital contribution amount of RMB490 million. PICC Group shall subscribe for 510 million shares of the reinsurance company, with a capital contribution amount of RMB510 million. The Company believes that the transaction will be beneficial to the Company in seizing development opportunities in the reinsurance market, reducing the capital requirements relating to reinsurance credit risk, satisfying the overseas reinsurance needs of its clients and cultivating its new sources of business growth. The establishment of the reinsurance company is subject to the approval of the CIRC and other regulatory authorities.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions of the Company in the Year that are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules include: (i) the framework agreement on reinsurance business cooperation entered into between the Company and PICC HK; (ii) the comprehensive strategic cooperation agreement entered into between the Company and ZSIB; (iii) the asset management agreement entered into between the Company and PICC AMC; (iv) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively; (v) the framework agreement on purchases of life insurance products entered into between the Company and PICC Life; and (vi) the lease agreement for South Information Center and the WAN service agreement entered into between the Company and PICC Group. PICC Group is the controlling shareholder of the Company and holds respectively 75%, approximately 93% and 100% of the issued share capital of PICC HK, ZSIB and PICC AMC, and directly and indirectly holds respectively 80% and approximately 94% of the issued share capital of PICC Life and PICC Health. Therefore, according to the Listing Rules, all of PICC Group, PICC HK, ZSIB, PICC AMC, PICC Life and PICC Health are connected persons of the Company.

(i) The Company and PICC HK have entered into framework agreements on reinsurance business cooperation since 1 January 2010. PICC HK is one of the reinsurers of the Company and the Company entered into the framework agreement on reinsurance business cooperation with PICC HK for the purposes of risks diversification and stabilisation of operation. On 27 March 2015, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2015 and expiring on 31 December 2015. Pursuant to the renewed agreement, the Company agreed to cede insurance premiums to PICC HK from time to time, and PICC HK agreed to cede insurance premiums to the Company from time to time. One party to the agreement who acted as reinsurer shall accept the risks of and pay commissions to the other party to the agreement in return for the agreed insurance premiums received from such other party. Under the framework provided in the renewed agreement, the parties to the agreement might enter into various types of reinsurance agreements in respect of specific reinsurance business. Under the renewed agreement, the annual caps for the insurance premiums ceded to PICC HK by the Company and the commissions (including taxes) received by the Company from PICC HK for the Year were expected to be RMB700 million and RMB260 million, respectively. As the insurance premiums expected to be ceded to the Company by PICC HK and the commissions expected to be received by PICC HK from the Company for the Year would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules, no annual caps were set. The actual insurance premiums ceded to PICC HK by the Company and the commissions (including taxes) received by the Company from PICC HK were approximately RMB466 million and RMB211 million, respectively, for the Year. The actual insurance premiums ceded to the Company by PICC HK and the commissions (including taxes) received by PICC HK from the Company were approximately RMB6 million and RMB1 million, respectively, for the Year.

On 28 March 2016, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2016 and expiring on 31 December 2016.

(ii) On 17 June 2013, the Company entered into the comprehensive strategic cooperation agreement with ZSIB for a term of three years commencing from 17 June 2013 and expiring on 16 June 2016. Pursuant to this agreement, the Company and ZSIB (and its subsidiaries) cooperate with each other in the insurance brokerage business and other business. The agreement entered into by the Company with ZSIB is beneficial for resources integration and business cooperation between the Company and ZSIB, and also beneficial for the construction of the Company's distribution channels and the promotion of the Company's development capability in the brokerage business market. The Company and ZSIB or its subsidiaries would enter into specific agreements when they carry out specific insurance brokerage business cooperation, and the Company would pay brokerage fees for specific business under cooperation. As the cooperation business in motor vehicle insurance between the Company and the subsidiaries of ZSIB developed rapidly in some regions, the overall cooperation business grew faster than expected. Therefore, the Company revised the caps for the brokerage fees paid by the Company to ZSIB and its subsidiaries under the agreement upwards on 26 November 2014. After the revision, the annual cap for the brokerage fees paid by the Company to ZSIB and its subsidiaries for the Year was expected to be RMB390 million. The actual brokerage fees paid by the Company to ZSIB and its subsidiaries were approximately RMB140 million for the Year.

(iii) The Company and PICC AMC have entered into asset management agreements since 10 October 2003. With the experience and expertise in asset management and with better management capabilities and appropriate management fee rates, PICC AMC is principally engaged in the provision of asset management and asset management advisory services in the PRC and the Company considered it appropriate for the Company to enter into the asset management agreement with PICC AMC. On 20 June 2013, the Company and PICC AMC renewed the asset management agreement and entered into the asset management supplemental agreement both for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to such agreements, the Company would entrust PICC AMC to manage and invest assets of the Company from time to time and would pay management fees to PICC AMC for its services provided. When the investment performance reached the target and if the investment management and service capability appraisal satisfied the conditions as agreed under these agreements, the Company would pay PICC AMC an appropriate performance bonus. Under these agreements, the annual cap for the management fees and performance bonus (if any) paid by the Company to PICC AMC for the Year was expected to be RMB157 million. The actual management fees and performance bonus paid by the Company to PICC AMC were approximately RMB152 million for the Year.

On 19 December 2015, the Company and PICC AMC renewed the asset management agreement for a term of half year commencing from 1 January 2016 and expiring on 30 June 2016.

(iv) The Company has entered into the mutual agency agreements with PICC Life and PICC Health since 2006 and 2007, respectively. PICC Life and PICC Health have their own distribution channels and client bases, and the Company entered into the mutual agency agreements with PICC Life and with PICC Heath in order to expand the Company's distribution channels. On 30 August 2013, the Company renewed the mutual agency agreements with PICC Life and PICC Health, respectively, both for a term of three years commencing from 31 August 2013 and expiring on 30 August 2016. Pursuant to these agreements, the Company and PICC Life or PICC Health mutually act as an agency for selling insurance products and receiving premiums on behalf of each other and, depending on the business development, provide other business or services authorised in writing. One party to the agreement would pay agency commissions to the other party for the insurance products sold by such other party as agency. Under these agreements, the annual cap (on an aggregate basis) for the commissions paid by the Company to PICC Life and PICC Health for the Year was expected to be RMB190 million. As the annual commissions expected to be received by the Company from PICC Life and PICC Health for the Year, calculated separately or in aggregate, would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules, no annual cap was set. The actual commissions paid by the Company to PICC Life and PICC Health were approximately RMB109 million, and the actual commissions received by the Company from PICC Life and PICC Health were approximately RMB68 million for the Year.

(v) On 5 December 2013, the Company and PICC Life entered into the framework agreement on purchases of life insurance products for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to this agreement, the headquarters and each provincial branch of the Company might enter into purchase agreements with PICC Life and its branches for the purchases of group annuity insurance and other life insurance products. The Company purchased life insurance products for its employees in order to further improve the retirement pension protection system and realise long-term incentives. The agreement entered into by the Company with PICC Life did not affect the rights of the Company and each of its provincial branches to purchase life insurance products from other insurance companies at their discretion. Under this agreement, the annual cap for the premiums and management fees paid by the Company to PICC Life was expected to be RMB500 million for the Year. The actual premiums and management fees paid by the Company to PICC Life were approximately RMB49 million for the Year.

(vi) In line with the needs of the Company's business operations, the Company has since 2011 rented certain areas of the office building in South Information Center of PICC Group as its back up center, the south operation center of the Company's E-commerce Department and the 95518 Customer Service Center of Guangdong Provincial Branch, and accordingly the Company needs to rent server installation positions in the server building and the meeting rooms as well as use the WAN services provided by PICC Group in South Information Center.

On 5 December 2013, the Company entered into the South Information Center lease agreement with PICC Group for an effective term of one year commencing from 1 January 2013 and expiring on 31 December 2013. On expiry of the effective term of this agreement, if neither party to the agreement proposed by notice in writing to terminate the agreement, this agreement would be renewed for another year automatically, with the extended term not being longer than two years. This agreement was renewed for two years, with the actual effective term of this agreement reaching three years. Pursuant to this agreement, the Company rented workplaces, meeting rooms and server installation positions in South Information Center from PICC Group and paid rents.

On 23 December 2013, the Company entered into the WAN service agreement with PICC Group for an effective term of two years commencing from 1 January 2013 and expiring on 31 December 2014. On expiry of the effective term of this agreement, this agreement would be renewed for another year if the two parties approved in writing. This agreement was renewed for another year, with the actual effective term of this agreement reaching three years. Pursuant to this agreement, the Company used the WAN services in South Information Center provided by PICC Group, including the WAN equipment leasing, checkup and maintenance services as well as the WAN technical support services agreed by both parties, and paid WAN service fees to PICC Group.

Under the above lease agreement and the WAN service agreement, the annual cap for the rents and WAN service fees (on an aggregate basis) paid by the Company to PICC Group was expected to be RMB125 million for the Year. The actual rents and service fees paid by the Company under the lease agreement and the WAN service agreement totalled approximately RMB98 million for the Year.

On 1 January 2016, the Company and PICC Group entered into the Provision of Packaged Service in relation to the South Information Center Agreement for a term of two years commencing from 1 January 2016 and expiring on 31 December 2017, pursuant to which PICC Group continues to provide to the Company the leasing and WAN services in relation to the South Information Center.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions mentioned above and confirmed that:

1. the transactions were entered into in the ordinary and usual course of business;

2. the transactions were on normal commercial terms or better terms; and

3. the transactions were carried out in accordance with the terms of the agreements governing the transactions, the terms were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditor to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions Under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Other than the continuing connected transactions set out in items (iv) and (vi) above, the actual transaction amounts for the Year of which did not exceed the 0.1% threshold and therefore are exempt from being reviewed by the auditor with its conclusions, the auditor has issued its unqualified letter containing its conclusions in respect of the continuing connected transactions mentioned above in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the letter to the Hong Kong Stock Exchange. The auditor of the Company has reviewed the continuing connected transactions mentioned above (other than the exempted items (iv) and (vi) above) and confirmed to the Board of Directors that:

1. nothing has come to its attention that causes it to believe that the transactions have not been approved by the Company's Board of Directors;

2. for transactions involving the provision of goods or services by the Company and its subsidiaries, nothing has come to its attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the transactions, nothing has come to its attention that causes it to believe that the transactions exceeded the annual cap for the period from 1 January 2015 to 31 December 2015 disclosed in the announcements dated 20 June 2013, 5 December 2013, 26 November 2014 and 27 March 2015 made by the Company in respect of each of the transactions.

The Company complied with the requirements under Chapter 14A of the Listing Rules in the Year.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the Year. The composition and the role of the Audit Committee and a summary of its work performance during the Year are set out in the "Corporate Governance Report" section of this annual report.

AUDITORS

In accordance with the relevant requirements of the Ministry of Finance of the PRC in relation to the service term of an accounting firm continuously engaged by a financial enterprise, the service terms of the Company's former international auditor, Ernst & Young, and former domestic auditor, Ernst & Young Hua Ming LLP, reached the prescribed time limit. At the extraordinary general meeting of the Company held on 27 December 2013, Deloitte Touche Tohmatsu was appointed as the international auditor of the Company and Deloitte Touche Tohmatsu Certified Public Accountants LLP was appointed as the domestic auditor of the Company, and they were re-appointed in the following years. Ernst & Young and Ernst & Young Hua Ming LLP retired as auditors of the Company at the conclusion of the aforesaid extraordinary general meeting.

The service terms of Deloitte Touche Tohmatsu, the international auditor of the Company, and Deloitte Touche Tohmatsu Certified Public Accountants LLP, the domestic auditor of the Company, will end upon the conclusion of the forthcoming annual general meeting.

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
27 March 2016

Dear Shareholders,

In 2015, all members of the Supervisory Committee adhered firmly to the relevant provisions of the Company Law and the Articles of Association, exercised dedication and diligence, fully exercised their supervisory duties and functions, carried out their work in compliance with regulations, upheld the highly efficient operation of the Company's corporate governance and protected the interests of the shareholders, the Company and its employees.

Meetings of the Supervisory Committee

During the Year, the third session of the Supervisory Committee convened three meetings in March, April and June 2015, respectively, at which the resolutions, including the Auditor's Report and the Audited Financial Statements for 2014, the Profit Distribution Plan for 2014, the Report of the Supervisory Committee for 2014, the Corporate Governance Report for 2014 – the Supervisory Committee section, the Evaluation Report on Implementation of the Development Plan for 2014 and the Election of the Fourth Session of the Supervisory Committee, were considered and unanimously approved.

During the Year, the fourth session of the Supervisory Committee convened two meetings in June and August 2015, respectively, at which the resolutions, including the Election of the Chairman of the Fourth Session of the Supervisory Committee, the 2015 Interim Financial Statements and the 2015 Interim Profit Distribution Plan, were considered and unanimously approved.

Work of the Supervisory Committee

During the Year, a new session of the Supervisory Committee was elected. The fourth session of the Supervisory Committee consists of six Supervisors, namely Mr Wang Yueshu as the Chairman of the Supervisory Committee, Mr Li Zhuyong as a Supervisor, Mr Ding Ning Ning and Mr Lu Zhengfei as Independent Supervisors, and Ms Qu Yonghuan and Mr Shen Ruiguo as Employee Representative Supervisors. The number of the Supervisors and the percentages of the Independent Supervisors and Employee Representative Supervisors are in accordance with the relevant provisions of the Company Law and the Articles of Association.

During the Year, the Supervisory Committee attended the Company's 2014 annual general meeting and submitted the Report of the Supervisory Committee of the Company for 2014 to the annual general meeting, at which it was approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in paper, attended eight meetings of the Audit Committee and thirteen meetings of the Board of Directors, earnestly reviewed and studied the resolutions of the shareholders' general meeting and meetings of the Board of Directors, fully expressed its opinions and suggestions, and strengthened the supervision over significant issues of the Company. At the same time, the Supervisory Committee performed supervision over the legality of the substance and procedures of the meetings, further regulated the corporate governance structure of the Company through its participation, and supervised and urged the Company to run its business according to laws and regulations. The Employee Representative Supervisors fully expressed employees' intentions and requests in the supervision process, and earnestly protected employees' legal rights and interests.

During the Year, the Supervisory Committee carried out various forms of visits and inspections in accordance with the Company's actual situation. Through bespoke visits and inspections concerning the utilisation of the Company's funds, the Supervisory Committee strengthened the supervision over the utilisation of the Company's funds to prevent risks on funds utilisation. The Supervisors, to perform their responsibilities, went down to the branches at the basic level of the Company to conduct visits and inspections and obtained an understanding of the Company's business operation and development and the implementation of internal control policies and risk management and control at the basic level.

Independent Opinions Issued by the Supervisory Committee

The Supervisory Committee issues the following opinions in relation to the supervision and inspection work during the Year:

The compliant operation of the Company. The Directors and senior management of the Company performed their duties set forth in the Articles of Association in diligence and good faith, and diligently implemented all resolutions of the shareholders' general meeting and those of the Board. No Director or member of the senior management was found to have committed any breach of laws, regulations or the Articles of Association or to have infringed any rights or interests of the shareholders, the Company or its employees when performing their duties.

Authenticity of financial reports. The Company and its subsidiaries' reviewed financial statements for the interim period of 2015 and audited annual financial statements for the year of 2015 were prepared strictly in accordance with the relevant accounting standards. The financial statements have given a true and fair view of the financial position and operating results of the Company and its subsidiaries.

Related party transactions. The related party transactions of the Company were conducted on an arm's length basis, on normal commercial terms or better terms and in the interests of the Company's shareholders as a whole. There was no indication of any infringement of the interests of the independent minority shareholders or the Company.

In 2016, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, maintain and protect a highly efficient and healthy corporate governance operation and development for the Company, proactively take the initiative in exploration and innovation, constantly improve its performance capabilities, earnestly safeguard the interests of the shareholders, the Company and employees and diligently perform all its duties.

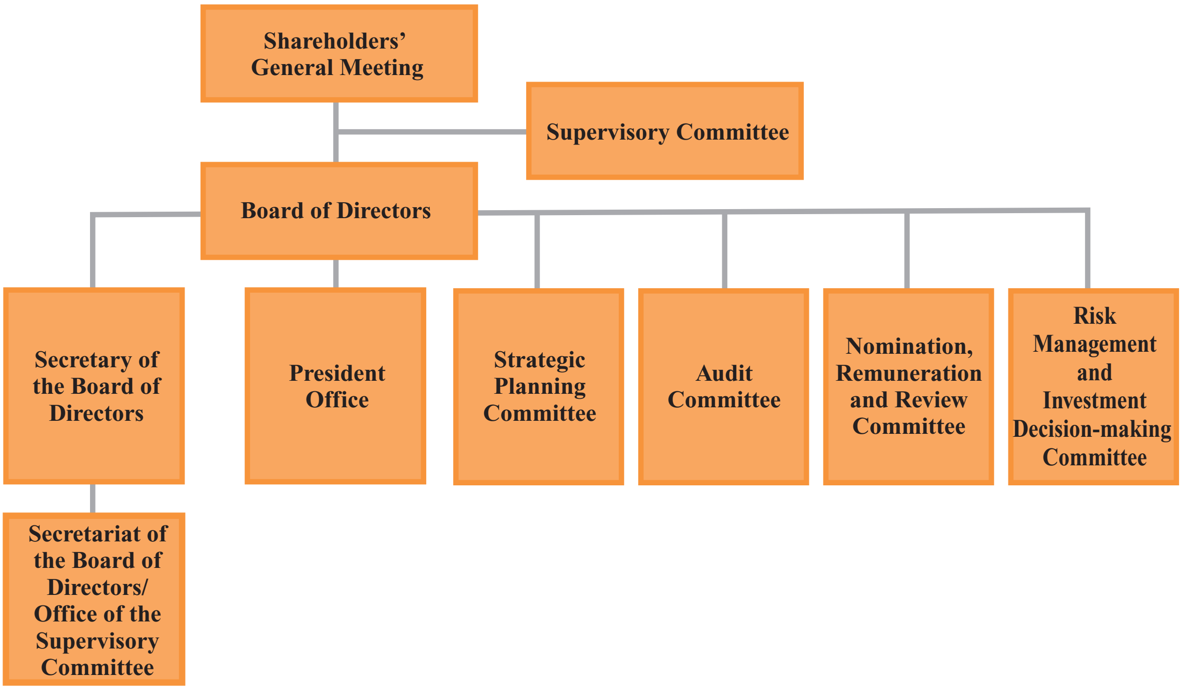
By Order of the Supervisory Committee
Wang Yueshu
Chairman of the Supervisory Committee

Beijing, the PRC
27 March 2016

OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. The Company has been continuously enhancing its corporate governance in accordance with the Company Law, the Listing Rules, the Guidelines and other relevant laws and regulations, and the Articles of Association.

In 2015, the Company continuously strengthened its internal control, supervision and risk management capabilities, refined its management system for related party transactions, and strengthened its compliance construction and management in accordance with the Insurance Law of the People's Republic of China, the Measures on the Administration of Information Disclosure of Insurance Companies, the Internal Audit Work Rules for Insurance Institutions and the Provisional Measures on the Administration of Related Party Transactions of Insurance Companies issued by the CIRC and the requirements under the applicable provisions of the Corporate Governance Code and the SFO.



Save for the deviation from code provision A.4.2 of the Corporate Governance Code, the Company complied with all the code provisions of the Corporate Governance Code during the Year.

OVERVIEW *(continued)*

According to the code provision A.4.2 of the Corporate Governance Code, each director shall be subject to retirement by rotation at least once every three years. The terms of the former Independent Non-executive Directors, Mr Luk Kin Yu, Peter and Mr Ding Ningning, should have expired on 28 April 2011 and 17 January 2012 respectively, and the terms of all the other Directors of the third session of the Board should have expired on 16 January 2014. However, in accordance with the requirements of the Company Law, where upon the expiry of the term of office of a director, a new director has not yet been elected or if the number of directors will fall below the minimum number due to the resignation of any director, the existing director shall continue to serve as a director until the newly elected director commences his/her term of office. Accordingly, Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors of the third session of the Board continued to serve as Directors until the appointment of the newly elected Directors. At the Annual General Meeting of the Company on 26 June 2015, the members of the fourth session of the Board were elected for a term of three years starting from 26 June 2015. As a result of Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors of the third session of the Board not having retired by rotation upon expiry of their terms of appointment, the Company failed to comply with the requirement of the code provision A.4.2 of the Corporate Governance Code during the period from 29 April 2011 to 25 June 2015.

According to the requirement under Rule 3.10A of the Listing Rules, the number of independent non-executive directors in the board of a listed issuer shall represent at least one-third of the members of the board of directors. During the Year, upon the resignation of Mr Luk Kin Yu, Peter as an Independent Non-executive Director on 12 January 2015, the Board of Directors comprised ten members, including three Executive Directors, four Non-executive Directors and three Independent Non-executive Directors, which was not in compliance with the requirement under Rule 3.10A of the Listing Rules. However, following the resignation of Mr Zhou Shurui as a Non-executive Director on 20 March 2015, the number of Independent Non-executive Directors represented one-third of the members of the Board and the Company re-complied with the requirement under Rule 3.10A of the Listing Rules. After the members of the fourth session of the Board were elected at the Annual General Meeting of the Company on 26 June 2015, the Board comprised thirteen members, including four Executive Directors, four Non-executive Directors and five Independent Non-executive Directors, and the Company was again in compliance with the requirement under Rule 3.10A of the Listing Rules. The subsequent resignations of Mr David Xianglin Li as a Non-executive Director on 2 November 2015 and Mr Liao Li as an Independent Non-executive Director on 16 December 2015 had not affected the compliance by the Company with Rule 3.10A of the Listing Rules. Currently, the Board comprises eleven members, of which four members are Independent Non-executive Directors, representing more than one-third of the members of the Board and is in compliance with Rule 3.10A of the Listing Rules.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened one shareholders' general meeting and submitted twenty-six proposals and reports to the shareholders' general meeting, held thirteen Board meetings, at which fifty-one proposals were considered and approved, formulated the Company's business development plan, financial plan, fixed assets investment plan, strategic allocations of and investment policies on entrusted assets, etc., conducted annual performance appraisals of the Directors and senior management, elected the new session of the Board, considered and approved the distribution of the final dividend for 2014, appointed the Executive Vice Presidents, re-appointed the auditors, etc., and enhanced the Company's internal control management, compliance management, and risk management and control, etc.

BOARD OF DIRECTORS *(continued)*

Overview *(continued)*

The Board meets regularly at least four times a year, and holds extraordinary meetings when necessary. Notices and materials for regular Board meetings are given to the Directors at least fourteen days and three days prior to the meetings, respectively. All Directors are entitled to propose resolutions to be included as part of the agenda of the Board meetings. Detailed minutes of each Board meeting are kept. Four Board committees are formed under the Board, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, and the Risk Management and Investment Decision-making Committee. The duties and responsibilities of and the operating procedures for each of the Board committees are clearly defined. The Board committees submit opinions and proposals to the Board on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the applicable principles and code provisions of the Corporate Governance Code, and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board continued to regulate its operations and enhanced its corporate governance.

Composition

During the Year, the Board comprised the following Directors:

Name	Position	Date of commencement of directorship	Term
Mr Wu Yan	Chairman, Executive Director	23 March 2007	From 26 June 2015 to 25 June 2018
Mr Guo Shengchen	Vice Chairman, Executive Director	17 January 2011	From 26 June 2015 to 25 June 2018
Mr Wang Yincheng	Non-executive Director	6 July 2003	From 26 June 2015 to 25 June 2018
Mr Zhou Shurui (Resigned) *(Note 1)*	Non-executive Director	6 July 2003	From 17 January 2011 to 16 January 2014 (Resigned on 20 March 2015)
Ms Yu Xiaoping	Non-executive Director	17 January 2011	From 26 June 2015 to 25 June 2018
Mr Li Tao	Non-executive Director	18 October 2006	From 26 June 2015 to 25 June 2018
Mr David Xianglin Li (Resigned) *(Note 2)*	Non-executive Director	26 June 2015	From 26 June 2015 to 1 November 2015 (Resigned on 2 November 2015)
Mr Wang He	Executive Director	17 January 2011	From 26 June 2015 to 25 June 2018

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Name	Position	Date of commencement of directorship	Term
Mr Lin Zhiyong	Executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Luk Kin Yu, Peter (Resigned) *(Note 1)*	Independent Non-executive Director	29 April 2005	From 29 April 2008 to 28 April 2011 (Resigned on 12 January 2015)
Mr Ding Ningning (Retired) *(Note 1)*	Independent Non-executive Director	18 January 2006	From 18 January 2009 to 17 January 2012 (Retired on 26 June 2015)
Mr Liao Li (Resigned) *(Note 3)*	Independent Non-executive Director	17 January 2011	From 26 June 2015 to 15 December 2015 (Resigned on 16 December 2015)
Mr Lin Hanchuan	Independent Non-executive Director	25 March 2013	From 26 June 2015 to 25 June 2018
Mr Lo Chung Hing	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Na Guoyi	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Ma Yusheng	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018

Notes:

1. The terms of directorship of Mr Luk Kin Yu, Peter and Mr Ding Ningning should have expired on 28 April 2011 and 17 January 2012 respectively, and the terms of all the other Directors of the third session of the Board should have expired on 16 January 2014. In accordance with the requirements of the Company Law, Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors of the third session of the Board continued to serve as Directors until the appointment of the newly elected Directors. At the Annual General Meeting of the Company on 26 June 2015, the Directors of the fourth session of the Board were elected, whose terms of office are three years commencing on the date of the meeting. On the same day, Mr Ding Ningning retired as an Independent Non-executive Director and was appointed as an Independent Supervisor of the fourth session of the Supervisory Committee. Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015 and Mr Zhou Shurui resigned as a Non-executive Director on 20 March 2015.

2. Mr David Xianglin Li resigned as a Non-executive Director on 2 November 2015.

3. Mr Liao Li resigned as an Independent Non-executive Director on 16 December 2015.

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Changes in the Board members during the period from 1 January 2015 to the date of this report are as follows:

Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director due to his other work arrangements, with effect from 12 January 2015.

Mr Zhou Shurui resigned as a Non-executive Director due to retirement, with effect from 20 March 2015.

At the Annual General Meeting of the Company on 26 June 2015, Mr Wu Yan, Mr Guo Shengchen and Mr Wang He were re-elected as Executive Directors, Mr Lin Zhiyong was appointed as an Executive Director, Mr Wang Yincheng, Ms Yu Xiaoping and Mr Li Tao were re-elected as Non-executive Directors, Mr David Xianglin Li was appointed as a Non-executive Director, Mr Liao Li and Mr Lin Hanchuan were re-elected as Independent Non-executive Directors, Mr Lo Chung Hing, Mr Na Guoyi and Mr Ma Yusheng were appointed as Independent Non-executive Directors, whose terms of office are three years commencing on the date of the Annual General Meeting. On the same day, the Board re-elected Mr Wu Yan as the Chairman and Mr Guo Shengchen as the Vice Chairman of the Board. Mr Ding Ningning retired as an Independent Non-executive Director and was appointed as an Independent Supervisor of the fourth session of the Supervisory Committee on the same day.

Mr David Xianglin Li resigned as a Non-executive Director due to his other work arrangements, with effect from 2 November 2015.

Mr Liao Li resigned as an Independent Non-executive Director due to his other work arrangements, with effect from 16 December 2015.

Duties and Responsibilities

The Board is responsible for providing leadership for monitoring and controlling the operation of the Company, formulating the overall strategies, policies, financial budgets and final accounts, determining the annual operation plans and investment plans, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board is also responsible for convening shareholders' general meetings and implementing resolutions of the shareholders' general meetings; formulating plans for distribution of profits and recovery of losses, formulating proposals for the increase in or reduction of the registered capital, drawing up plans for the issuance of corporate bonds, formulating proposals for any amendments to the Articles of Association, drawing up plans for merger, division, change of form or dissolution of the Company; appointing or removing the president, vice presidents, secretary of the Board, responsible compliance officer, responsible financial officer, responsible auditing officer and assistants to the president and determining their remuneration, rewards and disciplinary matters, etc.; electing members of the committees under the Board; and approving the Company's investment in other enterprises or the provision of guarantees to persons other than the shareholders or actual controllers of the Company. The Board is ultimately responsible for the internal control, risk management and compliance management of the Company.

The Board delegates the daily business operations and management of the Company to the management. However, the statutory functions and powers of the Board, in principle, shall not be delegated to the Chairman of the Board, any individual Director or any other individual or organisation. If delegation of certain decisions is required, such authorisation shall be made by way of a resolution of the Board in accordance with law. Delegation shall be granted on a case by case basis, and in no event shall the functions and powers of the Board be generally or permanently delegated to any other organisation or individual.

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken

During the Year, the Board convened one shareholders' general meeting and submitted twenty-six proposals and reports to the shareholders' general meeting. Thirteen Board meetings were convened, at which fifty-one proposals were considered and approved. The attendance record of the Directors at the meetings is as follows:

	Board Meeting		Shareholders' General Meeting	
Name	Number of meetings attended/Number of meetings that require attendance	Attendance rate	Number of meetings attended/Number of meetings held	Attendance rate
Wu Yan	12/13	92%	1/1	100%
Guo Shengchen	13/13	100%	1/1	100%
Wang Yincheng	9/13	69%	0/1	0%
Zhou Shurui	1/1	100%	–	–
Yu Xiaoping	12/13	92%	1/1	100%
Li Tao	11/13	85%	0/1	0%
David Xianglin Li	5/5	100%	–	–
Wang He	12/13	92%	1/1	100%
Lin Zhiyong	8/8	100%	–	–
Luk Kin Yu, Peter	0/0	–	–	–
Ding Ningning	5/5	100%	1/1	100%
Liao Li	10/12	83%	0/1	0%
Lin Hanchuan	12/13	92%	1/1	100%
Lo Chung Hing	8/8	100%	–	–
Na Guoyi	8/8	100%	–	–
Ma Yusheng	7/8	88%	–	–

Notes:

1. During the Year, a new session of the Board was elected and certain Directors resigned or retired. The table above lists the numbers of Board meetings and shareholders' general meeting held and attended by each Director during his/her respective term of office.

2. During the Year, each of Mr Wu Yan, Ms Yu Xiaoping, Mr Wang He and Mr Lin Hanchuan attended twelve Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his/her behalf; Mr Wang Yincheng attended nine Board meetings in person and four Board meetings by appointing another Director as proxy to attend on his behalf; Mr Li Tao attended eleven Board meetings in person and two Board meetings by appointing another Director as proxy to attend on his behalf; Mr Liao Li attended ten Board meetings in person and two Board meetings by appointing another Director as proxy to attend on his behalf; and Mr Ma Yusheng attended seven Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his behalf.

The major work accomplished by the Board in the Year included:

- convened one shareholders' general meeting and submitted twenty-six proposals and reports to the shareholders' general meeting, including nominating the candidates to be appointed to the fourth session of the Board and the fourth session of the Supervisory Committee, and presenting the Report of the Board of Directors for 2014, the Auditor's Report and the audited financial statements for 2014, the profit distribution plan for 2014 and the re-appointment of the auditors, etc., all of which were approved at the shareholders' general meeting;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- elected the Chairman and Vice Chairman of the fourth session of the Board, and appointed the Chairmen and members of each of the committees under the fourth session of the Board;

- considered and approved the appointment of each of Mr Hua Shan and Mr Gu Wei as Executive Vice President;

- considered and approved the business development plan, financial plan, fixed assets investment plan, and strategic allocations of and investment policies on entrusted assets of the Company for the Year;

- considered and approved the total amount of remuneration payable by the Company for the Year, conducted annual performance appraisals of the senior management, including the Chairman, the Directors and the President, etc.;

- considered and approved the Company's Internal Control Assessment Report for 2014, Risk Assessment Report for 2014 and Compliance Assessment Report for 2014, considered the Report on Progress of Improvement Based on the Management Recommendation Letter of the Previous Year, reviewed and continuously enhanced the effectiveness of the Company's internal control;

- considered and approved the Solvency Report for 2014, the Information Disclosure Report for 2014, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2014, the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2014 and the Evaluation Report on Implementation of the Development Plan for 2014 of the Company;

- considered and approved the 2015 interim results;

- considered and approved several equity investment plans of the Company, including the Company's acquisition of approximately 19.99% of the issued shares of Hua Xia Bank Co., Limited; and

- considered and approved the establishment of the Social and Medical Insurance Service Center by the Company.

DIRECTORS

Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants and through the consistent adoption of appropriate accounting policies and, subject to compliance with the Hong Kong Financial Reporting Standards, the implementation of the regulations on accounting treatment issued by the Ministry of Finance of the PRC and the CIRC. The Directors are not aware of any event or condition which may cause material adverse impact on the Company's ability to continue as a going concern.

DIRECTORS *(continued)*

Securities Transactions

The Company has formulated the Guidelines on Transactions of the Company's Securities by the Employees (the "Securities Transactions Guidelines") that are applicable to Directors, Supervisors and all employees. The terms of the Securities Transactions Guidelines are no less exacting than those set out in the Model Code. The Company enquired with all the Directors and Supervisors and they all confirmed that they complied with the requirements under the Model Code and the Securities Transactions Guidelines during the Year.

Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors confirming their independence. As at the date of this report, the Company is of the view that all the Independent Non-executive Directors are independent.

Directors' Continuous Professional Development

Based on the experience and background of each of the newly appointed Directors, the Company arranges induction training sessions to help them to have a better understanding of the Company. The induction training sessions usually cover a brief introduction to the Company, the organisational structure, business operation and management and governance practices of the Company, etc. It also includes meetings and exchanges with the Company's senior management personnel and visits and inspections of certain branches of the Company. Each newly appointed Director would receive, when joining the Board, a copy of the Directorship Guidelines which contains a brief introduction to the Company, its corporate governance, Directors' rights, obligations and duties, relevant laws, regulations and rules, internal rules of the Company, etc. The Directorship Guidelines is updated on a regular basis.

During the Year, the Directors regularly received documents, materials and information on the business and operating status of the Company, relevant laws and regulations, and regulatory and governance matters. In addition, the Company encouraged all Directors to attend related trainings, the costs of which were borne by the Company.

During the Year, all Directors earnestly participated in continuous professional development. All Directors received trainings or conducted research in areas of corporate governance, corporate finance, information disclosure, related party transactions, directors' continuous responsibilities and obligations, relevant laws and regulations, professional knowledge related to the business, professional norms, etc., which continuously enhanced their related knowledge and skills, and they proactively put forward various timely and appropriate advice and suggestions on the Company's management and development.

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

Guo Shengchen: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations, and regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., and took part in various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, interpretation on the macroeconomic trend in the PRC, etc.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Wang Yincheng: attended various trainings and meetings organised by PICC Group and various trainings sessions of the Shared Classroom of the President Office of the Company on topics of the latest development of finance theories and insurance laws, actuary of non-life insurance, budget management, application of information technology in company operation and management, social security, social management, impacts of modern urbanisation on future development of the Company, etc.

Yu Xiaoping: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc., and attended the Special Seminar on Deepening Reform and Opening-up organised by the Organisation Department of the CPC Central Committee for cadres at the provincial and ministerial levels of China Executive Leadership Academy. Pudong.

Li Tao: attended various trainings and meetings organised by the Party School of the Central Committee of C.P.C. and PICC Group and gained a deeper understanding of applicable domestic and foreign laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Wang He: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations, and regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., and took part in various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, interpretation on the macroeconomic trend in the PRC, etc.

Lin Zhiyong: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations, and regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., and took part in various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, interpretation on the macroeconomic trend in the PRC, etc.

Lin Hanchuan: paid continuous attention to and conducted research on the issues of enterprise transformation and upgrading, hosted and participated in several national significant and key projects relating to enterprise transformation and upgrading, and gave lessons relating to enterprise transformation to PhD students of business schools of universities and EMBA programs.

Lo Chung Hing: paid continuous attention to and conducted research on corporate finance and corporate governance, and attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS.

Na Guoyi: paid continuous attention to and conducted research on the global trends of enterprise innovations and reforms, acted as a principal and took part in a number of projects on enterprise innovation and reform, attended the world class management forums and engaged in academic exchanges with foreign management experts, gave management lessons to domestic and foreign entrepreneurs and executive officers, and attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Ma Yusheng: organised and attended the holding of financial forums and the implementation of management-related courses, paid continuous attention to areas relating to organisation efficiency and human resource development, and attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS.

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan was the Chairman of the Board and Mr Guo Shengchen was the President. The Chairman is responsible for leading the Board and ensuring that the Board operates effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, the annual operation plans and investment plans, formulating proposals for organisational structure for internal management and the basic management system, and making proposals to the Board for the appointment or removal of the other senior management, etc. Details of the duties and responsibilities of the Chairman have been set out on page 36 of the Company's 2005 Annual Report. Details of the duties and responsibilities of the President have been set out on pages 52 and 53 of the Company's 2013 Annual Report.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee continued to fulfill earnestly its duties of supervising and providing guidance on internal and external audits, reviewing financial reports, supervising financial reporting procedures, strengthening internal control and management, etc., and put forward a number of opinions and suggestions to the Board and the management on financial affairs, internal control and business operation and management, thereby playing a positive role in further improving the management of the Company and enhancing the level of the Company's corporate governance.

Composition

During the Year, the Audit Committee comprised:

Chairman:	Liao Li (the third session and the fourth session, Independent Non-executive Director, resigned), Lin Hanchuan (the fourth session, Independent Non-executive Director)
Members of the third session:	Luk Kin Yu, Peter (Independent Non-executive Director, resigned), Ding Ningning (Independent Non-executive Director, retired), Lin Hanchuan (Independent Non-executive Director), Li Tao (Non-executive Director)
Members of the fourth session:	Lin Hanchuan (Independent Non-executive Director), Lo Chung Hing (Independent Non-executive Director), Li Tao (Non-executive Director)

AUDIT COMMITTEE *(continued)*

Composition *(continued)*

Notes:

1. The term of office of the third session of the Audit Committee for the Year started on 1 January 2015 and expired on 25 June 2015. The Board approved the composition of the fourth session of the Audit Committee on 26 June 2015, whose term of office started on the same day.

2. Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015 and ceased to act as a member of the Audit Committee simultaneously.

3. Mr Ding Ningning retired as an Independent Non-executive Director on 26 June 2015 and ceased to act as a member of the Audit Committee simultaneously.

4. Mr Liao Li resigned as an Independent Non-executive Director on 16 December 2015 and ceased to act as Chairman of the Audit Committee simultaneously. Mr Lin Hanchuan was approved by the Board on 28 December 2015 to act as Chairman of the Audit Committee.

Duties and Responsibilities

The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, reviewing the financial information of the Company, considering the appointment of auditors and their remuneration, monitoring and providing guidance on internal and external audits of the Company, etc. Details of the duties and responsibilities have been set out on pages 51 and 52 of the Company's 2012 Annual Report. The Company made relevant amendments to the scope of work of the Audit Committee based mainly on the revisions to the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules which came into effect on 1 January 2016, and the amended scope has been uploaded on the websites of the Hong Kong Stock Exchange and the Company on 28 March 2016.

Remuneration of Auditors

In the Year, the Company should pay RMB13.55 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2015 and the review of the interim financial statements for 2015. In the Year, the Company should pay approximately RMB400,000 to the auditors for non-audit services, which was remuneration for translation and review services relating to the 2015 annual and 2015 interim filing materials to Kanto Local Finance Bureau of Japan. Taking into account the respective functions and responsibilities of the Company and the auditors in the implementation and provision of such services, the Company is of the view that such non-audit services have not affected the independence and objectivity of the auditors.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Audit Committee held eight meetings and considered twenty-nine proposals. The attendance record of committee members at the meetings is as follows:

Name	Liao Li	Luk Kin Yu, Peter	Ding Ningning	Lin Hanchuan	Lo Chung Hing	Li Tao
Number of meetings attended/Number of meetings that require attendance	7/7	0/0	3/3	8/8	5/5	8/8
Attendance rate	100%	–	100%	100%	100%	100%

Note: During the Year, a new session of the Audit Committee was elected, and certain Directors retired or resigned and ceased to act as Chairman/ a member simultaneously. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Audit Committee in the Year included:

Engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit for 2014 and on the interim review work for 2015, discussed with the auditors about the growth of the Company's underwriting business and diversification of sales channels and other major matters, and suggested the auditors to compare and analyse the Company's operation with those of its industry peers; and

- considered the proposal for the engagement of auditors for 2015, and obtained approvals from the Board and the shareholders' general meeting for the proposal.

Reviewing the financial reports, etc.:

- reviewed the financial statements and results announcement for 2014, the Information Disclosure Report for 2014, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2014, the Solvency Report for 2014, the C-ROSS Stress Test Report for 2014, the Solvency Report for the second quarter of 2015 (C-ROSS) and the financial statements and results announcement for the interim period of 2015, discussed with the management on issues relating to, among other things, upgrading and improvement in the premiums receivable and reinsurance system of the Company, and advised the management to pay more attention to the risks of investment business.

Monitoring and inspecting the financial reporting procedures and the internal control system:

- considered and approved the Company's Internal Control Assessment Report for 2014, the Compliance Assessment Reports for 2014 and for the interim period of 2015, and made suggestions to the management to pay timely attention to the compliance risks arising from the business sourced from new channels;

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- considered and approved the Report on Progress of Improvement Based on the Management Recommendation Letter for 2013, considered the Management Recommendation Letter for 2014, acknowledged the improvement work made by the management on the management recommendations and made further requests for follow-up improvement;

- supervised and provided guidance on the internal audit and financial accounting work, considered the report of the Auditing Department and the Responsible Auditing Officer and the report of the Finance and Accounting Department of the Company on their work summaries for 2014 and the work plans for 2015, respectively;

- considered the report on the audit results of administration of related party transactions, considered and approved the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2014;

- considered the proposal for amendment to the "Measures on Implementation of Multi-dimensional Accounting of PICC Property and Casualty Company Limited"; and

- considered and approved four proposals for related party transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, a new session of the Nomination, Remuneration and Review Committee was elected. The Nomination, Remuneration and Review Committee considered the structure and composition of the Board, nominated candidates for Executive Vice Presidents to the Board, conducted annual appraisals of the Chairman, the Directors, the President and other senior management, and made constructive suggestions to the Board on issues relating to remuneration and annuity of the Company.

Composition

During the Year, the Nomination, Remuneration and Review Committee comprised:

Chairman:	Ding Ningning (the third session, Independent Non-executive Director), Ma Yusheng (the fourth session, Independent Non-executive Director)
Members of the third session:	Guo Shengchen (Executive Director), Luk Kin Yu, Peter (Independent Non-executive Director, resigned), Liao Li (Independent Non-executive Director), Lin Hanchuan (Independent Non-executive Director)
Members of the fourth session:	Guo Shengchen (Executive Director), Liao Li (Independent Non-executive Director, resigned), Lin Hanchuan (Independent Non-executive Director)

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Composition *(continued)*

Notes:

1. The term of office of the third session of the Nomination, Remuneration and Review Committee for the Year started on 1 January 2015 and expired on 25 June 2015. The Board approved the composition of the fourth session of the Nomination, Remuneration and Review Committee on 26 June 2015, whose term of office started on the same day.

2. Mr Luk Kin Yu, Peter and Mr Liao Li resigned as Independent Non-executive Directors on 12 January 2015 and 16 December 2015 respectively, and ceased to act as members of the Nomination, Remuneration and Review Committee simultaneously.

3. Mr Ding Ningning retired as an Independent Non-executive Director on 26 June 2015 and ceased to act as the Chairman of the Nomination, Remuneration and Review Committee simultaneously.

Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for assessing the structure and composition of the Board on a regular basis, recommending candidates for director, formulating remuneration policies and structures, formulating appraisal standards and conducting annual appraisals of directors, the president and other senior management, making recommendations in respect of the remuneration packages for the directors and senior management to the Board, etc. Details of the duties and responsibilities have been set out on pages 56 and 57 of the Company's 2013 Annual Report.

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates for new directors, examine the qualifications of these candidates, and then recommend such candidates to the Board. The Board shall determine whether such candidates should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board include the candidates' educational backgrounds, management and research experience in the financial industry, especially in the insurance sector, their commitment to the Company and should also achieve diversity of the Board members. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates. To achieve diversity of the Board members, the Nomination, Remuneration and Review Committee will consider a candidate for director on a merit basis following objective standards, take into account factors such as gender, age, cultural and educational backgrounds and professional experience of the Board members, and select candidates for directors in accordance with the business characteristics, specific requirements and future development of the Company. While performing its responsibilities, the committee may seek advice from independent professional advisers at the Company's expenses, when necessary.

Remuneration of Directors and Other Senior Management

The fixed salaries of the executive directors and other senior management are determined in accordance with the market levels and their respective positions and duties. Their performance-related bonuses are subject to various considerations, including the operating results of the Company and the scores in their performance appraisals. Directors' fees and Supervisors' fees are determined with reference to the market levels and the actual circumstances of the Company.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Remuneration Policy of the Company

The remuneration policy of the Company follows the guiding principle of "distribution according to work accomplished, performance-linked, gross controlled, and market-oriented" and implements a job sequence-based, market-oriented and performance-based remuneration incentive system. Based on job sequence, the remuneration will be paid based on the value of the job as well as performance contribution to ensure a fair and reasonable distribution. Through market-orientation, emphasis is placed on determining remuneration according to the market labour price to ensure the external competitiveness of the remuneration package; and by basing on performance, bonuses are linked with and inter-related to business performance, highlighting contribution to business. The Company also implements a welfare plan in accordance with relevant laws and regulations and operating results to provide reasonable protection for the employees.

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held five meetings, at which eight proposals were considered, with one meeting held to discuss remuneration-related matters. The attendance record of committee members at the meetings is as follows:

Name	Ding Ningning	Ma Yusheng	Guo Shengchen	Luk Kin Yu, Peter	Liao Li	Lin Hanchuan
Number of meetings attended/Number of meetings that require attendance	3/3	2/2	5/5	0/0	5/5	5/5
Attendance rate	100%	100%	100%	–	100%	100%

Note: During the Year, a new session of the Nomination, Remuneration and Review Committee was elected, and certain Directors retired or resigned and ceased to act as Chairman/a member simultaneously. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Nomination, Remuneration and Review Committee in the Year included:

- considered the structure, number of members and composition of the Board based on the list of candidates nominated by PICC Group for the fourth session of the Board;
- nominated each of Mr Hua Shan and Mr Gu Wei as a candidate for Executive Vice President, which were approved by the Board;
- taking into consideration the market salary levels of comparable companies and the Company's own circumstances, made recommendations to the Board in respect of the fees for the Directors and Supervisors for 2015, and such recommendations were approved by the Board and at the shareholders' general meeting;

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- considered the performance appraisal plan for the senior management for 2014 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the Chairman, the Directors, the President and the Vice Presidents, the Secretary of the Board, the Chief Accountant, the Chief Claims Assessor and the Chief Risk Officer with performance appraisal scores; and made recommendations for bonus coefficients for the Chairman and the President, which were approved by the Board; and

- considered the Remuneration Management Report for 2014.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, a new session of the Strategic Planning Committee was elected. The Strategic Planning Committee considered the annual business development plan, major investment plans, financial plans, operating results and profit distributions, and continued to supervise the corporate governance of the Company.

Composition

During the Year, the Strategic Planning Committee comprised:

Chairman:	Wu Yan (the third session and the fourth session, Executive Director)
Members of the third session:	Wang Yincheng (Non-executive Director), Li Tao (Non-executive Director), Ding Ningning (Independent Non-executive Director)
Members of the fourth session:	Wang Yincheng (Non-executive Director), Guo Shengchen (Executive Director), Li Tao (Non-executive Director), David Xianglin Li (Non-executive Director, resigned), Na Guoyi (Independent Non-executive Director), Wang He (Executive Director), Lin Zhiyong (Executive Director)

Notes:

1. The term of office of the third session of the Strategic Planning Committee for the Year started on 1 January 2015 and expired on 25 June 2015. The Board approved the composition of the fourth session of the Strategic Planning Committee on 26 June 2015, whose term of office started on the same day.

2. Mr David Xianglin Li resigned as a Non-executive Director on 2 November 2015 and ceased to act as a member of the Strategic Planning Committee simultaneously.

STRATEGIC PLANNING COMMITTEE *(continued)*

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long-term development strategies, considering business plans, major investments, financing plans, annual financial budgets and final accounts, profit distribution plans and loss recovery plans, plans for the disposal of material assets, plans for the issuance of shares and bonds, plans for material modification to the organisational structure of the Company and proposals for amendments to the Articles of Association, and formulating and reviewing corporate governance policies and practices of the Company, etc. Details of the duties and responsibilities have been set out on pages 58 and 59 of the Company's 2012 Annual Report.

Summary of Work Undertaken

During the Year, the Strategic Planning Committee held eight meetings and considered fifteen proposals. The attendance record of committee members at the meetings is as follows:

Name	Wu Yan	Wang Yincheng	Guo Shengchen	Li Tao	Ding Ningning	David Xianglin Li	Na Guoyi	Wang He	Lin Zhiyong
Number of meetings attended/Number of meetings that require attendance	8/8	8/8	6/6	8/8	2/2	4/4	6/6	6/6	6/6
Attendance rate	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: During the Year, a new session of the Strategic Planning Committee was elected, and certain Directors retired or resigned and ceased to act as members simultaneously. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Strategic Planning Committee in the Year included:

- considered and approved the commencement of projects on equity investment by the Company;
- considered and approved the business development plan and fixed assets investment plan for the Year and the Evaluation Report on Implementation of the Development Plan for 2014;
- considered and approved the financial plan for the Year;
- considered and approved the profit distribution plans for 2014 and the first half of 2015;
- considered and approved the establishment of the Social and Medical Insurance Service Center by the Company;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and supervised the regular update of the Company's Normative Manual on Rights and Duties; and
- considered the Company's compliance with the Corporate Governance Code and the disclosure set out in the Corporate Governance Report.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

Overview

During the Year, a new session of the Risk Management and Investment Decision-making Committee was elected. The Risk Management and Investment Decision-making Committee continued to supervise the operation of the risk management system of the Company, and considered the risk assessment report and various investment plans of the Company.

Composition

During the Year, the Risk Management and Investment Decision-making Committee comprised:

Chairman:	Wu Yan (the third session and the fourth session, Executive Director)
Members of the third session:	Wang Yincheng (Non-executive Director), Zhou Shurui (Non-executive Director, resigned), Yu Xiaoping (Non-executive Director), Wang He (Executive Director)
Members of the fourth session:	Wang Yincheng (Non-executive Director), Yu Xiaoping (Non-executive Director), Wang He (Executive Director), Lin Zhiyong (Executive Director)

Notes:

1. The term of office of the third session of the Risk Management and Investment Decision-making Committee for the Year started on 1 January 2015 and expired on 25 June 2015. The Board approved the composition of the fourth session of the Risk Management and Investment Decision-making Committee on 26 June 2015, whose term of office started on the same day.

2. Mr Zhou Shurui resigned as a Non-executive Director on 20 March 2015 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for considering the Company's overall goals, basic policies and working system regarding risk management, the organisational structure for risk management and the related duties and responsibilities, the report on the risk assessment of major decisions, solutions to material risk and the annual risk assessment reports, monitoring the effectiveness of the operation of the risk management system, considering the management system for the use of insurance funds, the rules and regulations and decision-making process in respect of the operations of using insurance funds, formulating the annual strategic allocation plans for and investment policies on assets, etc. Details of the duties and responsibilities have been set out on page 45 of the Company's 2007 Annual Report. The Company made relevant amendments to the scope of work of the Risk Management and Investment Decision-making Committee based mainly on the revisions to the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules which came into effect on 1 January 2016, and the amended scope has been uploaded on the websites of the Hong Kong Stock Exchange and the Company on 28 March 2016.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Risk Management and Investment Decision-making Committee held four meetings and considered seven proposals. The attendance record of committee members at the meetings is as follows:

Name	Wu Yan	Wang Yincheng	Zhou Shurui	Yu Xiaoping	Wang He	Lin Zhiyong
Number of meetings attended/Number of meetings that require attendance	4/4	4/4	1/1	4/4	4/4	2/2
Attendance rate	100%	100%	100%	100%	100%	100%

Note: During the Year, a new session of the Risk Management and Investment Decision-making Committee was elected, and a Director resigned and ceased to act as a member simultaneously. The table above lists the numbers of meetings held and attended by each member during his/her term of office.

The major work accomplished by the Risk Management and Investment Decision-making Committee in the Year included:

- considered and approved the Risk Assessment Report for 2014;
- considered and approved the strategic allocations of and investment policies on entrusted assets of the Company for the Year; and
- considered and approved the Company's acquisition of approximately 19.99% of the issued shares of Hua Xia Bank Co., Limited.

INTERNAL CONTROL

The Company believes that sound internal control plays an important role in the operation of the Company. The Board is ultimately responsible for the internal control, risk management and compliance management of the Company and always committed to establishing a steady, sound and effective internal control system. The Audit Committee under the Board is responsible for reviewing the material internal control system of the Company, monitoring the implementation of the internal control, and considering the annual internal control assessment reports and annual compliance assessment reports. The Risk Management and Investment Decision-making Committee under the Board is responsible for considering the basic system of risk management of the Company and the annual risk assessment reports, and monitoring the effectiveness of the operation of the risk management system. The President Office and the Risk Management Committee under the President Office are responsible for guiding, coordinating and supervising the overall risk management work of the Company, and considering and assessing material issues in relation to operation risks of the Company. The functional departments bear primary responsibilities for the internal control system. The internal control, compliance and risk management department is responsible for the coordination and planning of internal control, compliance and risk management before and during implementation, while the monitoring and auditing department is responsible for the supervision over internal control, compliance and risk management after implementation and for imposing penalties against any breach of the provisions thereof.

INTERNAL CONTROL *(continued)*

In 2015, the Company cooperated proactively with the inspection activities conducted by external authorities, carried out various kinds of risk inspections, improved the risk management and control capabilities, innovated new monitoring and control methods and continued to optimise the internal control mechanisms and procedures, thereby constantly enhancing the support and safeguarding function of internal control. **Firstly, the Company diligently cooperated with the monitoring and inspection activities conducted by external authorities.** The Company proactively implemented the specialised inspection campaign of "Two Strengthenings and Two Restraints" and cooperated with the auditing carried out by the National Audit Office of the PRC. By making use of the opportunity occasioned by the external inspections, the Company acted proactively to strengthen the risk prevention in such areas as policy-supported businesses, intermediary sales, claim settlement management and expense disbursement. **Secondly, the Company strengthened its risk inspection and supervisory inspection.** The Company established a regular inspection mechanism and performed a comprehensive inspection on compliance of provincial-level branches on a regular basis. In the areas of policy-supported businesses, intermediary businesses, claim settlement, truthfulness of financial data and anti-money laundering, the Company carried out the inspection of various risks, and through the data monitoring measures, performed statistical analysis of risk on a regular basis, summarised the characteristics of the risks associated with various businesses in a timely manner and recommended improvement measures to various functional departments of the head office and the business operating units. The Company enhanced the auditing of senior management and economic liability, reinforced the monitoring of the duty performance, conducted special auditing of agriculture insurance, critical illness insurance and commission charges enforcement, strengthened the verification and supervision over the processing of cases involving breaches of laws and rules and the handling of complaint letters and visits, and strengthened the collective accountability system and the pursuit of the liability for the cases. The Company revised and improved the decision making system of "Three Material Events and One Significant Matter" (namely material decision making, material appointment and dismissal of cadres, material project arrangement and utilisation of significant amount of funds) and performed a special inspection of the implementation performance of the "Three Material Events and One Significant Matter" decision making system. **Thirdly, the Company continuously enhanced its risk management and control capabilities.** The Company established and issued risk preference framework and deeply promoted the construction of risk preference system. The Company continuously developed risk monitoring and warning in the key fields and key segments and strengthened the special assessment on major risk events. The Company pushed forward in all aspects the implementation of C-ROSS and took initiative to improve the risk control according to the regulatory requirements. The Company established and optimised a series of risk management systems and made further improvement in risk management mechanism and systems. **Fourthly, the Company actively innovated new monitoring and control methods.** The Company strengthened the construction of audit information platform and made progress in the electronisation of audit management. The Company formulated relevant guidelines on off-site audit and risk data to promote a wide application of off-site audit. Also, the Company conducted internal risk assessment on money laundering, defined the business fields with medium and high risks, optimised the control and management over the information system for anti-money laundering and combating terrorist financing, and put forward the functional improvement and upgrading of business system to practically enhance the effectiveness of anti-money laundering work. Meanwhile, the Company had preliminarily established the risk event database to enhance its ability in identifying operation related risks.

With a view to reviewing and continuously enhancing the effectiveness of the internal control systems of the Company and its subsidiaries, the Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2015, and the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2015.

SUPERVISORY COMMITTEE

Overview

During the Year, the Supervisory Committee discharged its supervisory duties in accordance with the laws, strengthened the supervision over meetings, conducted visits and inspections and enriched measures of supervision to ensure effective corporate governance.

Composition

During the Year, the Supervisory Committee comprised:

Chairman:	Wang Yueshu (the third session and the fourth session)
Supervisors of the third session:	Sheng Hetai (Supervisor), Lu Zhengfei (Independent Supervisor), Qu Yonghuan (Employee Representative Supervisor), Shen Ruiguo (Employee Representative Supervisor)
Supervisors of the fourth session:	Li Zhuyong (Supervisor), Ding Ningning (Independent Supervisor), Lu Zhengfei (Independent Supervisor), Qu Yonghuan (Employee Representative Supervisor), Shen Ruiguo (Employee Representative Supervisor)

Note: The term of office of the third session of the Supervisory Committee for the Year started on 1 January 2015 and expired on 25 June 2015. The term of office of the fourth session of the Supervisory Committee started on 26 June 2015.

Changes in the members of the Supervisory Committee during the period from 1 January 2015 to the date of this report are as follows:

At the Annual General Meeting of the Company on 26 June 2015, Mr Li Zhuyong was appointed as a Supervisor of the fourth session of the Supervisory Committee, and Mr Ding Ningning and Mr Lu Zhengfei were appointed and re-elected respectively as Independent Supervisors of the fourth session of the Supervisory Committee, whose terms of office are three years commencing on the date of the Annual General Meeting. The term of office of Mr Wang Yueshu as a Supervisor will expire on 5 November 2016. The terms of office of Ms Qu Yonghuan and Mr Shen Ruiguo as Supervisors should have expired on 16 January 2014. In accordance with the provisions of the Company Law, Ms Qu Yonghuan and Mr Shen Ruiguo currently continue to serve as Employee Representative Supervisors until the appointment of the newly elected employee representative supervisors. On 26 June 2015, Mr Wang Yueshu was re-elected as the Chairman of the Supervisory Committee, whose term of office is the same as his term as a Supervisor. Mr Sheng Hetai retired as a Supervisor on the same day.

Duties and Responsibilities

In accordance with the Company Law and the Articles of Association, the Supervisory Committee is accountable to the shareholders' general meeting. It performs duties of supervision over the financial affairs, directors and other senior management of the Company, convenes and presides over shareholders' general meetings when the Board fails to perform its duties to convene and preside over any shareholders' general meeting, etc. Details of the duties and responsibilities have been set out on page 63 of the Company's 2012 Annual Report.

SUPERVISORY COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Supervisory Committee carried out its work, performed its supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the third session of the Supervisory Committee held three meetings, at which six proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

Name	Wang Yueshu	Sheng Hetai	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo
Number of meetings attended/Number of meetings that require attendance	3/3	2/3	3/3	3/3	3/3
Attendance rate	100%	67%	100%	100%	100%

Note: During the term of office of the third session of the Supervisory Committee for the Year, Mr Sheng Hetai attended two meetings in person and entrusted another Supervisor to attend one meeting on his behalf.

During the Year, the fourth session of the Supervisory Committee held two meetings, at which three proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

Name	Wang Yueshu	Li Zhuyong	Ding Ningning	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo
Number of meetings attended/Number of meetings that require attendance	2/2	2/2	2/2	2/2	1/2	1/2
Attendance rate	100%	100%	100%	100%	50%	50%

Note: During the term of office of the fourth session of the Supervisory Committee for the Year, Ms Qu Yonghuan attended one meeting in person and entrusted Mr Shen Ruiguo to attend one meeting on her behalf. Mr Shen Ruiguo attended one meeting in person and entrusted Ms Qu Yonghuan to attend one meeting on his behalf.

Details of the work accomplished by the Supervisory Committee in the Year are set out in the "Report of the Supervisory Committee" section of this annual report.

RIGHTS OF SHAREHOLDERS

Methods of Convening Extraordinary General Meetings

According to the Articles of Association and the Procedural Rules for Shareholders' General Meeting of the Company, 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 general meeting and such shareholder(s) shall submit the complete proposed resolution to the Board in writing. If the Board is satisfied that the proposed resolution complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of extraordinary general meeting within fifteen days after receipt of the proposed resolution in writing.

Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), whether individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose new resolution(s) and submit such proposed resolution(s) in writing to the Board ten days prior to the Annual General Meeting. The Board shall notify other shareholders of such proposed resolution(s) within two days after receipt of such proposal(s) and submit the same to the Annual General Meeting for consideration. The proposed resolution(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved. The proposed resolution(s) submitted by a shareholder to the Board shall be delivered in person or by registered mail to the Secretariat of the Board according to the registered address listed in the inside back cover of this annual report.

INVESTORS RELATIONS

The Company focused on the maintenance of sound investors relations and maintained effective communication with investors through various means. The Company timely communicated its operating results and business development trends with investors after the announcements of the 2014 annual results and the 2015 interim results by way of results briefings and roadshows, among others, strengthening communication with investors and facilitating the understanding of the Company by investors. The Company also maintains sound communication with investors through accepting visits by investors, holding telephone conferences, attending major investment forums, by telephone and email, etc., and proactively providing information to investors on the Company's website, with a view to establishing and maintaining a good relationship with investors.

In February 2015, the Company completed the relevant procedures for the amendments to the Articles of Association. The amendments to the Articles of Association were to reflect changes in the registered capital and equity structure of the Company following the rights issue in 2014.

The Company appoints the Secretariat of the Board to act as the information inquiry department for investors, which can be contacted by telephone, fax, e-mail, mail, etc. For contact details, please see the telephone number, fax number, e-mail address and registered address of the Company listed in the inside back cover of this annual report. On the Company's website www.epicc.com.cn, there is a section titled "Investors Relations", in which the information is updated on a regular basis.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the Annual General Meeting held at Wanchunyuan Villa, No. 28 Qinghua Road (W), Haidian District, Beijing, the PRC on 26 June 2015, at which members of the fourth session of the Board and the fourth session of the Supervisory Committee were elected, the Report of the Board of Directors, the Report of the Supervisory Committee, the auditor's report and the audited financial statements and the profit distribution plan for 2014, the proposals for the Directors' and Supervisors' fees for 2015, the re-engagement of auditors and the general mandate granted to the Board to issue additional shares were considered, and the Performance Report of the Independent Directors for 2014 and the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2014 were reviewed. All of the resolutions requiring consideration and approval by the shareholders were passed at the Annual General Meeting by way of poll.

MOODY'S UPGRADED THE COMPANY'S RATING TO Aa3, "THE HIGHEST CREDIT RATING IN MAINLAND CHINA"

On 23 June 2015, Moody's Investors Service officially announced to upgrade the insurance financial strength rating (IFSR) of the Company from A1 to Aa3, which is the highest credit rating level in Mainland China.

"BEST CALL CENTER IN CHINA"

In July 2015, at the Thirteenth Summit Forum of China Call Center Industry and the Presentation Ceremony of Awards to Best Call Center and Best Manager in China, the 95518 Customer Service Center of the Company was awarded the "Best Call Center in China" prize. It was the eighth time that the Company won this prize.

16 AWARDS INCLUDING "MOST INFLUENTIAL INSURANCE BRAND OF THE YEAR"

In November 2015, in the election for the "Tenth China Insurance Innovation Prize" organised by *Insurance Culture*, the Company won 16 awards including the "Most Influential Insurance Brand of the Year", keeping its number one position among all property insurance companies in terms of the number of awards.

"2015 BEST PROPERTY INSURANCE COMPANY IN ASIA"

In November 2015, it was announced jointly by *21st Century Business Herald* and 21st Century Finance Research Institute in their "2015 Research Report on the Competitiveness Ranking of Asian Banks/Insurance Companies" that the Company ranked at the top of the "Competitiveness Ranking of Asian Insurance Companies" and won the grand award of "2015 Best Property Insurance Company in Asia". Since the launch of the research project "Competitiveness Ranking of Asian Insurance Companies" in 2008, the Company has maintained its number one ranking among the property insurance companies for six consecutive years.

"CUSTOMER EXPERIENCE EXCELLENCE AWARD 2015"

In November 2015, at the Customer Loyalty Summit & LoyaltyChina Awards 2015 organised by LoyaltyChina, the Company won the prize of "Customer Experience Excellence Award 2015".

"2015 PROPERTY INSURANCE COMPANY WITH SUPERIOR COMPETITIVENESS"

In December 2015, in the election for the "2015 Financial Institutions with Superior Competitiveness" organised jointly by *China Business Journal* and the Chinese Academy of Social Sciences, the Company was awarded the prize of "2015 Property Insurance Company with Superior Competitiveness".

"2015 BEST PROPERTY INSURANCE COMPANY"

In December 2015, in the election for the "2015 Gold Medalist of China's Financial Institutions" organised jointly by *Financial Times* and the Institute of Finance of Chinese Academy of Social Sciences, the Company was awarded the grand prize of "2015 Best Property Insurance Company".

"PROPERTY INSURANCE COMPANY OF THE YEAR 2015"

In December 2015, in the election for the "Golden Cicada Award" organised by *China Times*, the Company was awarded the grand prize of "Property Insurance Company of the Year 2015".

"2015 TOP 10 CHINA BEST EMPLOYERS"

In December 2015, the election result of "China Best Employer Award" jointly organised by the website www.Zhaopin.com and Corporate Social Responsibility and Employer Brand Communication Research Center of Peking University was announced, and the Company was enlisted on "2015 Top 10 China Best Employers". It was the second consecutive year for the Company to be enlisted on "Top 10 China Best Employers".

"2015 BEIJING TOP 10 FINANCIAL BRANDS APPRAISAL"

In December 2015, in the election for the "2015 Beijing Finance Forum and Beijing Top 10 Financial Brands Appraisal" organised by *Beijing Business Today*, the Company won the grand prize of "2015 Beijing Top 10 Financial Brands Appraisal – Outstanding Public Assurance Brand Award".

"2015 OUTSTANDING PROPERTY INSURANCE BRAND" AND "2015 OUTSTANDING MOTOR VEHICLE INSURANCE BRAND"

In December 2015, in the annual "Leading China" election organised by the website www.JRJ.com, the Company was awarded the prizes of "2015 Outstanding Property Insurance Brand" and the "2015 Outstanding Motor Vehicle Insurance Brand".

"INSURANCE PRODUCTS OF THE YEAR 2015"

In December 2015, in the "2015 Insurance Product Contest" promoted by China Insurance Media Company Ltd. and organised jointly by *China Insurance News* and the websites www.sinoins.com and www.finance.sina.com.cn, the Company's five products won the title of the "Insurance Products of the Year 2015".

"INTERNATIONAL IMP³ROVE AWARD 2015 FOR EXCELLENCE IN INNOVATION MANAGEMENT"

In January 2016, in the election for the "International IMP³rove Award 2015" organised jointly by the global management consulting firm A.T. Kearney and IMP³rove-European Innovation Management Academy, the Company won the prize of "International IMP³rove Award 2015 for Excellence in Innovation Management", being the only award-winning enterprise from China.

"TOP 100 COMPREHENSIVE STRENGTHS"

In February 2016, the final winner list of 2015 "Top 100 Hong Kong-listed Companies" jointly organised by Hong Kong Finet Group Limited and the website www.QQ.com was officially announced. The Company successfully ranked in the main list for the fourth consecutive year, ranking the 13th in the "Top 100 Comprehensive Strengths".

TO THE SHAREHOLDERS OF
PICC PROPERTY AND CASUALTY COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of PICC Property and Casualty Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 194, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2016

For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
GROSS WRITTEN PREMIUMS	5	**281,698**	253,037
Net earned premiums	5	**244,567**	211,169
Net claims incurred	6	**(153,419)**	(135,947)
Net policy acquisition costs	7	**(54,255)**	(41,803)
Other underwriting expenses		**(20,775)**	(18,297)
Administrative expenses		**(7,514)**	(7,831)
UNDERWRITING PROFIT		**8,604**	7,291
Investment income	8	**14,268**	12,141
Net realised and unrealised gains on investments	9	**6,562**	1,319
Investment related expenses		**(645)**	(243)
Interest expenses credited to policyholders' deposits		**(3)**	–
Exchange gains, net		**351**	9
Sundry income		**404**	425
Sundry expenses		**(173)**	(177)
Finance costs	10	**(1,638)**	(1,631)
Share of profits of associates		**473**	307
PROFIT BEFORE TAX	11	**28,203**	19,441
Income tax expense	14	**(6,356)**	(4,326)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**21,847**	15,115
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (in RMB)	15	**1.473**	1.061

Details of the dividends approved for the year are disclosed in note 16 to the consolidated financial statements.

For the year ended 31 December 2015

	Note	2015 RMB million	2014 RMB million
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**21,847**	15,115
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value gains		**12,480**	11,824
– Reclassification of gains to profit or loss on disposals		**(5,981)**	(1,422)
– Impairment losses		**–**	502
Income tax effect	31	**(1,625)**	(2,726)
Share of other comprehensive income of associates		**299**	508
		5,173	8,686
Net (losses)/gains on cash flow hedges		**(5)**	15
Income tax effect	31	**1**	(4)
Share of other comprehensive (expense)/income of associates		**(1)**	1
		(5)	12
NET OTHER COMPREHENSIVE INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**5,168**	8,698
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		**217**	338
Income tax effect	31	**(54)**	(84)
Share of other comprehensive income/(expense) of associates		**2**	(9)
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**165**	245
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**5,333**	8,943
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**27,180**	24,058

At 31 December 2015

	Notes	31 December 2015 RMB million	31 December 2014 RMB million
ASSETS			
Cash and cash equivalents	17	22,828	24,157
Derivative financial assets	18	8	13
Debt securities	19	107,404	107,789
Equity securities and mutual funds	20	68,714	40,951
Insurance receivables, net	21	19,317	17,400
Reinsurance assets	22	26,426	25,681
Term deposits	23	98,663	88,236
Investments classified as loans and receivables	24	30,052	21,752
Prepayments and other assets	25	16,180	13,500
Investments in associates	26	8,584	4,750
Investment properties	28	4,783	4,684
Property, plant and equipment	29	14,110	13,786
Prepaid land premiums	30	3,351	3,431
TOTAL ASSETS		420,420	366,130
LIABILITIES			
Payables to reinsurers	33	9,141	10,403
Accrued insurance protection fund	34	741	755
Securities sold under agreements to repurchase	35	23,688	14,241
Income tax payable		2,943	818
Other liabilities and accruals	36	39,107	31,235
Insurance contract liabilities	37	217,288	198,137
Policyholders' deposits	38	2,226	1,786
Subordinated debts	39	16,297	22,449
Deferred tax liabilities	31	38	531
TOTAL LIABILITIES		311,469	280,355
EQUITY			
Issued capital	40	14,828	14,828
Reserves		94,118	70,942
Equity attributable to owners of the parent		108,946	85,770
Non-controlling interests		5	5
TOTAL EQUITY		108,951	85,775
TOTAL EQUITY AND LIABILITIES		420,420	366,130

For the year ended 31 December 2015

	Attributable to owners of the parent										Non-controlling interests	Total equity
	Issued capital	Share premium account	Asset revaluation reserve**	Available-for-sale investment revaluation reserve	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Agriculture catastrophic loss reserve	Retained profits	Total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2015	14,828	18,986	2,537	5,351	11	28,674	5,397	721	9,265	85,770	5	85,775
Profit for the year	–	–	–	–	–	–	–	–	21,847	21,847	–	21,847
Other comprehensive income/(expense)	–	–	165	5,173	(5)	–	–	–	–	5,333	–	5,333
Total comprehensive income/(expense)	–	–	165	5,173	(5)	–	–	–	21,847	27,180	–	27,180
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	–	2,130	2,130	–	(4,260)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	–	1,164	(1,164)	–	–	–
2014 final dividend****	–	–	–	–	–	–	–	–	(4,004)	(4,004)	–	(4,004)
Balance at 31 December 2015	14,828	18,986*	2,702*	10,524*	6*	30,804*	7,527*	1,885*	21,684*	108,946	5	108,951

* The consolidated reserves of RMB94,118 million (31 December 2014: RMB70,942 million) in the consolidated statement of financial position as at 31 December 2015 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 26 June 2015, the shareholders of the Company at a general meeting approved a final dividend of RMB0.270 per ordinary share totalling RMB4,004 million for the year ended 31 December 2014.

For the year ended 31 December 2015

	Attributable to owners of the parent										Non-controlling interests	Total equity
	Issued capital *RMB million*	Share premium account *RMB million*	Asset revaluation reserve** *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Cash flow hedging reserve *RMB million*	Surplus reserve*** *RMB million*	General risk reserve *RMB million*	Agriculture catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2014	13,604	12,990	2,292	(3,335)	(1)	22,887	3,940	–	5,122	57,499	5	57,504
Profit for the year	–	–	–	–	–	–	–	–	15,115	15,115	–	15,115
Other comprehensive income	–	–	245	8,686	12	–	–	–	–	8,943	–	8,943
Total comprehensive income	–	–	245	8,686	12	–	–	–	15,115	24,058	–	24,058
Rights issue****	1,224	6,020	–	–	–	–	–	–	–	7,244	–	7,244
Share issue expense****	–	(24)	–	–	–	–	–	–	–	(24)	–	(24)
Appropriations to statutory surplus reserve and general risk reserve*****	–	–	–	–	–	1,457	1,457	–	(2,914)	–	–	–
Appropriations to discretionary surplus reserve*****	–	–	–	–	–	4,330	–	–	(4,330)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	–	721	(721)	–	–	–
2013 final dividend******	–	–	–	–	–	–	–	–	(3,007)	(3,007)	–	(3,007)
Balance at 31 December 2014	14,828	18,986*	2,537*	5,351*	11*	28,674*	5,397*	721*	9,265*	85,770	5	85,775

* The consolidated reserves of RMB70,942 million (31 December 2013: RMB43,895 million) in the consolidated statement of financial position as at 31 December 2014 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 27 June 2014, the shareholders of the Company at a general meeting approved the rights issue proposal. The Company completed the rights issue of 380 million H shares at an issue price of HK$7.46 per H rights share and 845 million domestic shares at an issue price of RMB5.92 per domestic rights share on the basis of 0.9 rights shares for every 10 existing H shares and domestic shares held by members registered on 17 November 2014, respectively. The Company raised total proceeds of RMB7,244 million, of which an amount of RMB1,224 million was recorded in issued capital and RMB5,996 million was recorded in the share premium account after a deduction of the share issue expenses of RMB24 million.

***** On 27 June 2014, the shareholders of the Company at a general meeting approved that 55% of the profit attributable to owners of the parent for 2013, amounting to RMB5,800 million, after the appropriation to the statutory surplus reserve and the general risk reserve, be appropriated to the discretionary surplus reserve. The Company appropriated RMB1,993 million to the discretionary surplus reserve during the year ended 31 December 2014 as the Company already appropriated RMB3,807 million to the discretionary surplus reserve during the year ended 31 December 2013 based on a resolution approved by the Board of Directors of the Company on 26 August 2013.

On 22 August 2014, the Board of Directors of the Company approved appropriations of RMB779 million, RMB779 million and RMB2,337 million to the statutory surplus reserve, the general risk reserve and the discretionary surplus reserve, respectively, based on 10%, 10% and 30% of the profit attributable to owners of the parent of the Company for the six months ended 30 June 2014, respectively.

****** On 27 June 2014, the shareholders of the Company at a general meeting approved a final dividend of RMB0.221 per ordinary share totalling RMB3,007 million for the year ended 31 December 2013.

For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		28,203	19,441
Adjustments for:			
Investment income	8	(14,268)	(12,141)
Net realised and unrealised gains on investments	9	(6,562)	(1,319)
Interest expenses credited to policyholders' deposits		3	–
Exchange gains, net		(208)	(9)
Share of profits of associates		(473)	(307)
Depreciation of property, plant and equipment	11, 29	1,697	2,219
Amortisation of prepaid land premiums	11, 30	156	133
Net gain on disposal of items of property, plant and equipment	11	(86)	(34)
Finance costs	10	1,638	1,631
Investment related expenses		645	243
Impairment loss on insurance receivables	11, 21	320	517
Impairment loss on prepayments and other assets	11, 25	365	–
Operating cash flows before working capital changes		11,430	10,374
Changes in working capital:			
(Increase)/decrease in insurance receivables		(2,237)	6,953
Increase in other assets		(867)	(20)
Decrease in payables to reinsurers		(1,262)	(7,052)
(Decrease)/increase in accrued insurance protection fund		(14)	57
Increase in other liabilities and accruals		8,178	5,275
Increase in insurance contract liabilities, net		18,406	20,401
Cash generated from operations		33,634	35,988
Income tax paid		(6,402)	(4,521)
Net cash flows from operating activities		27,232	31,467
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		11,618	9,566
Rental income received from investment properties		209	210
Dividend income received from equity securities and mutual funds		1,627	1,107
Payment for capital expenditure		(2,141)	(1,849)
Proceeds from disposal of items of property, plant and equipment		252	110
Payment for acquisition of associates		(3,190)	–
Payment for purchase of debt securities, equity securities and mutual funds		(98,244)	(90,690)
Payment for purchase of investments classified as loans and receivables		(8,300)	(8,842)
Dividend income received from associates		128	31
Proceeds from sale of debt securities, equity securities and mutual funds		81,900	89,075
Increase in term deposits, net		(10,366)	(23,858)
Net cash flows used in investing activities		(26,507)	(25,140)

For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of subordinated debts	39	–	8,000
Proceeds from rights issue		–	7,220
Payment for redemption of subordinated debts	39	(6,000)	(5,000)
Increase/(decrease) in securities sold under agreements to repurchase, net		9,447	(3,774)
Increase/(decrease) in policyholders' deposits		440	(167)
Interest paid		(1,937)	(1,714)
Dividends paid		(4,004)	(3,007)
Net cash flows (used in)/from financing activities		(2,054)	1,558
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,329)	7,885
Cash and cash equivalents at beginning of year		24,157	16,272
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	22,828	24,157

1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at Tower 2, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, the PRC.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in property and casualty insurance business. The details of the operating segments are set out in note 4 to the consolidated financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is The People's Insurance Company (Group) of China Limited (the "PICC Group"), which is incorporated in the PRC.

2.1 STATEMENTS OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO regarding preparation of accounts and directors' reports and audits and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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 HKFRSs

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

None of the above amendments to HKFRSs has had a material impact on the financial position or performance of the Group for the year ended 31 December 2015.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Company do not anticipate that the amendments to HKFRSs will have a significant impact to the Group's consolidated financial statements. Further information about those HKFRSs that are expected to be relevant to the Group is as follows:

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

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 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 HKFRS 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 HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 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 HKFRS 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, HKFRS 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 HKAS 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, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 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 HKFRSs *(continued)*

HKFRS 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 HKFRS 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.

HKFRS 15 – Revenue from Contracts with Customers

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

The core principle of HKFRS 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 HKFRS 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 HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group anticipates that the application of HKFRS 15 in the future may impact 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 HKFRS 15 until a detailed review has been completed.

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

Amendments to HKAS 1 Disclosure Initiative

The amendments to HKAS 1 give some guidance on how to apply the concept of materiality in practice.

The amendments also require separate disclosures for the following items in the other comprehensive income section of a statement of comprehensive income:

- The share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
- The share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

The adoption of amendment to HKAS 1 may streamline disclosures of the financial statements. In addition, currently, the share of other comprehensive income of associates and joint ventures is combined with the Group's other comprehensive income by nature for presentation. It will be separately presented on adoption of this amendment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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)*

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 parent.

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 HKFRSs. 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 HKAS 39, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 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 HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale is accounted for using the equity method. Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of HKAS 39 is measured at fair value on the date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the Group loses significant influence over the investee.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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).

Property, plant and equipment and depreciation

Property, plant 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, plant 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, plant 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, plant 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, plant 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	2.77% to 19.40%
Motor vehicles	16.17% to 24.25%
Office equipment, furniture and fixtures	9.70% to 32.30%

Where parts of an item of property, plant 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

An item of property, plant 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.

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, plant and equipment when completed and ready for use.

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 changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant 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. On disposal of the investment property, the asset revaluation reserve included in equity is transferred to retained profits as a movement in reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and building

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are always measured at fair value through profit or loss unless they are designated as effective hedging instruments as defined by HKAS 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 net realised and unrealised gains/(losses) on investments 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 upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other 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 loans and receivables include cash and cash equivalents, term deposits, insurance receivables and investments classified as 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 rate amortisation is included in investment income in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities 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 and the losses arising from impairment are both included and recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in net realised and unrealised gains/(losses) on investments, or until the investment is determined to be impaired, at which time the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively, and are recognised in the income statement as investment income 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)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a 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.

Financial assets carried at amortised cost

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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, 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.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each 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.

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 investment income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

– the rights to receive cash flows from the asset have expired; or

– 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 assets, but has transferred control of the asset.

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 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.

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

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

Financial liabilities including securities sold under agreements to repurchase, miscellaneous payables and accruals, policyholders' deposits and subordinated debts 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. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement ***(continued)***

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

The Group has previously regarded certain credit insurance contracts it issued with a financial guarantee element as insurance contracts and has used the accounting methods applicable to insurance contracts, and accordingly has elected to apply HKFRS 4 to account for such contracts.

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement ***(continued)***

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

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

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

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit and 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

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.

Cash and cash equivalents

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contracts

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as assessed by the Group is based on the additional amount that the Group needs to compensate policyholders upon the occurrence of the insurance events.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles these two components, if the insurance component and the deposit component are distinct and separately measurable.

The unbundled insurance component is accounted for according to HKFRS 4 and the unbundled deposit component is accounted for as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the entire contract is accounted for as an insurance contract.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.

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 transferred insurance risk is significant.

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 financial assets derecognition criteria have been met.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities

When measuring insurance contract liabilities, the Group uses a group of insurance contracts whose insurance risks are of a similar nature as a measurement unit. The Group's insurance contracts are classified into certain measurement units by type of insurance.

The Group's insurance contract liabilities comprise mainly unearned premium reserves and loss and loss adjustment expense reserves:

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 commission expenses, 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, the unearned premium reserves are released over the term of the contract and are primarily earned on a 365-day basis. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. If current estimates of the present value of the expected future claims and loss adjustment expenses in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty associated with the future net cash flows, exceed the unearned premium reserves, then the unearned premium reserves are deemed to be deficient. The resulting deficiency is recognised immediately through profit or loss. The risk margin for the tests described above 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.

Loss and loss adjustment expense reserves include incurred and reported reserves, incurred but not reported ("IBNR") reserves and loss adjustment expense reserves.

Loss and loss adjustment expense reserves are established for the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries, plus a risk margin. Delays can be experienced in notification and settlement of certain types of claims, and therefore the ultimate cost of these claims cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial projection techniques, based on empirical data and current assumptions. 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. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. Adjustments to the liabilities at the end of each reporting period are recorded in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

Derecognition of insurance contract liabilities

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

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.

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.

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

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

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

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 reinsured. Investment income or expense on these contracts is accounted for using the effective interest method when accrued.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group 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 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 taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each 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 each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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 costs that an entity incurs in connection with the borrowing of funds.

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 amount 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the consolidated statement of financial position.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension scheme

Employees of the Group are required to participate in a central pension scheme operated by the local municipal government of the PRC. The Group is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payments

Employees working in the Group are granted share appreciation rights ("SARs"), which can be settled only in cash ("cash-settled transactions"). The cost of cash-settled share-based payment transactions is measured initially at fair value using the Black-Scholes model at the grant date taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at the end of each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

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 basis:

(a) premium income, which is recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage;

(b) rental income, on a straight-line basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the right to receive dividend payment has been established.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

Profit appropriation

In accordance with the PRC Company Law and the Group's respective entities' articles of association, the Group's respective entities are 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 relevant accounting principles and financial regulations applicable to entities established 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 Group's respective entities 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 capital. The balance of the statutory surplus reserve fund after transfers to the capital should not be less than 25% of capital.

According to the relevant regulations of the PRC, the Company has to set aside 10% of its net profit determined in accordance with PRC GAAP to the general risk reserve for catastrophic losses. This general risk reserve cannot be used for dividend distribution or conversion to capital.

According to the relevant regulations of the PRC, the Company is required to make appropriations to the agriculture catastrophic loss reserve when the agriculture insurance business achieves annual or accumulated excessive underwriting profits determined in accordance with PRC GAAP. This agriculture catastrophic loss reserve cannot be used for dividend distribution or conversion to capital.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Renminbi, which is the Group's functional and presentation currency. Renminbi is used by each entity in the Group as its functional and presentation currency in its financial statements. Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of the reporting period. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive and accumulated in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences 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).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated 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, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group classifies its financial assets in accordance with HKAS 39 as financial assets at fair value through profit or loss, investments classified as loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. Certain of these classifications require judgements. 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 HKFRS.

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

Judgements *(continued)*

Impairment of available-for-sale equity financial instruments

For equity securities, 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. This determination requires significant judgement. When making such judgement, the Group considers, among other factors, the magnitude of the decline in fair value relative to the cost, the length of the period over which the fair value is lower than cost and the financial position of the investee, etc.

The Group also considers qualitative evidence that includes, but is not necessarily limited to the following:

– Significant financial difficulty of the investee, including failure to comply with contractual obligations, financial restructuring, and deterioration of going concern expectations; and

– Adverse changes relative to the investee's technology, market, customer base, macroeconomic indicators and significant legal or regulatory matters.

Impairments do not establish a new cost basis and, accordingly, to the extent an impairment loss has been previously recorded due to the significant or prolonged criteria described above, any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the asset is derecognised.

Product classification

The Group makes significant judgements on classification of insurance contracts by assessing whether significant insurance risk exists. Any contracts that do not transfer significant insurance risk are classified as investment contracts and accounted for in accordance with HKAS 39.

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 a 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.

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 directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted.

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

Judgements *(continued)*

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

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.

Consolidations of structured entities

The Group has interest in a range of structured entities in its daily operations for investment purposes. These entities vary in legal forms and investors' rights on removals of the managers, changing underlying assets and liquidations. Certain fellow subsidiaries of the Company are also engaged in launching and managing these structured entities. The Group has to assess whether it has control over these entities. The decision mainly depends on whether the Group is the investment manager, powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers. Details of these structured entities are disclosed in note 24 to these consolidated financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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:

Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract liabilities, 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 the 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 yield curve of China's treasury bonds published by China Government Securities Depository Trust & Clearing Co., Ltd, with consideration of tax effect and illiquidity premiums. In consideration of the different duration of each line of business, the Group used premiums of 102-111 basis points as at 31 December 2015 (31 December 2014: 103-112 basis points). The discount rates of the different duration used as at 31 December 2015 were 4.1%-4.4% (31 December 2014: 4.1%-4.5%).

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

Estimation uncertainty *(continued)*

Valuation of insurance contract liabilities *(continued)*

- The Group determines the risk margin assumptions for unearned premium reserves based on the currently available information at the end of the reporting period, details are described below:

Type	2015	2014
Agriculture insurance	33.8%	33.8%
Motor vehicle insurance	3%	3%
Others insurance	6%	6%

- The Group determines the risk margin assumptions for loss and loss adjustment expense reserves based on the currently available information at the end of the reporting period, details are described below:

Type	2015	2014
Agriculture insurance	33.3%	33.3%
Motor vehicle insurance	2.5%	2.5%
Others insurance	5.5%	5.5%

The major assumptions needed in measuring loss and loss adjustment expense reserves include the claim development factors and expected loss 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 the Group's past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, expenses and claims handling processes, and changing trends in external environment such as economic conditions, regulations and legislation.

Management is of the opinion that as at the end of the reporting period, loss and loss adjustment expense reserves are 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 term and assumptions of insurance contract liabilities and development of claims are set out in note 44(a).

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

Estimation uncertainty *(continued)*

Impairment losses on insurance receivables and reinsurance assets

The Group reviews its insurance receivables and reinsurance assets at each reporting date to assess whether an allowance should be recorded in the income statement.

In addition to specific allowances against individually significant insurance receivables, the Group also makes a collective impairment against a group of insurance receivables with similar credit risk characteristics. The extent of impairment is dependent on the estimation of the amount and the timing of future cash flows. The impairment losses on insurance receivables are disclosed in note 21.

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.

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 unused 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. The movements in deferred tax assets and liabilities are set out in note 31.

Fair value of measurement of financial assets based on unobservable inputs

For financial reporting purposes, fair value measurements of certain available-for-sale financial assets are based on unobservable inputs that are significant to these measurements. Details of these inputs and the corresponding valuation methods are set out in note 41.

Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional values. Valuation of investment properties involves various assumptions and techniques. The principal assumptions and valuation methodology of investment properties are set out in note 28.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the president's office 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 eight operating and reportable segments as follows:

(a) the motor vehicle segment provides insurance products covering motor vehicles;

(b) the commercial property segment provides insurance products covering commercial properties;

(c) the cargo segment provides insurance products covering vessels, crafts or conveyances;

(d) the liability segment provides insurance products covering policyholders' liabilities;

(e) the accidental injury and health segment provides insurance products covering accidental injuries and medical expenses;

(f) the agriculture segment provides insurance products covering agriculture business;

(g) the others segment mainly represents insurance products related to homeowners, special risks, marine hull, construction and credit; and

(h) the corporate segment includes the income and expenses from investment activities, share of results of associates, non-operating income and expenses, unallocated income and expenditures of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of performance assessment. Segment performance is evaluated based on reportable segment result, in which insurance business income and expense (for segments (a) to (g)) is a measure of underwriting profit/(loss) and corporate business income and expense (for segment (h)), primarily investment related income and expense, is a measure of profit attributable to owners of the parent excluding underwriting profit/(loss). Income tax expense is not further allocated but assigned to corporate business segment.

Insurance business assets and liabilities directly attributable to operating segments of insurance business will be allocated to each segment. Investment assets and liabilities managed on a group basis will be allocated to the corporate business segment together with property, plant and equipment, investment properties, prepaid land premiums, other assets, subordinated debts, income tax payable, deferred tax liabilities and other payables, which are not allocated further.

Geographical information is not presented as all of the Group's customers, operations and assets and liabilities are located in the PRC based on the operation of the relevant entities. No inter-segment transactions occurred in 2015 and 2014.

In 2015 and 2014, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment income statements for the years ended 31 December 2015 and 2014 are as follows:

	Insurance							Corporate	Total
2015	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Others *RMB million*	*RMB million*	*RMB million*
Gross written premiums	204,266	12,916	3,225	11,558	18,560	18,944	12,229	–	281,698
Net earned premiums	190,067	7,900	2,350	8,386	15,193	14,552	6,119	–	244,567
Net claims incurred	(115,085)	(5,243)	(1,155)	(4,857)	(13,695)	(9,425)	(3,959)	–	(153,419)
Net policy acquisition costs	(47,654)	(2,025)	(596)	(2,173)	(1,153)	131	(785)	–	(54,255)
Other underwriting expenses	(14,984)	(820)	(223)	(722)	(849)	(2,239)	(938)	–	(20,775)
Administrative expenses	(4,958)	(513)	(131)	(376)	(558)	(572)	(406)	–	(7,514)
Underwriting profit/(loss)	7,386	(701)	245	258	(1,062)	2,447	31	–	8,604
Investment income	–	–	–	–	–	–	–	14,268	14,268
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	6,562	6,562
Investment related expenses	–	–	–	–	–	–	–	(645)	(645)
Interest expense credited to policyholders' deposits	–	–	–	–	–	–	(3)	–	(3)
Exchange gains, net	–	–	–	–	–	–	–	351	351
Finance costs	–	–	–	–	–	–	–	(1,638)	(1,638)
Sundry income and expenses, net	–	–	–	–	–	–	–	231	231
Share of profits of associates	–	–	–	–	–	–	–	473	473
Profit/(loss) before tax	7,386	(701)	245	258	(1,062)	2,447	28	19,602	28,203
Income tax expense	–	–	–	–	–	–	–	(6,356)	(6,356)
Profit/(loss) attributable to owners of the parent – segment results	7,386	(701)	245	258	(1,062)	2,447	28	13,246	21,847

4. OPERATING SEGMENT INFORMATION *(continued)*

2014	Insurance: Motor vehicle *RMB million*	Insurance: Commercial property *RMB million*	Insurance: Cargo *RMB million*	Insurance: Liability *RMB million*	Insurance: Accidental injury and health *RMB million*	Insurance: Agriculture *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Gross written premiums	185,054	12,929	3,556	10,041	14,161	17,143	10,153	–	253,037
Net earned premiums	164,606	7,921	2,523	7,302	11,324	12,426	5,067	–	211,169
Net claims incurred	(106,587)	(4,663)	(1,261)	(4,062)	(9,063)	(7,385)	(2,926)	–	(135,947)
Net policy acquisition costs	(36,212)	(1,714)	(585)	(1,886)	(1,053)	112	(465)	–	(41,803)
Other underwriting expenses	(12,580)	(1,061)	(312)	(626)	(727)	(2,250)	(741)	–	(18,297)
Administrative expenses	(5,437)	(311)	(130)	(261)	(430)	(827)	(435)	–	(7,831)
Underwriting profit	3,790	172	235	467	51	2,076	500	–	7,291
Investment income	–	–	–	–	–	–	–	12,141	12,141
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	1,319	1,319
Investment related expenses	–	–	–	–	–	–	–	(243)	(243)
Exchange gains, net	–	–	–	–	–	–	–	9	9
Finance costs	–	–	–	–	–	–	–	(1,631)	(1,631)
Sundry income and expenses, net	–	–	–	–	–	–	–	248	248
Share of profits of associates	–	–	–	–	–	–	–	307	307
Profit before tax	3,790	172	235	467	51	2,076	500	12,150	19,441
Income tax expense	–	–	–	–	–	–	–	(4,326)	(4,326)
Profit attributable to owners of the parent – segment results	3,790	172	235	467	51	2,076	500	7,824	15,115

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets, liabilities and other segment information of the Group as at 31 December 2015 and 2014 are as follows:

31 December 2015	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment assets	9,913	8,483	1,340	4,422	4,500	5,881	14,084	371,797	420,420
Segment liabilities	171,110	15,214	2,993	13,756	11,960	11,282	20,002	65,152	311,469
Other segment information:									
Depreciation and amortisation	1,478	91	23	84	134	136	87	–	2,033
Impairment losses on insurance receivables	38	81	20	27	29	77	48	–	320
Impairment losses on prepayments and other assets	10	132	8	91	22	5	97	–	365
Interest income	–	–	–	–	–	–	–	12,425	12,425
Capital expenditures	–	–	–	–	–	–	–	2,063	2,063

31 December 2014	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment assets	12,258	8,719	1,341	3,931	3,929	4,798	11,202	319,952	366,130
Segment liabilities	157,665	14,452	3,037	11,756	9,548	10,128	16,918	56,851	280,355
Other segment information:									
Depreciation and amortisation	1,851	126	35	100	142	172	99	–	2,525
Impairment losses on insurance receivables	23	(14)	9	16	22	292	169	–	517
Interest income	–	–	–	–	–	–	–	10,823	10,823
Capital expenditures	–	–	–	–	–	–	–	1,860	1,860

5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	2015 *RMB million*	2014 *RMB million*
Gross written premiums		
Direct written premiums	281,010	252,419
Reinsurance premiums assumed	688	618
	281,698	253,037
Net earned premiums		
Gross written premiums	281,698	253,037
Less: Reinsurance premiums ceded	(29,569)	(31,279)
Net written premiums	252,129	221,758
Gross change in unearned premium reserves	(7,277)	(9,043)
Less: Reinsurer's share of change in unearned premium reserves	(285)	(1,546)
Net change in unearned premium reserves	(7,562)	(10,589)
Net earned premiums	244,567	211,169

6. NET CLAIMS INCURRED

	2015 *RMB million*	2014 *RMB million*
Gross claims paid	160,981	144,685
Less: Paid losses recoverable from reinsurers	(18,406)	(18,550)
Net claims paid	142,575	126,135
Gross change in loss and loss adjustment expense reserves	11,874	10,608
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	(1,030)	(796)
Net change in loss and loss adjustment expense reserves	10,844	9,812
Net claims incurred	153,419	135,947

7. NET POLICY ACQUISITION COSTS

	2015 *RMB million*	2014 *RMB million*
Commission expenses	31,523	23,368
Less: Reinsurance commission income	(9,012)	(9,950)
Underwriting personnel expenses	15,032	12,837
Business tax and surcharges	13,682	12,468
Insurance protection fund *(note 34)*	2,181	2,021
Others	849	1,059
	54,255	41,803

8. INVESTMENT INCOME

	2015 *RMB million*	2014 *RMB million*
Operating lease income from investment properties	209	210
Interest income		
Current and term deposits	5,793	4,768
Debt securities		
– Held-to-maturity	2,131	2,049
– Available-for-sale	2,897	3,002
– Held-for-trading	40	62
Derivative financial assets	14	8
Investments classified as loans and receivables	1,550	934
Subtotal	12,425	10,823
Dividend income from equity securities and mutual funds		
– Available-for-sale	1,484	958
– Held-for-trading	150	150
Subtotal	1,634	1,108
Total	14,268	12,141

9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	2015 *RMB million*	2014 *RMB million*
Realised gains from:		
Debt securities		
– Available-for-sale	110	34
– Held-for-trading	12	17
Equity securities and mutual funds		
– Available-for-sale	5,871	1,388
– Held-for-trading	350	19
Unrealised gains from:		
Debt securities classified as held-for-trading	10	15
Equity securities and mutual funds classified as held-for-trading	64	284
Fair value gains on investment properties *(note 28)*	145	64
Impairment losses on equity securities and mutual funds classified as available-for-sale	–	(502)
	6,562	1,319

10. FINANCE COSTS

	2015 *RMB million*	2014 *RMB million*
Interest on subordinated debts	896	887
Interest on securities sold under agreements to repurchase	628	691
Other finance costs	114	53
	1,638	1,631

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2015 RMB million	2014 RMB million
Depreciation of property, plant and equipment	29	1,697	2,219
Amortisation of prepaid land premiums	30	156	133
Employee expenses (including directors', supervisors' and senior management's remuneration)			
– Salaries, allowances and performance related bonuses		25,091	22,342
– Pension scheme contributions		2,630	2,002
Impairment losses on insurance receivables	21	320	517
Impairment losses on prepayments and other assets	25	365	–
Minimum lease payments under operating leases in respect of land and buildings		768	701
Net gain on disposal of items of property, plant and equipment		(86)	(34)
Auditors' remuneration		14	14

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

(a) Directors and supervisors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

2015	Fees *RMB'000*	Salaries and allowances *RMB'000*	Social insurance, housing fund and other benefits *RMB'000*	Total remuneration before tax *RMB'000*
Executive directors:				
Mr. Wu Yan (Chairman of the Board)	–	–	–	–
Mr. Guo Shengchen (President)	–	936	132	1,068
Mr. Wang He	–	815	132	947
Mr. Lin Zhiyong (appointed on 26 June 2015)	–	749	92	841
Non-executive directors:				
Mr. Wang Yincheng *(note 1)*	–	–	–	–
Ms. Yu Xiaoping *(note 1)*	–	–	–	–
Mr. Li Tao *(note 1)*	–	–	–	–
Mr. David Xianglin Li (appointed on 26 June 2015, resigned on 2 November 2015)	41	–	–	41
Mr. Zhou Shurui (resigned on 20 March 2015) *(note 1)*	–	–	–	–
Independent non-executive directors:				
Mr. Lin Hanchuan	222	–	–	222
Mr. Lo Chung Hing (appointed on 26 June 2015)	106	–	–	106
Mr. Na Guoyi (appointed on 26 June 2015)	106	–	–	106
Mr. Ma Yusheng (appointed on 26 June 2015)	106	–	–	106
Mr. Luk Kin Yu, Peter (resigned on 12 January 2015)	–	–	–	–
Mr. Liao Li (resigned on 16 December 2015)	222	–	–	222
Mr. Ding Ningning (retired on 26 June 2015)	111	–	–	111
Supervisors:				
Mr. Wang Yueshu (Chairman of the Supervisory Committee)	–	842	132	974
Ms. Qu Yonghuan	–	446	99	545
Mr. Shen Ruiguo	–	446	132	578
Mr. Li Zhuyong (appointed on 26 June 2015) *(note 1)*	–	–	–	–
Mr. Sheng Hetai (retired on 26 June 2015) *(note 1)*	–	–	–	–
Independent supervisors:				
Mr. Lu Zhengfei	222	–	–	222
Mr. Ding Ningning (appointed on 26 June 2015)	111	–	–	111
	1,247	4,234	719	6,200

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

(a) Directors and supervisors *(continued)*

The executive and non-executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company.

In accordance with the policies of the relevant authorities in the PRC, the Company did not pay any compensation to Mr. Wu Yan, the chairman of the Board of Directors.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

The independent supervisors' emoluments shown above were mainly for their services as supervisors of the Company.

Note:

(1) These non-executive directors and supervisors did not receive any remuneration from the Company.

Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for certain executive directors and supervisors are deferred for a minimum of 3 years contingent upon the future performance.

In respect of the SAR granted to senior executives, in compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CIRC, the Company decided to suspend the scheme in 2008 except for SAR granted to a person who is not a Mainland Chinese resident (please refer to note 43).

The total compensation packages for executive directors and supervisors for the year ended 31 December 2015 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group.

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

(a) Directors and supervisors *(continued)*

2014 (Restated)	Fees	Salaries and allowances	Performance related bonuses	Social insurance, housing fund and other benefits	Total remuneration before tax
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Wu Yan (Chairman of the Board)	–	–	–	–	–
Mr. Guo Shengchen (President)	–	936	487	236	1,659
Mr. Wang He	–	815	467	222	1,504
Non-executive directors:					
Mr. Wang Yincheng *(note 1)*	–	–	–	–	–
Mr. Zhou Shurui *(note 1)*	–	–	–	–	–
Ms. Yu Xiaoping *(note 1)*	–	–	–	–	–
Mr. Li Tao *(note 1)*	–	–	–	–	–
Mr. Tse Sze-Wing, Edmund (resigned on 10 July 2014)	63	–	–	–	63
Independent non-executive directors:					
Mr. Luk Kin Yu, Peter	223	–	–	–	223
Mr. Ding Ningning	223	–	–	–	223
Mr. Liao Li	223	–	–	–	223
Mr. Lin Hanchuan	223	–	–	–	223
Supervisors:					
Mr. Wang Yueshu (Chairman of the Supervisory Committee)	–	842	439	236	1,517
Mr. Sheng Hetai *(note 1)*	–	–	–	–	–
Ms. Qu Yonghuan	–	594	1,476	186	2,256
Mr. Shen Ruiguo	–	439	1,022	168	1,629
Independent supervisor:					
Mr. Lu Zhengfei	223	–	–	–	223
	1,178	3,626	3,891	1,048	9,743

Note:

(1) These non-executive directors and supervisor did not receive any remuneration from the Company.

The compensation amounts for certain executive directors and supervisors for the year ended 31 December 2014 were restated based on the finalised amounts determined during 2015. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to RMB7 million for executive directors and supervisors had been deferred contingent upon the future performance.

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

(b) Senior management

Remuneration of senior management other than directors and supervisors is as follows:

	2015 *RMB'000*	2014 *RMB'000* (Restated)
Other emoluments		
– Salaries and allowances	6,406	7,213
– Performance related bonuses	–	6,200
– Social insurance, housing fund and other benefits	1,107	2,120
	7,513	15,533

Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for certain members of senior management are deferred for a minimum of 3 years contingent upon the future performance.

The total compensation packages for senior management for the year ended 31 December 2015 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group.

The number of senior management other than directors and supervisors whose remuneration fell within the following bands is as follows:

	2015	2014 (Restated)
RMB0 to RMB1,000,000	9	–
RMB1,000,001 to RMB1,500,000	–	2
RMB1,500,001 to RMB2,000,000	–	8
	9	10

The compensation amounts for certain members of senior management for the year ended 31 December 2014 were restated based on the finalised amounts determined during 2015. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to approximately RMB15 million for senior management had been deferred contingent upon the future performance.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals in the Company include three directors/supervisors for the year ended 31 December 2015 and two directors/supervisors for the year ended 31 December 2014. Details of the remaining highest paid individuals are set out below:

	2015 *RMB'000*	2014 *RMB'000* (Restated)
Other emoluments		
– Salaries and allowances	1,498	2,153
– Performance related bonuses	–	2,426
– Social insurance, housing fund and other benefits	263	652
	1,761	5,231

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

	2015	2014 (Restated)
HKD1,000,001 to HKD1,500,000	2	–
HKD2,000,001 to HKD2,500,000	–	3
	2	3

The compensation amounts for highest other emoluments paid individuals for the year ended 31 December 2014 were restated based on the finalised amounts determined during 2015. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to approximately RMB5 million (approximately HKD6 million) for highest other emoluments paid individuals had been deferred contingent upon the future performance.

14. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2014: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2015 *RMB million*	2014 *RMB million*
Current		
– Charge for the year	8,521	5,412
– Adjustments in respect of current tax of prior years	6	–
Deferred *(note 31)*	(2,171)	(1,086)
Total tax charge for the year	6,356	4,326

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate is as follows:

	2015 *RMB million*	2014 *RMB million*
Profit before tax	28,203	19,441
Tax at the statutory tax rate of 25% (2014: 25%)	7,051	4,860
Income not subject to tax	(831)	(646)
Expenses not deductible for tax	130	112
Adjustments in respect of current tax of prior years	6	–
Tax charge at the Group's effective tax rate	6,356	4,326

15. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share is based on the following:

	2015	2014
Earnings:		
Profit attributable to owners of the parent (RMB million)	21,847	15,115
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	14,828	14,249
Basic earnings per share (RMB)	1.473	1.061

15. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT *(continued)*

Basic earnings per share was calculated as the profit attributable to owners of the parent divided by the weighted average number of ordinary shares in issue. Diluted earnings per share amounts for the years ended 31 December 2015 and 2014 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDEND

	2015 *RMB million*	2014 *RMB million*
Dividends recognised as distribution during the year:		
2014 final dividend – RMB0.270 per ordinary share	4,004	–
2013 final dividend – RMB0.221 per ordinary share	–	3,007

No interim dividend was proposed by the Board of Directors in 2015 and 2014.

Pursuant to the shareholders' approval at the general meeting on 26 June 2015, a final dividend of RMB0.270 per ordinary share totalling RMB4,004 million in respect of the year ended 31 December 2014 was declared.

Pursuant to the shareholders' approval at the general meeting on 27 June 2014, a final dividend of RMB0.221 per ordinary share totalling RMB3,007 million in respect of the year ended 31 December 2013 was declared.

17. CASH AND CASH EQUIVALENTS

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Demand deposits	12,581	19,281
Securities purchased under resale agreements with original maturity of less than three months	9,591	4,806
Deposits with banks with original maturity of less than three months	656	70
	22,828	24,157
Classification of cash and cash equivalents:		
Loans and receivables	22,828	24,157

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals. The securities purchased are not recognised on the consolidated statement of financial position. The carrying amounts disclosed above reasonably approximate to the fair values of those collaterals as at 31 December 2015 and 31 December 2014.

18. DERIVATIVE FINANCIAL ASSETS

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Interest rate swaps	8	13

Interest rate swaps are stated at their fair values.

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to manage its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate. The terms of these swap contracts are as follows:

Floating rate	**Fixed rate**	**Maturity**	**Aggregate notional amount** *RMB million*
31 December 2015:			
3-month Shanghai Interbank Offered Rate 5-day mean or 1-year deposit rate by the People's Bank of China	3.65%-5.00%	7 January 2016 – 24 February 2018	1,050
31 December 2014:			
3-month Shanghai Interbank Offered Rate 5-day mean or 1-year deposit rate by the People's Bank of China	3.65%-5.00%	7 January 2016 – 24 February 2018	1,050

The terms of the cash flow hedging and the terms of the hedged items are highly matched. Cash flow hedging relationships are assessed to be effective and a post-tax loss of RMB4 million (2014: a post-tax gain of RMB11 million) was recognised as other comprehensive income. There was no gain or loss transferred from other comprehensive income to profit or loss in 2015 (2014: Nil).

19. DEBT SECURITIES

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Classification of debt securities:		
Held for trading, at fair value		
– Government bonds	259	253
– Financial bonds	122	480
– Corporate bonds	64	211
	445	944
Available-for-sale, at fair value		
– Government bonds	6,803	7,872
– Financial bonds	12,474	15,353
– Corporate bonds	45,424	43,314
	64,701	66,539
Held-to-maturity, at amortised cost		
– Government bonds	3,026	3,025
– Financial bonds	27,826	27,467
– Corporate bonds	11,406	9,814
	42,258	40,306
	107,404	107,789

20. EQUITY SECURITIES AND MUTUAL FUNDS

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Investments, at fair value:		
Mutual funds	28,744	18,629
Shares	31,256	20,360
Preferred shares	5,654	514
Perpetual bonds	260	246
Equity schemes	2,800	–
	68,714	39,749
Investments, at cost:		
Shares	–	1,202
	68,714	40,951

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

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

20. EQUITY SECURITIES AND MUTUAL FUNDS *(continued)*

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Classification of equity securities and mutual funds:		
Held for trading, at fair value		
– issued by banks and other financial institutions	13,661	4,458
– issued by corporate entities	904	15
– issued by public sector entities	11	–
	14,576	4,473
Available-for-sale, at fair value		
– issued by banks and other financial institutions	45,770	30,022
– issued by corporate entities	8,277	5,164
– issued by public sector entities	91	87
– issued by others	–	3
	54,138	35,276
Available-for-sale, at cost		
– issued by banks and other financial institutions	–	1,202
	68,714	40,951

During the year, no impairment loss was provided by the Group on equity securities and mutual funds (2014: an impairment loss of RMB502 million on equity securities and mutual funds).

21. INSURANCE RECEIVABLES, NET

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Premiums receivable and agents' balances	9,823	7,490
Receivables from reinsurers	12,366	12,600
	22,189	20,090
Less: Impairment provision on		
– Premiums receivable and agents' balances	(2,684)	(2,450)
– Receivables from reinsurers	(188)	(240)
	19,317	17,400

An aged analysis of insurance receivables, based on the payment due date and net of provision, is as follows:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Not yet due	14,609	13,599
Within 1 month	893	691
1 to 3 months	1,691	1,397
3 to 6 months	793	611
6 to 12 months	1,079	779
1 to 2 years	163	196
Over 2 years	89	127
	19,317	17,400

21. INSURANCE RECEIVABLES, NET *(continued)*

The movements in the provision for impairment of insurance receivables are as follows:

	2015 *RMB million*	2014 *RMB million*
At 1 January	2,690	2,313
Impairment losses recognised *(note 11)*	320	517
Amount written off as uncollectible	(138)	(140)
At 31 December	2,872	2,690

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB100 million (31 December 2014: RMB135 million). Please refer to note 48(c) for details.

22. REINSURANCE ASSET

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Reinsurers' share of:		
Unearned premium reserves *(note 37)*	9,307	9,592
Loss and loss adjustment expense reserves *(note 37)*	17,119	16,089
	26,426	25,681

23. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
More than 3 months to 1 year	962	1,139
1 to 2 years	8	–
2 to 3 years	1,355	1,631
More than 3 years	96,338	85,466
Total	98,663	88,236

24. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Long-term debt investment schemes	**23,462**	18,742
Asset management products	**3,200**	1,350
Trust plans	**2,850**	100
Subordinated debts held	**500**	800
Asset-backed securities	**40**	760
	30,052	21,752

Long-term debt investment schemes ("Debt Schemes") are structured entities and offer either fixed or variable interests to their investors, and the Group has invested in a number of Debt Schemes over time. These Debt Schemes were created to raise funds from investors for lending onto various borrowers. The Group's investments in Debt Schemes are entirely lending transactions in nature and the Group's proportion of funds lent to these Debt Schemes ranges from 2% to 100% of the total funds raised. The interest rates of these Debt Schemes are 4.53%-7.20% (31 December 2014: 4.75%-7.20%) per annum as at 31 December 2015.

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

The original term of subordinated debt is 10 years with a redemption right exercisable by the issuer at the end of the fifth year after its issue. The interest rate of the debt is 5.60% (31 December 2014: 4.65%-5.60%) per annum as at 31 December 2015.

25. PREPAYMENTS AND OTHER ASSETS

	Note	31 December 2015 RMB million	31 December 2014 RMB million
Interest receivables		6,041	5,237
Capital security fund	(i)	2,966	2,721
Co-insurance receivables		1,660	1,689
Securities settlement accounts		1,520	161
Prepayments and deposits		555	420
Other receivables		897	884
Amounts due from PICC Group *(note 48(c))*		116	60
Amounts due from fellow subsidiaries *(note 48(c))*		29	40
Other assets		2,918	2,445
		16,702	13,657
Less: Impairment provision on			
– Co-insurance receivables		(365)	–
– Other receivables		(157)	(157)
		16,180	13,500

Note:

(i) In accordance with the PRC Insurance Law, the Company is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by the CIRC as a security fund. The use of the security fund is subject to the approval of the CIRC.

26. INVESTMENTS IN ASSOCIATES

	31 December 2015 RMB million	31 December 2014 RMB million
Cost of investments in associates, unlisted	7,463	4,273
Share of post-acquisition profit and other comprehensive income, net of dividend received	1,121	477
	8,584	4,750

26. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of material associates as at 31 December 2015 and 2014 are as follows:

Name	Place of registration and operations	Nominal value of registered share capital	Proportion of ownership interest and voting right as at 31 December		Measurement method	Principal activities
		RMB million	2015	2014		
PICC Life Insurance Company Limited ("PICC Life")	Beijing	25,761	8.615%	8.615%	Equity method	Provision of life insurance products
China Aerospace Investment Holdings Limited ("Aerospace Investment")	Beijing	7,425	16.835%	16.835%	Equity method	Investment holding
Sinopec Marketing Project Equity Investment Plan ("Sinopec Marketing Plan")	Shanghai	9,490	29.399%	–	Equity method	Equity investment

The Group accounted for the interests in PICC Life and Aerospace Investment as associates as the Group has significant influence over them by virtue of the contractual rights to appoint a director to the board of directors of PICC Life and Aerospace Investment. The Group can also appoint a supervisor to the supervisory committee of Aerospace Investment.

Since the audited financial statements of Aerospace Investment for the year ended 31 December 2015 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 2014 to 30 September 2015 based on the unaudited management accounts. For the year ended 31 December 2014, the Group had 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.

In February 2015, the Group invested RMB2.79 billion in Sinopec Marketing Plan, an equity investment plan set up and managed by PICC Assets Management Company Limited (the "PICC AMC"), for 29.399% interest. Sinopec Marketing Plan, which is considered a material associate of the Group, is engaged in equity investment and accounted for using the equity method in the Group's consolidated financial statements. This investment is not strategic to the Group's activities.

All the associates are private companies or structured entities, and there are no quoted market prices available for these shares.

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

26. INVESTMENTS IN ASSOCIATES *(continued)*

PICC Life

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Total assets	357,561	354,187
Total liabilities	322,345	323,743
Attributable to		
Equity holders of PICC Life	35,210	30,427
Non-controlling interests	6	17
Total equity	35,216	30,444

	2015 *RMB million*	2014 *RMB million*
Revenue	113,926	99,167
Profit attributable to		
Equity holders of PICC Life	3,531	2,037
Non-controlling interests	(11)	(8)
Profit for the year	3,520	2,029
Other comprehensive income attributable to		
Equity holders of PICC Life	1,733	5,837
Other comprehensive income for the year	1,733	5,837
Total comprehensive income attributable to		
Equity holders of PICC Life	5,264	7,874
Non-controlling interests	(11)	(8)
Total comprehensive income for the year	5,253	7,866
Dividends received from the associate during the year	41	14

26. INVESTMENTS IN ASSOCIATES *(continued)*

PICC Life *(continued)*

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

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Net assets attributable to equity holders of PICC Life	35,210	30,427
Proportion of the Group's shareholders' interest in PICC Life	8.615%	8.615%
The Group's shareholders' interest in net assets of PICC Life	3,033	2,621
Goodwill	16	16
Carrying amount of the Group's interest in PICC Life	3,049	2,637

Aerospace Investment

	30 September 2015 *RMB million*	30 September 2014 *RMB million*
Total assets	12,873	11,345
Total liabilities	807	459
Attributable to		
Equity holders of Aerospace Investment	11,880	10,810
Non-controlling interests	186	76
Total equity	12,066	10,886

26. INVESTMENTS IN ASSOCIATES *(continued)*

Aerospace Investment *(continued)*

	Period from 1 October 2014 to 30 September 2015 *RMB million*	Period from 1 October 2013 to 30 September 2014 *RMB million*
Revenue	111	100
Profit attributable to		
Equity holders of Aerospace Investment	1,002	783
Non-controlling interests	25	19
Profit for the period	1,027	802
Other comprehensive income/(expense) attributable to		
Equity holders of Aerospace Investment	893	(13)
Other comprehensive income/(expense) for the period	893	(13)
Total comprehensive income attributable to		
Equity holders of Aerospace Investment	1,895	770
Non-controlling interests	25	19
Total comprehensive income for the period	1,920	789
Dividends received from the associate during the period	88	17

26. INVESTMENTS IN ASSOCIATES *(continued)*

Aerospace Investment *(continued)*

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

	30 September 2015 *RMB million*	30 September 2014 *RMB million*
Net assets attributable to equity holders of Aerospace Investment	11,880	10,810
Proportion of the Group's shareholders' interest in Aerospace Investment	16.835%	16.835%
The Group's shareholders' interest in net assets of Aerospace Investment	2,000	1,820
Effect of fair value adjustments at acquisition	269	269
Others	75	24
Carrying amount of the Group's interest in Aerospace Investment	2,344	2,113

Sinopec Marketing Plan

	31 December 2015 *RMB million*
Total assets	9,490
Total liabilities	–
Attributable to	
Plan holders of Sinopec Marketing Plan	9,490
Non-controlling interests	–
Total equity	9,490

26. INVESTMENTS IN ASSOCIATES *(continued)*

Sinopec Marketing Plan *(continued)*

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in Sinopec Marketing Plan recognised in the consolidated financial statements:

	31 December 2015 *RMB million*
Net assets attributable to plan holders of Sinopec Marketing Plan	9,490
Proportion of the Group's interest in Sinopec Marketing Plan	29.399%
The Group's interest in net assets of Sinopec Marketing Plan	2,790
Carrying amount of the Group's interest in Sinopec Marketing Plan	2,790

27. SUBSIDIARIES

	Company	
	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Unlisted shares, at cost	96	96

27. SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Equity interest and voting right held by the Group as at 31 December 2015	2014	Share capital/ registered/ paid-up capital *RMB million*	Principal activities
PICC Community Sales Service Company Limited*	PRC	100%	100%	50	Provision of insurance agency services
PICC Motor Insurance Sales Services Company Limited*	PRC	90%	90%	50	Provision of insurance agency services
PICC Haikou Training Center Company Limited*	PRC	100%	100%	0.1	Provision of training services

* Registered as limited companies under the PRC Company Law

None of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the directors, there is no subsidiary with material non-controlling interests within the Group. Accordingly, no further information on non-wholly owned subsidiary has been presented.

28. INVESTMENT PROPERTIES

	2015 *RMB million*	2014 *RMB million*
At 1 January	4,684	4,591
Transfers from property, plant and equipment and prepaid land premiums *(notes 29 and 30)*	112	233
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	217	338
Increase in fair value of investment properties during the year *(note 9)*	145	64
Transfers to property, plant and equipment and prepaid land premiums *(notes 29 and 30)*	(375)	(542)
At 31 December	4,783	4,684
Hierarchy of fair value:		
Level 3	4,783	4,684

28. INVESTMENT PROPERTIES *(continued)*

The Group is still in the process of applying for title certificates for investment properties with a carrying value of RMB94 million as at 31 December 2015 (31 December 2014: RMB80 million).

As at 31 December 2015 and 31 December 2014, none of the Group's investment properties were pledged to secure general banking facilities granted to the Group.

The fair values were determined based on the valuation carried out by an external independent valuer, DTZ DEBENHAM TIE LEUNG Limited. Valuations were based on combination of the following two approaches:

(i) 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

(ii) 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 valuer usually determines the fair value of the investment properties as a weighted average of valuations produced by these two approaches according to his professional judgment. 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 is their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 4% to 8% (2014: 4% to 8%). A slight increase in the capitalisation rate used would result in significant decrease in fair value measurement of investment properties, and vice versa.

There was no transfer in or out of Level 3 during the year.

For investment properties measured at fair value categorised as Level 3, their valuations are performed by the independent valuer at 30 June and 31 December of each year, as well as on the dates of transfers. The finance department reviews the overall reasonableness of these valuations and reports the results of valuations to management.

Rental income generated from these investment properties amounting to RMB209 million (2014: RMB210 million) was recognised in the income statement for the year.

29. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
COST					
At 1 January 2015	14,051	1,707	6,201	1,181	23,140
Additions	219	41	471	1,128	1,859
Transfers	223	–	4	(227)	–
Transfers from investment properties *(note 28)*	375	–	–	–	375
Transfers to investment properties *(note 28)*	(165)	–	–	–	(165)
Disposals	(73)	(222)	(284)	(57)	(636)
At 31 December 2015	14,630	1,526	6,392	2,025	24,573
ACCUMULATED DEPRECIATION					
At 1 January 2015	(4,049)	(929)	(4,376)	–	(9,354)
Charge for the year *(note 11)*	(516)	(250)	(931)	–	(1,697)
Transfers to investment properties *(note 28)*	60	–	–	–	60
Disposals	43	213	272	–	528
At 31 December 2015	(4,462)	(966)	(5,035)	–	(10,463)
NET BOOK AMOUNT					
At 31 December 2015	10,168	560	1,357	2,025	14,110
COST					
At 1 January 2014	13,400	1,560	5,805	898	21,663
Additions	281	309	632	507	1,729
Transfers	197	–	22	(219)	–
Transfers from investment properties *(note 28)*	411	–	–	–	411
Transfers to investment properties *(note 28)*	(204)	–	–	–	(204)
Disposals	(34)	(162)	(258)	(5)	(459)
At 31 December 2014	14,051	1,707	6,201	1,181	23,140
ACCUMULATED DEPRECIATION					
At 1 January 2014	(3,670)	(800)	(3,170)	–	(7,640)
Charge for the year *(note 11)*	(481)	(284)	(1,454)	–	(2,219)
Transfers to investment properties *(note 28)*	90	–	–	–	90
Disposals	12	155	248	–	415
At 31 December 2014	(4,049)	(929)	(4,376)	–	(9,354)
NET BOOK AMOUNT					
At 31 December 2014	10,002	778	1,825	1,181	13,786

29. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2015, certain acquired buildings of the Group with a net book amount of RMB540 million (31 December 2014: RMB514 million) were in the process of title registration.

30. PREPAID LAND PREMIUMS

	2015 *RMB million*	2014 *RMB million*
At 1 January	3,431	3,531
Additions	137	48
Transfers from investment properties *(note 28)*	–	131
Amortisation recognised during the year *(note 11)*	(156)	(133)
Transfers to investment properties *(note 28)*	(7)	(119)
Disposal	(54)	(27)
At 31 December	3,351	3,431

31. DEFERRED TAX

The movements in deferred tax assets and liabilities are as follows:

	Impairment losses on financial assets *RMB million*	Revaluation of available-for-sale investments *RMB million*	Cash flow hedging *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets								
At 1 January 2015	738	–	–	576	1,288	–	410	3,012
Deferred tax charged/(credited) to the income statement during the year *(note 14)*	152	–	–	1,708	(213)	–	128	1,775
Gross deferred tax assets at 31 December 2015	890	–	–	2,284	1,075	–	538	4,787
Deferred tax liabilities								
At 1 January 2015	–	(1,768)	(3)	(451)	–	(1,120)	(201)	(3,543)
Deferred tax credited/(charged) to the income statement during the year *(note 14)*	–	–	–	451	–	(36)	(19)	396
Deferred tax (credited)/debited to other comprehensive income during the year	–	(1,625)	1	–	–	(54)	–	(1,678)
Gross deferred tax liabilities at 31 December 2015	–	(3,393)	(2)	–	–	(1,210)	(220)	(4,825)
Net deferred tax liabilities at 31 December 2015								(38)

31. DEFERRED TAX *(continued)*

	Impairment losses on financial assets *RMB million*	Revaluation of available-for-sale investments *RMB million*	Cash flow hedging *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets								
At 1 January 2014	806	958	1	–	768	–	261	2,794
Deferred tax charged/(credited) to the income statement during the year *(note 14)*	(68)	–	–	576	520	–	149	1,177
Deferred tax debited to other comprehensive income during the year	–	(958)	(1)	–	–	–	–	(959)
Gross deferred tax assets at 31 December 2014	738	–	–	576	1,288	–	410	3,012
Deferred tax liabilities								
At 1 January 2014	–	–	–	(451)	–	(1,020)	(126)	(1,597)
Deferred tax charged to the income statement during the year *(note 14)*	–	–	–	–	–	(16)	(75)	(91)
Deferred tax credited to other comprehensive income during the year	–	(1,768)	(3)	–	–	(84)	–	(1,855)
Gross deferred tax liabilities at 31 December 2014	–	(1,768)	(3)	(451)	–	(1,120)	(201)	(3,543)
Net deferred tax liabilities at 31 December 2014								(531)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities as they relate to the same tax authority.

32. RESTRICTED DEPOSITS

As at 31 December 2015, term deposits containing an amount of RMB1,318 million (31 December 2014: RMB1,207 million) were subject to various restrictions. These deposits are managed in specific bank accounts according to requirements of certain local government and can only be used for catastrophic loss for agriculture insurance.

33. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Reinsurance payables	9,141	10,403

The reinsurance payables are non-interest-bearing and are due within three months from the settlement dates or are repayable on demand.

Included in the Group's reinsurance payables is an amount due to a fellow subsidiary of RMB110 million (31 December 2014: RMB150 million). Please refer to note 48(c) for details.

34. ACCRUED INSURANCE PROTECTION FUND

	2015 *RMB million*	2014 *RMB million*
At 1 January	755	698
Accrued during the year *(note 7)*	2,181	2,021
Paid during the year	(2,195)	(1,964)
At 31 December	741	755

The Group is obligated to pay into an insurance protection fund an amount based on a rate of 0.8% of its annual premiums written (2014: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2014: 6%) of the Group's total assets as determined in accordance with PRC accounting standards.

Insurance companies are required to deposit their insurance protection fund in bank accounts designated by the CIRC on a quarterly basis.

35. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Transactions by market places:		
Stock exchange	17,081	10,386
Inter-bank market	6,607	3,855
Total	23,688	14,241

For debt repurchase transactions through stock exchange, the Group is required to deposit certain exchange traded bonds into a collateral pool and the fair value converted at a standard rate pursuant to the stock exchange's regulation which should be no less than the balance of related repurchase transaction. As at 31 December 2015, the carrying amount and fair value of securities deposited in the collateral pool was RMB19,898 million and RMB20,142 million (31 December 2014: RMB15,859 million and RMB15,875 million) respectively. The collateral is restricted from trading during the period of the repurchase transaction. The Group can withdraw the exchange-traded bonds from the collateral pool provided that the value of the exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

As at 31 December 2015, bonds with carrying amount and fair value of RMB6,788 million and RMB7,586 million (31 December 2014: RMB3,913 million and RMB4,005 million) respectively were pledged as collateral for securities sold under agreements to repurchase resulted from repurchase transactions entered into by the Group in the inter-bank market. The collateral is restricted from trading during the period of the repurchase transaction.

36. OTHER LIABILITIES AND ACCRUALS

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Premiums received in advance	**11,308**	8,236
Salaries and staff welfare payables	**8,777**	7,095
Commission payable	**4,862**	3,623
Claims payable	**2,883**	2,676
Premium payable	**1,736**	1,533
Interest payable	**260**	405
Accrued capital expenditure	**188**	321
Amounts due to fellow subsidiaries *(note 48(c))*	**43**	55
Others	**9,050**	7,291
	39,107	31,235

Premiums received in advance represent amounts collected from policies not yet effective as at the 31 December 2015 and 31 December 2014, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

37. INSURANCE CONTRACT LIABILITIES

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Unearned premium reserves	**102,915**	95,638
Loss and loss adjustment expense reserves	**114,373**	102,499
	217,288	198,137

37. INSURANCE CONTRACT LIABILITIES *(continued)*

The movements in insurance contract liabilities and their corresponding reinsurance assets are set out below:

	2015			2014		
	Gross amount *RMB million*	Reinsurers' share *RMB million (note 22)*	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million (note 22)*	Net amount *RMB million*
Unearned premium reserves						
At 1 January	95,638	(9,592)	86,046	86,595	(11,138)	75,457
Increase during the year	218,092	(20,501)	197,591	201,535	(21,540)	179,995
Release during the year	(210,815)	20,786	(190,029)	(192,492)	23,086	(169,406)
At 31 December	102,915	(9,307)	93,608	95,638	(9,592)	86,046
Loss and loss adjustment expense reserves						
At 1 January	102,499	(16,089)	86,410	91,891	(15,293)	76,598
Increase during the year	172,855	(19,436)	153,419	155,293	(19,346)	135,947
Release during the year	(160,981)	18,406	(142,575)	(144,685)	18,550	(126,135)
At 31 December	114,373	(17,119)	97,254	102,499	(16,089)	86,410
Total insurance contract liabilities	217,288	(26,426)	190,862	198,137	(25,681)	172,456

38. POLICYHOLDERS' DEPOSITS

As at 31 December 2015, policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	31 December 2015 RMB million	31 December 2014 RMB million
Interest-bearing deposits	448	–
Non-interest-bearing deposits	1,778	1,786
	2,226	1,786

During 2015, the Group has underwritten policies in homeowners' and accidental insurance products containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy of three or five years, and the policyholders receive a fixed rate of interest or bear no interest. Penalties on early termination are charged according to the terms stated in the policy.

39. SUBORDINATED DEBTS

	31 December 2015 RMB million	31 December 2014 RMB million
Carrying amount repayable:		
Within one year	3,031	–
More than one year, but not exceeding two years	–	3,062
More than five years	13,266	19,387
Total	16,297	22,449

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 range from 4.08%-5.75% in the first five years and 6.08%-7.75% in the second five years.

On 30 June 2015, the Company exercised the redemption rights of subordinated debts of RMB6,000 million issued on 30 June 2010 and fully redeemed the subordinated debts.

On 28 September 2014, the Company exercised the redemption rights of subordinated debts of RMB5,000 million issued on 28 September 2009 and fully redeemed the subordinated debts.

On 24 October 2014, the Company issued subordinated debts of RMB8,000 million.

40. ISSUED CAPITAL

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Issued and fully paid:		
Domestic shares of RMB1.00 each	10,229	10,229
H shares of RMB1.00 each	4,599	4,599
	14,828	14,828

The movements in issued share capital were as follows:

	Number of shares in issue *Million*	**Issued share capital** *RMB million*
As at 1 January 2014	13,604	13,604
New shares issued under rights issue	1,224	1,224
As at 31 December 2014 and 31 December 2015	14,828	14,828

On 4 December 2014, the Company completed the rights issue of 380 million H shares at an issue price of HK$7.46 per H rights share and 845 million domestic shares at an issue price of RMB5.92 per domestic share on the basis of 0.9 rights shares for every 10 existing H shares and domestic shares held by members registered on 17 November 2014, respectively. The Company raised total proceeds of RMB7,244 million, of which an amount of RMB1,224 million was recorded in issued capital.

For the rights issue completed in December 2014, the registration of new business licence and filing procedures with the Administration of Industry and Commerce was completed on 28 February 2015.

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, derivative financial assets, debt securities, equity securities and mutual funds, investments classified as loans and receivables, securities sold under agreements to repurchase and subordinated debts, etc. The Group holds various other financial assets and liabilities which directly arose from insurance operations, such as insurance receivables and payables to reinsurers. The following table sets out the carrying values and fair values of the Group's major financial instruments by classification:

	Carrying amount		Fair value	
	31 December 2015 *RMB million*	31 December 2014 *RMB million*	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Financial Assets				
Derivative financial assets	8	13	8	13
Held-for-trading				
– Equity securities and mutual funds	14,576	4,473	14,576	4,473
– Debt securities	445	944	445	944
Available-for-sale				
– Equity securities and mutual funds	54,138	35,276	54,138	35,276
– Debt securities	64,701	66,539	64,701	66,539
Held-to-maturity investment				
– Debt securities	42,258	40,306	46,565	40,992
Loans and receivables				
– Cash and cash equivalents	22,828	24,157	22,828	24,157
– Term deposits	98,663	88,236	98,663	88,236
– Investments classified as loans and receivables	30,052	21,752	33,830	23,198
– Insurance receivables, net	19,317	17,400	19,317	17,400
– Other assets	14,556	12,122	14,556	12,122
Total financial assets	361,542	311,218	369,627	313,350
Financial liabilities				
Other financial liabilities, at amortised cost				
– Payables to reinsurers	9,141	10,403	9,141	10,403
– Accrued insurance protection fund	741	755	741	755
– Securities sold under agreements to repurchase	23,688	14,241	23,688	14,241
– Policyholders' deposits	2,226	1,786	2,226	1,786
– Subordinated debts	16,297	22,449	19,065	24,438
– Other liabilities	22,758	18,254	22,758	18,254
Total financial liabilities	74,851	67,888	77,619	69,877

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(2) Determination of fair value and the fair value hierarchy

This note provides information on how the Group determines the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 28 to these consolidated financial statements.

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

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

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

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

(a) Fair value of financial assets and liabilities not measured at fair value

The carrying amounts of the Group's financial assets and liabilities not measured at fair value approximate their fair values as at 31 December 2015 and 31 December 2014 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

	Fair value hierarchy			
31 December 2015	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets				
– Held-to-maturity investments	1,871	44,694	–	46,565
– Investments classified as loans and receivables	–	33,830	–	33,830
Financial liabilities				
– Subordinated debts	–	19,065	–	19,065

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(2) Determination of fair value and the fair value hierarchy *(continued)*

(a) Fair value of financial assets and liabilities not measured at fair value *(continued)*

31 December 2014	Fair value hierarchy Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets				
– Held-to-maturity investments	2,607	38,385	–	40,992
– Investments classified as loans and receivables	–	23,198	–	23,198
Financial liabilities				
– Subordinated debts	–	24,438	–	24,438

The fair values of the financial assets and financial liabilities classified under Level 2 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.

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, their fair value hierarchy, valuation technique(s) and key input(s) used).

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(2) Determination of fair value and the fair value hierarchy *(continued)*

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Financial assets/financial liabilities	Fair value as at 31 December 2015 *RMB million*	Fair value as at 31 December 2014 *RMB million*	Fair value hierarchy	Valuation technique(s) and key input(s)
Trading debt securities	445	944	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 and mutual funds	14,576	4,473	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	8,437	8,571	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	56,264	57,968	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 equity securities and mutual funds	28,707	20,665	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	5,454	760	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale equity securities and mutual funds	17,529	13,851	Level 3	The fair value is determined with reference to the quoted market price and latest transacted prices with an adjustment of discount for lack of marketability.
Available-for-sale equity securities and mutual funds	548	–	Level 3	Relative value that are assessed based on average price-to-earnings ratio from comparative companies and earnings per share of target company.
Available-for-sale equity securities and mutual funds	1,700	–	Level 3	Discounted cash flow with future cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale equity securities and mutual funds	200	–	Level 3	Discounted cash flow with future cash flows that are estimated based on projected future cash flow of operating business, discounted at an appropriate rate.
Derivative financial assets – Interest rate swaps	8	13	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 contractual interest rates, discounted at a rate that reflects the credit risk of the Group.

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(2) Determination of fair value and the fair value hierarchy *(continued)*

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

31 December 2015	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Derivative financial assets				
– Interest rate swaps	–	8	–	8
Financial assets held for trading				
– Equity securities and mutual funds	14,576	–	–	14,576
– Debt securities	–	445	–	445
Available-for-sale financial assets				
– Equity securities and mutual funds	28,707	5,454	19,977	54,138
– Debt securities	8,437	56,264	–	64,701
	51,720	62,171	19,977	133,868

31 December 2014	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Derivative financial assets				
– Interest rate swaps	–	13	–	13
Financial assets held for trading				
– Equity securities and mutual funds	4,473	–	–	4,473
– Debt securities	–	944	–	944
Available-for-sale financial assets				
– Equity securities and mutual funds	20,665	760	13,851	35,276
– Debt securities	8,571	57,968	–	66,539
	33,709	59,685	13,851	107,245

As at 31 December 2015, available-for-sale debt securities with carrying amount of RMB2,155 million (2014: RMB8,583 million) were transferred from Level 1 to Level 2 because quoted prices in the market for such investments were no longer regularly available. Conversely, available-for-sale debt securities with carrying amount of RMB1,978 million (2014: Nil) were transferred from Level 2 to Level 1 because quoted prices in active markets were available as at 31 December 2015.

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(2) Determination of fair value and the fair value hierarchy *(continued)*

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

There were no transfers into or out of Level 3 in 2015 and 2014.

The investment in Industrial Bank Co., Ltd. ("IBC") shares classified as available-for-sale financial assets is subject to a lock-up period of 36 months from 7 January 2013 to 7 January 2016. To determine the fair value of IBC shares, the Company used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. 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 above available-for-sale investment in respect of IBC was classified as Level 3 fair value hierarchy.

The historical volatilities used in measuring the fair value of shares of IBC as at 31 December 2015 are 37.70% (31 December 2014: 34.61%). If this input was made higher/lower by 5% while all the other variables were held constant, the carrying amount of the shares as at 31 December 2015 would be lower/higher by approximately RMB19 million (31 December 2014: RMB104 million).

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale financial assets	
	2015	2014
	RMB million	*RMB million*
At 1 January	13,851	8,552
Addition	2,619	–
Reclassification from cost to fair value	1,202	–
Unrealised gains recognised in other comprehensive income *(Note)*	2,305	5,299
At 31 December	19,977	13,851

Note: The gain of RMB2,305 million relates to available-for-sale financial assets held as at 31 December 2015 (2014: RMB5,299 million).

The Company's management is of the opinion that certain available-for-sale financial assets being reclassified from being measured at cost to measured at fair value can provide more relevant information to users of these consolidated financial statements.

42. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that the Company meets all obligations arising from the insurance contracts and the applicable insurance laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

The Company manages its capital by monitoring the solvency margin which is the difference between the regulatory capital held and the minimum regulatory capital required on a regular basis. The Company can also issue new shares and subordinated debt instruments to enhance its solvency position. The table below summarises the minimum regulatory capital and the regulatory capital held by the Company:

	31 December 2015			31 December 2014		
	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
	RMB million	*RMB million*	*%*	*RMB million*	*RMB million*	*%*
Solvency margin	85,356	37,831	226	79,440	33,290	239

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 CIRC 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 to prevent capital inadequacy. Insurance companies with a solvency margin ratio above 100% but with significant solvency risk noticed would be required to take the necessary rectification actions.

43. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of SARs for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H shares). The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SAR.

Under the SAR scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, division managers of the Company, presidents of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SAR.

SAR will be granted in units with each unit representing one H share. SAR granted in aggregate may not exceed 10% of the issued share capital at any time, and SAR granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of SAR units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

43. SHARE APPRECIATION RIGHTS *(continued)*

Under the SAR scheme, all SAR are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversaries of the date of grant, the total number of units of SAR exercised may not, in aggregate, exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SAR granted to such person. Thereafter, SAR which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her SAR will be fully vested immediately.

The exercise price of the SAR initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SAR subsequently granted is equal to the higher of (i) the closing price of the H shares on the date of grant; and (ii) the average closing price of the H shares on the five consecutive trading days before the date of grant. Upon exercise of the SAR, the person will receive cash payment, subject to any applicable withholding tax, equal to the sum of the number of units of SAR exercised and the difference between the exercise price and market price of H shares at the time of exercise.

In compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CIRC, the Company decided to suspend the scheme in 2008 except for SAR granted to anyone who is not a Mainland Chinese resident.

44. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Insurance risk

(1) Insurance contract liabilities

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlements 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 those 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 an insurer’s obligation at the end of the contract period

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

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities *(continued)*

The Group has the objective to control and minimise insurance risk so as to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

– The launch of any new product has to be approved by appropriate authorities;

– Underwriting and claims-handling authorities at different levels are properly established;

– Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and

– Catastrophic reinsurance is used to limit the Group's exposure to flooding, earthquakes and typhoons.

Claims in 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 claims payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

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

	2015		2014	
	Gross written premiums *RMB million*	Net written premiums *RMB million*	Gross written premiums *RMB million*	Net written premiums *RMB million*
Coastal and developed provinces/cities	127,679	112,798	114,539	98,867
Western China	61,342	55,399	55,366	49,016
Northern China	37,656	34,914	33,940	30,822
Central China	36,733	33,260	32,321	28,545
North-eastern China	18,288	15,758	16,871	14,508
Total	281,698	252,129	253,037	221,758

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

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities *(continued)*

Terms

Loss and loss adjustment expense reserves are refined on a monthly basis as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. The reserves are discounted for the time value of money if the impact is material.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Estimates of gross loss and loss adjustment expense reserves of all lines of business are based on the following selected methods:

- Paid and incurred loss development methods
- Paid and incurred Bornhuetter-Fergusons method
- Expected loss ratio method

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to cargo, liability, marine and non-marine insurance.

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

Assumptions and sensitivities

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 rates used for discounting long-tailed liabilities were 4.1%-4.4% and 4.1%-4.5% for 2015 and 2014, respectively.

The range of reasonable estimates of loss and loss adjustment expense reserves, projected by 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 loss and loss adjustment expense reserves are not quantifiable with certainty at the end of the reporting period.

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

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities *(continued)*

Reproduced below is an analysis that shows the development of claims over a period of time on a gross basis:

	Accident year – gross					
	2011 *RMB million*	2012 *RMB million*	2013 *RMB million*	2014 *RMB million*	2015 *RMB million*	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	98,733	113,488	138,282	150,767	168,697	669,967
One year later	97,641	113,351	138,263	149,790		499,045
Two years later	96,665	113,468	139,879			350,012
Three years later	95,619	113,537				209,156
Four years later	94,120					94,120
Estimated cumulative claims	94,120	113,537	139,879	149,790	168,697	666,023
Cumulative claims paid	(87,090)	(110,288)	(133,719)	(131,217)	(104,191)	(566,505)
Sub-total						99,518
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						14,855
Unpaid claim expenses						114,373

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

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities *(continued)*

Reproduced below is an analysis that shows the development of claims over a period of time on a net basis:

	Accident year – net					
	2011 *RMB million*	2012 *RMB million*	2013 *RMB million*	2014 *RMB million*	2015 *RMB million*	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	83,793	94,925	120,084	131,379	150,312	580,493
One year later	82,935	94,929	119,921	130,993		428,778
Two years later	82,237	94,882	119,959			297,078
Three years later	81,343	95,209				176,552
Four years later	80,278					80,278
Estimated cumulative claims	80,278	95,209	119,959	130,993	150,312	576,751
Cumulative claims paid	(74,390)	(92,667)	(115,465)	(115,793)	(95,222)	(493,537)
Sub-total						83,214
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						14,040
Unpaid claim expenses						97,254

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' financial statements.

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

(a) Insurance risk *(continued)*

(2) Reinsurance assets – Terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the businesses ceded are placed on a quota share basis or surplus line basis with retention limits varying by product line. There are profit commission, sliding scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to RMB13,699 million (2014: RMB18,342 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt securities, insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, corporate bonds with high credit ratings and term deposits with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

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

The Group 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. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

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

(b) Financial risks *(continued)*

(1) Credit risk *(continued)*

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A- (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch and Moody's) or above except for state-owned reinsurance companies. Management of the Group performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2015, the top three reinsurance companies owed an aggregate amount of RMB4,331 million (31 December 2014: RMB5,675 million) to the Group.

The table below shows the maximum exposures to credit risk without taking into account collateral for the components of the consolidated statement of financial position:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Cash and cash equivalents	22,828	24,157
Term deposits	98,663	88,236
Derivative financial assets	8	13
Debt securities	107,404	107,789
Insurance receivables, net	19,317	17,400
Reinsurance assets	26,426	25,681
Investments classified as loans and receivables	30,052	21,752
Other financial assets	14,556	12,122
Total credit risk exposure	319,254	297,150

Where financial instruments are recorded at fair value, the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in future as a result of changes in fair value.

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

(b) Financial risks *(continued)*

(1) Credit risk *(continued)*

An aged analysis of the financial assets past due but not impaired and impaired financial assets is shown as follows:

31 December 2015	Not past due	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	22,828	–	–	–	–	–	22,828
Term deposits	98,663	–	–	–	–	–	98,663
Derivative financial assets	8	–	–	–	–	–	8
Debt securities	107,404	–	–	–	–	–	107,404
Insurance receivables	14,948	526	1,287	1,067	2,880	4,361	22,189
Reinsurance assets	26,426	–	–	–	–	–	26,426
Investments classified as loans and receivables	30,052	–	–	–	–	–	30,052
Other financial assets	11,877	824	314	1,540	2,678	523	15,078
Total	312,206	1,350	1,601	2,607	5,558	4,884	322,648
Less: Impairment provision	–	–	–	–	–	(3,394)	(3,394)
Net	312,206	1,350	1,601	2,607	5,558	1,490	319,254

31 December 2014	Not past due	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	24,157	–	–	–	–	–	24,157
Term deposits	88,236	–	–	–	–	–	88,236
Derivative financial assets	13	–	–	–	–	–	13
Debt securities	107,789	–	–	–	–	–	107,789
Insurance receivables	13,831	380	1,140	863	2,383	3,876	20,090
Reinsurance assets	25,681	–	–	–	–	–	25,681
Investments classified as loans and receivables	21,752	–	–	–	–	–	21,752
Other financial assets	9,310	457	373	1,982	2,812	157	12,279
Total	290,769	837	1,513	2,845	5,195	4,033	299,997
Less: Impairment provision	–	–	–	–	–	(2,847)	(2,847)
Net	290,769	837	1,513	2,845	5,195	1,186	297,150

44. 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 2015, 100% (31 December 2014: 99.67%) 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 2015, 99.22% (31 December 2014: 99.81%) 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 resale agreements 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 2015 and 2014.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

Securities purchased under resale agreements are pledged by counterparts' debt securities of which the Group could take the ownership should the owner of the collateral defaults.

The Group's long-term debt investment schemes, asset management products and asset-backed securities, included in investments classified as loans and receivables, are supported by third party guarantee or with pledge.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

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.

As at 31 December 2015, the Group maintained demand deposits and term deposits with original maturity of no more than three months at 3% of total assets (31 December 2014: 5%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk *(continued)*

The table below summarises the remaining contractual maturity profile of the financial assets and financial liabilities, the expected timing of insurance contract liabilities and reinsurance assets of the Group based on undiscounted contractual cash flows:

31 December 2015	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No mature date *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	12,581	10,252	–	–	–	–	22,833
Term deposits	–	3,798	37,932	68,385	26	–	110,141
Derivative financial assets	–	–	2	3	–	–	5
Debt securities							
– Available-for-sale	–	1,243	6,555	39,903	19,620	–	67,321
– Held-for-trading	–	22	186	168	109	–	485
– Held-to-maturity	–	93	1,341	9,197	61,984	–	72,615
Equity securities and mutual funds	–	–	–	–	–	68,714	68,714
Insurance receivables, net	4,708	8,673	3,231	2,665	40	–	19,317
Reinsurance assets	–	4,447	13,130	6,821	2,336	–	26,734
Investments classified as loans and receivables	–	203	3,920	19,281	17,298	–	40,702
Other financial assets	3,187	3,441	4,546	3,890	122	–	15,186
Liabilities:							
Securities sold under agreements to repurchase	–	23,696	–	–	–	–	23,696
Payables to reinsurers	2,569	5,666	619	270	17	–	9,141
Insurance contract liabilities	–	34,596	130,629	20,223	32,745	–	218,193
Policyholders' deposits	1,776	–	–	450	–	–	2,226
Subordinated debts	–	–	3,658	3,476	15,849	–	22,983
Other financial liabilities	1,565	13,501	7,152	1,248	33	–	23,499

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk *(continued)*

31 December 2014	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No Mature date *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	19,282	4,883	–	–	–	–	24,165
Term deposits	–	290	1,540	87,672	10,663	–	100,165
Derivative financial assets	–	1	7	5	–	–	13
Debt securities							
– Available-for-sale	–	751	10,957	38,556	31,192	–	81,456
– Held-for-trading	–	174	5	405	520	–	1,104
– Held-to-maturity	–	76	1,222	8,420	61,975	–	71,693
Equity securities and mutual funds	–	–	–	–	–	40,951	40,951
Insurance receivables, net	3,801	9,809	2,693	1,028	69	–	17,400
Reinsurance assets	–	5,767	12,172	4,939	3,066	–	25,944
Investments classified as loans and receivables	–	177	1,718	12,726	15,976	–	30,597
Other financial assets	2,598	2,474	3,144	3,945	12	–	12,173
Liabilities:							
Securities sold under agreements to repurchase	–	14,254	–	–	–	–	14,254
Payables to reinsurers	2,025	7,551	552	254	21	–	10,403
Insurance contract liabilities	–	35,747	121,727	12,827	28,638	–	198,939
Policyholders' deposits	1,786	–	–	–	–	–	1,786
Subordinated debts	–	–	795	7,982	23,234	–	32,011
Other financial liabilities	1,037	10,756	5,500	1,663	53	–	19,009

The Group has no significant concentration of liquidity or funding risk.

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk *(continued)*

The table below summarises the expected utilisation or settlement of all assets and liabilities:

	31 December 2015			31 December 2014		
	Current*	Non-current	Total	Current*	Non-current	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	22,828	–	22,828	24,157	–	24,157
Term deposits	39,624	59,039	98,663	1,814	86,422	88,236
Derivative financial assets	3	5	8	–	13	13
Debt securities	65,235	42,169	107,404	11,198	96,591	107,789
Equity securities and mutual funds	64,587	4,127	68,714	4,473	36,478	40,951
Insurance receivables, net	16,610	2,707	19,317	16,834	566	17,400
Reinsurance assets	17,394	9,032	26,426	17,772	7,909	25,681
Investments classified as loans and receivables	2,400	27,652	30,052	600	21,152	21,752
Prepayments and other assets	11,517	4,663	16,180	12,515	985	13,500
Investments in associates	–	8,584	8,584	–	4,750	4,750
Investment properties	–	4,783	4,783	–	4,684	4,684
Property, plant and equipment	–	14,110	14,110	–	13,786	13,786
Prepaid land premiums	–	3,351	3,351	–	3,431	3,431
Total assets	240,198	180,222	420,420	89,363	276,767	366,130
Payables to reinsurers	8,854	287	9,141	10,129	274	10,403
Accrued insurance protection fund	741	–	741	755	–	755
Securities sold under agreements to repurchase	23,688	–	23,688	14,241	–	14,241
Income tax payable	2,943	–	2,943	818	–	818
Other liabilities and accruals	37,416	1,691	39,107	29,314	1,921	31,235
Insurance contract liabilities	164,669	52,619	217,288	156,951	41,186	198,137
Policyholders' deposits	1,776	450	2,226	1,786	–	1,786
Subordinated debts	3,031	13,266	16,297	–	22,449	22,449
Deferred tax liabilities	–	38	38	–	531	531
Total liabilities	243,118	68,351	311,469	213,994	66,361	280,355

* Expected recovery or settlement within 12 months from the end of each reporting period.

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

(b) Financial risks *(continued)*

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group uses multiple methods to manage 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.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate is also approved by an investment committee to direct investment decisions.

(i) 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 transactions are carried out in Renminbi. Certain insurance policies issued by the Group, however, in particular in respect of cargo, commercial properties and aviation insurance, were denominated in United States dollars ("USD"). Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in USD.

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2015	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	20,053	2,325	441	9	22,828
Term deposits	98,025	638	–	–	98,663
Derivative financial assets	8	–	–	–	8
Debt securities	106,631	773	–	–	107,404
Equity securities and mutual funds	67,564	460	690	–	68,714
Insurance receivables, net	15,735	3,515	10	57	19,317
Reinsurance assets	25,199	1,207	7	13	26,426
Investments classified as loans and receivables	30,052	–	–	–	30,052
Other financial assets	14,395	153	–	8	14,556
Total assets	377,662	9,071	1,148	87	387,968
Payables to reinsurers	7,629	1,487	3	22	9,141
Securities sold under agreements to repurchase	23,688	–	–	–	23,688
Insurance contract liabilities	215,433	1,782	25	48	217,288
Policyholders' deposits	2,226	–	–	–	2,226
Subordinated debts	16,297	–	–	–	16,297
Other financial liabilities	22,723	755	9	12	23,499
Total liabilities	287,996	4,024	37	82	292,139

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

31 December 2014	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	20,368	1,367	2,395	27	24,157
Term deposits	86,832	1,404	–	–	88,236
Derivative financial assets	13	–	–	–	13
Debt securities	106,998	143	648	–	107,789
Equity securities and mutual funds	40,615	186	150	–	40,951
Insurance receivables, net	13,683	3,641	23	53	17,400
Reinsurance assets	24,597	1,051	11	22	25,681
Investments classified as loans and receivables	21,752	–	–	–	21,752
Other financial assets	11,976	139	1	6	12,122
Total assets	326,834	7,931	3,228	108	338,101
Payables to reinsurers	8,738	1,643	9	13	10,403
Securities sold under agreements to repurchase	14,241	–	–	–	14,241
Insurance contract liabilities	196,349	1,704	26	58	198,137
Policyholders' deposits	1,786	–	–	–	1,786
Subordinated debts	22,449	–	–	–	22,449
Other financial liabilities	18,321	663	12	13	19,009
Total liabilities	261,884	4,010	47	84	266,025

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The analysis below is performed for reasonably possible movements in exchange rate with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency-sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in USD exchange rate, the correlations of these variables are ignored.

	Appreciation/ (depreciation) against RMB	31 December 2015		31 December 2014	
		Impact on profit *RMB million*	Impact on equity *RMB million*	Impact on profit *RMB million*	Impact on equity *RMB million*
USD	5%	191	252	180	196
USD	(5%)	(191)	(252)	(180)	(196)

(ii) 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.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(iii) 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 individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to listing equity securities and mutual fund whose values will fluctuate as a result of changes in market prices.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk and equity price risk over a holding period of 10 trading days (2014: 10 trading days) at a confidence level of 99% (2014: 99%).

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price behaviour, which could differ substantially from past behaviour. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 days. The said assumption may not be correct in reality, especially via market which lacks liquidity.

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Interest rate VaR	451	781
Equity price VaR	5,378	1,310

45. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2015. The management of the Company believes such litigation matters will not cause significant losses to the Group.

Owing to the nature of the insurance business, the Group is involved in 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 some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

46. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties *(note 28)* under operating lease arrangements, with leases negotiated for terms ranging from two to twenty years (2014: two to twenty years).

Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Within one year	**186**	176
In the second to fifth years, inclusive	**206**	204
After five years	**50**	98
	442	478

(b) As lessee

The Group leases office premises and motor vehicles under various operating lease agreements.

Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Within one year	**356**	153
In the second to fifth years, inclusive	**765**	644
After five years	**245**	220
	1,366	1,017

47. CAPITAL AND INVESTMENT COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in note 46 above, the Group had the following capital commitments at the end of the year:

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Contracted, but not provided for:		
Property, plant and equipment	**1,782**	617

(b) Investment commitments

On 28 December 2015, the Company entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to transfer to the Company 877,302,599 shares, 267,072,000 shares and 991,671,286 shares of Hua Xia Bank Co., Limited ("Hua Xia Bank"), respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.99% of the total issued shares of Hua Xia Bank) and the Company conditionally agreed to purchase these shares. Based on the said share transfer agreement, the total considerations of such transaction is estimated at between RMB23.0 billion to RMB25.7 billion by the Company and will be paid in cash. Also, pursuant to relevant regulatory requirements, there will be a 5-year lock-up period for these shares once the transaction is completed. At the date of approving of these consolidated financial statements, such transaction is still subject to regulatory approval, among others.

48. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	**2015** *RMB million*	2014 *RMB million*
Transactions with the holding company:			
2014 Final dividend distribution	(i)	**2,762**	–
2013 Final dividend distribution	(i)	**–**	2,074
Rights issue	(ii)	**–**	5,000
Rental expense and WAN service fees	(iii)	**98**	87
Transactions with fellow subsidiaries:			
Management fee	(iv)	**152**	134
Premiums ceded	(v)	**466**	556
Reinsurance commission income	(v)	**211**	222
Paid losses recoverable from reinsurers	(v)	**280**	281
Reinsurance premiums assumed	(v)	**6**	6
Commission expenses-reinsurance	(v)	**1**	1
Gross claims paid-reinsurance	(v)	**2**	1
Brokerage commission expense	(vi)	**140**	147
Agency services commission received	(vii)	**10**	4
Agency services commission paid	(vii)	**5**	5
Transactions with an associate:			
Agency services commission received	(viii)	**58**	30
Agency services commission paid	(viii)	**104**	85
Premiums paid	(ix)	**49**	215
Transactions with an associate of PICC Group:			
Interest income	(x)	**112**	137
Dividend income	(x)	**542**	436
Interest expense	(x)	**30**	32
Premium income	(x)	**143**	232
Claims paid	(x)	**13**	205
Commission expense	(x)	**3**	5

48. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes:

(i) On 26 June 2015, the shareholders of the Company at a general meeting approved a final dividend of RMB0.270 per ordinary share totalling RMB4,004 million for the year ended 31 December 2014. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB2,762 million to PICC Group.

On 27 June 2014, the shareholders of the Company at a general meeting approved a final dividend of RMB0.221 per ordinary share totalling RMB3,007 million for the year ended 31 December 2013. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB2,074 million to PICC Group.

(ii) On 2 December 2014, the Company completed the rights issue of 845 million domestic shares on the basis of 0.9 domestic rights share for every 10 existing domestic shares, at an issue price of RMB5.92 per domestic share. PICC Group subscribed for shares with an amount of approximately RMB5,000 million. Upon completion of the share capital increase of the Company, the proportion of shareholding held by PICC Group remained unchanged, representing 68.98% of the enlarged issued share capital of the Company.

(iii) The Company has been leasing certain areas of South Information Center as workplaces, meeting rooms and service installation positions and also using the WAN services provided by PICC Group in South Information Center since 2011, and the Company paid the relevant rents. On 5 December 2013, the Company and PICC Group entered into a Lease Agreement, pursuant to which the Company agreed to lease workplaces of approximately 27,000 square metres in the office building, meeting rooms (subject to the actual rental hours) and approximately 900 server installation positions in server building located in South Information Center. The Company paid rents to PICC Group determined based on the rentals per unit as well as the areas of workplaces rented, rental hours for the meeting rooms and the number of server installation positions rented by the Company. The rental per unit was negotiated by the Company and PICC Group on normal commercial terms. In 2014, the Company and PICC Group agreed to renew the contract for another two years, which expired on 31 December 2015.

On 23 December 2013, the Company and PICC Group entered into the WAN Service Agreement. Pursuant to the agreement, the Company uses the WAN services provided by PICC Group in South Information Center and the services include renting out, check-up and maintenance services on the WAN equipment as well as the WAN technical support services fixed by the two parties. The Company paid the WAN service fees to PICC Group, by reference to the relevant costs of PICC Group for renting out the equipment and providing services as well as the percentage of bandwidth used by the Company, determined by the Company and PICC Group after negotiation. In 2015, the Company and PICC Group agreed to renew the contract for another one year, which expired on 31 December 2015.

On 1 January 2016, the Company and PICC Group entered into an integrated service agreement in relation to the leasing of office space and the usage of WAN services in South Information Center by the Company for a term of two years effective from 1 January 2016 to 31 December 2017.

(iv) On 28 December 2007, the Company and PICC AMC entered into an asset management agreement. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than management fees, performance bonuses were also to be paid to PICC AMC when the investment performance satisfied certain conditions. On 20 June 2013, the Company and PICC AMC entered into a renewed asset management agreement for a term of three years effective from 1 January 2013 to 31 December 2015. On 19 December 2015, the Company and PICC AMC further renewed the asset management agreement for 6 months, effective from 1 January 2016 to 30 June 2016. PICC AMC is a fellow subsidiary.

48. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes: (continued)

(v) On 6 May 2010, the Company and The People's Insurance Company of China (Hong Kong) Limited ("PICC HK") entered into a Framework Agreement on Reinsurance Business Cooperation, pursuant to which the Company agreed to cede insurance premiums to and receive commissions from PICC HK, and PICC HK agreed to cede insurance premiums to and receive commissions from the Company. On 27 March 2015, the Company and PICC HK entered into a renewal agreement, effective from 1 January 2015 to 31 December 2015. PICC HK is a fellow subsidiary.

(vi) On 17 June 2013, the Company and Zhongsheng International Insurance Brokers Company Limited ("ZSIB") entered into an agreement, pursuant to which the Company and ZSIB agreed to cooperate in the insurance brokerage business and other business. The Company would pay brokerage fee to ZSIB in consideration of the brokerage services provided by ZSIB and its subsidiaries on the Company's insurance products. The brokerage fees were calculated by the actual premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and ZSIB on normal commercial terms. The agreement commenced from 17 June 2013 to 16 June 2016 for a term of three years. ZSIB is a fellow subsidiary.

(vii) The Company entered into a mutual insurance agency agreement with PICC Health Insurance Company Limited ("PICC Health") on 30 August 2006, pursuant to which the Company and PICC Health mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Health in consideration of the agency services provided by PICC Health on the Company's insurance products. The Company would receive an agency fee from PICC Health in consideration of the agency services provided by the Company on PICC Health's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Health on normal commercial terms. On 30 August 2013, the Company renewed the agreement for a term of three years effective from 31 August 2013 to 30 August 2016. PICC Health is a fellow subsidiary.

(viii) The Company entered into a mutual insurance agency agreement with PICC Life on 19 October 2006, pursuant to which the Company and PICC Life mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company would receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Life on normal commercial terms. On 30 August 2013, the Company renewed the agreement for a term of three years effective from 31 August 2013 to 30 August 2016. PICC Life is a fellow subsidiary and an associate of the Company.

(ix) On 5 December 2013, the Company and PICC Life entered into a Framework Agreement pursuant to which the Company agreed to purchase life insurance products from PICC Life for the employees of the Company. The agreement commenced from 1 January 2013 to 31 December 2015 for a term of three years.

(x) These transactions with IBC are related party transactions as IBC is an associate of PICC Group since 19 April 2013.

Under the Listing Rules, the items (iii), (iv), (v), (vi), (vii), (viii), (ix) above constitute continuing connected transactions.

48. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other government-related entities in the PRC

The Company is a state-owned enterprise which is subject to the indirect 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 for insurance policies distributed.

The directors consider that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

48. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties

	31 December 2015 *RMB million*	31 December 2014 *RMB million*
Cash and cash equivalents:		
An associate of PICC Group	373	5,363
Term deposits:		
An associate of PICC Group	500	500
Debt securities:		
An associate of PICC Group	2,070	2,070
Equity securities:		
An associate of PICC Group	21,103	14,354
Receivables from reinsurers:		
A fellow subsidiary *(note 21)*	100	135
Loans and receivables:		
An associate of PICC Group	13	98
Due from related parties:		
The PICC Group *(note 25)*	116	60
Fellow subsidiaries *(note 25)*	29	40
An associate of PICC Group	106	76
Payables to reinsurers:		
A fellow subsidiary *(note 33)*	110	150
Due to related parties:		
Fellow subsidiaries *(note 36)*	43	55
An associate of PICC Group	5	5
Subordinated debts issued to:		
An associate of PICC Group	453	449

PICC Life is both an associate of the Company and a fellow subsidiary of the Company as its parent company is PICC Group. In the above note, PICC Life is included in "An associate" and excluded from "Fellow subsidiaries".

The balances with the PICC Group, fellow subsidiaries, associates and an associate of PICC Group are settled according to respective arrangements between the Company and the related parties.

48. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management

	2015 *RMB'000*	2014 *RMB'000* (Restated)
Fees, salaries and allowances	11,887	12,017
Performance related bonuses	–	10,091
Social insurance, housing fund and other benefits	1,826	3,168
	13,713	25,276

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The total compensation packages for key management personnel for the year ended 31 December 2015 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group.

The compensation amounts for certain key management personnel for the year ended 31 December 2014 were restated based on the finalised amounts determined during 2015. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to RMB22 million for key management personnel had been deferred contingent upon the future performance.

49. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2016, the Board of Directors of the Company proposed a final dividend of RMB 0.304 per ordinary share for the year ended 31 December 2015 and is subject to the approval of shareholders' general meeting of the Company.

Currently, business taxes are imposed on the Group mainly for premiums arising from certain insurance contracts and investment income. In March 2016, Ministry of Finance of the PRC announced that, commencing from 1 May 2016, income of financial service sector should be subject to value added taxes ("VAT") instead of business taxes. VAT allow input taxes arising from certain purchases to offset liabilities arising from output taxes. There are also specific requirements on management of VAT invoices. The Group is currently assessing the impact of these changes to its financial results and operations.

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) The Company's statement of financial position

	Notes	31 December 2015 *RMB million*	31 December 2014 *RMB million*
ASSETS			
Cash and cash equivalents		22,722	24,053
Term deposits		98,663	88,236
Derivative financial assets		8	13
Debt securities		107,404	107,789
Equity securities and mutual funds		68,714	40,951
Insurance receivables, net		19,317	17,400
Reinsurance assets		26,426	25,681
Investments classified as loans and receivables		30,052	21,752
Prepayments and other assets		16,180	13,500
Investments in associates		7,463	4,273
Subsidiaries	27	96	96
Investment properties		4,940	4,835
Property, plant and equipment		14,067	13,740
Prepaid land premiums		3,350	3,430
TOTAL ASSETS		419,402	365,749
LIABILITIES			
Payables to reinsurers		9,141	10,403
Accrued insurance protection fund		741	755
Securities sold under agreements to repurchase		23,688	14,241
Income tax payable		2,943	818
Other liabilities and accruals		39,107	31,235
Insurance contract liabilities		217,288	198,137
Policyholders' deposits		2,226	1,786
Subordinated debts		16,297	22,449
Deferred tax liabilities		65	556
TOTAL LIABILITIES		311,496	280,380
EQUITY			
Issued capital		14,828	14,828
Reserves	50(b)	93,078	70,541
TOTAL EQUITY		107,906	85,369
TOTAL EQUITY AND LIABILITIES		419,402	365,749

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

(b) Movement in the Company's reserves

The movements in reserves of the Company are set out below:

	Share premium account RMB million	Asset revaluation reserve RMB million	Available-for-sale investment revaluation reserve RMB million	Cash flow hedging reserve RMB million	Surplus reserve RMB million	General risk reserve RMB million	Agriculture catastrophic loss reserve RMB million	Retained profits RMB million	Total RMB million
At 1 January 2015	18,986	2,574	5,300	10	28,674	5,397	721	8,879	70,541
Total comprehensive income for the year	–	163	4,874	(4)	–	–	–	21,508	26,541
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	2,130	2,130	–	(4,260)	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	1,164	(1,164)	–
2014 final dividend	–	–	–	–	–	–	–	(4,004)	(4,004)
At 31 December 2015	18,986	2,737	10,174	6	30,804	7,527	1,885	20,959	93,078

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

(b) Movement in the Company's reserves *(continued)*

	Share premium account *RMB million*	Asset revaluation reserve *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Cash flow hedging reserve *RMB million*	Surplus reserve *RMB million*	General risk reserve *RMB million*	Agriculture catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2014	12,990	2,320	(2,878)	(1)	22,887	3,940	–	5,020	44,278
Total comprehensive income for the year	–	254	8,178	11	–	–	–	14,831	23,274
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	1,457	1,457	–	(2,914)	–
Appropriations to discretionary surplus reserve	–	–	–	–	4,330	–	–	(4,330)	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	721	(721)	–
Rights issue	5,996	–	–	–	–	–	–	–	5,996
2013 final dividend	–	–	–	–	–	–	–	(3,007)	(3,007)
At 31 December 2014	18,986	2,574	5,300	10	28,674	5,397	721	8,879	70,541

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2016.

In this annual report, the following expressions shall have the following meanings unless the context otherwise requires:

"AIG"	American International Group, Inc.
"Articles of Association"	the articles of association of the Company
"Board" or "Board of Directors"	the board of directors of the Company
"CIRC"	China Insurance Regulatory Commission
"Company"	PICC Property and Casualty Company Limited
"Company Law"	the Company Law of the People's Republic of China
"Corporate Governance Code"	the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules
"C-ROSS"	China Risk-oriented Solvency System
"Director(s)"	the director(s) of the Company
"Final Dividend"	the final dividend for the Year as proposed for payment by the Board of Directors
"Guidelines"	the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Individual H Shareholders"	the individual holders of H shares of the Company who are entitled to receive the Final Dividend
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"PICC AMC"	PICC Asset Management Company Limited
"PICC Group"	The People's Insurance Company (Group) of China Limited

"PICC Health"	PICC Health Insurance Company Limited
"PICC HK"	The People's Insurance Company of China (Hong Kong), Limited
"PICC Life"	PICC Life Insurance Company Limited
"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Tax Notice"	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)
"U.S.A."	the United States of America
"the Year"	the year ended 31 December 2015
"ZSIB"	Zhongsheng International Insurance Brokers Co., Ltd.
"%"	per cent

Corporate Information

REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司

Abbreviation of Chinese name: 人保財險

English name: PICC Property and Casualty Company Limited

Abbreviation of English name: PICC P&C

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

REGISTERED OFFICE

Tower 2, No. 2 Jianguomenwai Avenue
Chaoyang District, Beijing 100022, the PRC

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LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD OF DIRECTORS

Zhang Xiaoli

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

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AUDITORS

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Deloitte Touche Tohmatsu

Domestic Auditor
Deloitte Touche Tohmatsu Certified Public Accountants LLP

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King & Wood Mallesons