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 2016

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 and the Guangzhou 2010 Asian Games, successively. At present, Moody's Investors Service has given Aa3 for the insurance financial strength rating of the Company.

- 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 300 business processing centers for insurance policy issuance, claim settlement and financial affairs at district (city) level, 25 thousand insurance stations at township level and nearly 300 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				
	2012	2013	2014	2015	2016
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Gross written premiums	193,487	223,525	253,037	281,698	**311,160**
Underwriting profit	7,581	5,960	7,291	8,604	**5,024**
Investment income	8,387	9,939	12,141	14,268	**15,073**
Net realised and unrealised gains/(losses) on investments	(913)	(342)	1,319	6,562	**922**
Profit before tax	13,349	13,439	19,441	28,203	**22,451**
Income tax expense	(2,944)	(2,881)	(4,326)	(6,356)	**(4,430)**
Profit for the year	10,405	10,558	15,115	21,847	**18,021**

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

ASSETS AND LIABILITIES

	At 31 December				
	2012	2013	2014	2015	2016
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Total assets	290,424	319,424	366,130	420,420	**475,949**
Total liabilities	244,974	261,920	280,355	311,469	**356,637**
Thereinto: bonds payable	19,427	19,562	22,449	16,297	**23,112**
Total equity	45,450	57,504	85,775	108,951	**119,312**

Mr Wu Yan
Chairman

Dear Shareholders,

In 2016, the first year of the Thirteenth Five-Year Plan, the Company effectively addressed the challenges posed by the downward trend of the macro-economy and complicated economic environment, confronted and overcame various difficulties, thereby achieving a good start of the Thirteenth Five-Year Plan.

Adhering to steady development with breakthroughs and excellent results in both business development and profitability. Firstly, premium income exceeded RMB300 billion. In 2016, by strengthening market benchmarking, grabbing the development opportunity, effectively responding to the deregulation of premium rate of commercial motor vehicle insurance and upgrading insurance supply, the Company realised a premium income of RMB310,453 million, becoming the first property and casualty insurance company in China to have achieved an annual premium income of over RMB300 billion. **Secondly, the premium growth rate of the Company exceeded that of the market for the first time since its shareholding reform and listing.** In 2016, the premium income of the Company recorded a year-on-year increase of 10.5%. The premium growth rate of the Company exceeded that of the market for the first time since its shareholding reform and listing. In terms of premiums, the Company had a market share of 33.5% in the property and casualty insurance market of China, which was 0.1 percentage point higher compared to the end of 2015, marking the first-time recovery since its listing. **Thirdly, the Company's profitability surpassed that of the market.** In 2016, the Company further implemented the cost leadership strategy and achieved an underwriting profit of RMB5,024 million, representing a year-on-year decrease of 41.6%, and a combined ratio of 98.1%, continuously outperforming the average of the market. In 2016, the net profit of the Company and its subsidiaries was RMB18,021 million, representing a year-on-year decrease of 17.5%.

Adhering to service for the general interest and actively fulfilling the mission of people's insurance serving the people. In 2016, the Company further promoted implementation of the decisions and deployments made by the central government, continuously assisted the economic and social transformation, served the modernisation of state governance and seized the opportunities presented by policies in providing services for the general interest, thereby realising a mutual promotion of both the economic and social benefits. **Firstly, fully pushing forward the work to reduce poverty through insurance.** The Company continuously innovated functions of the insurance mechanism and explored practices and experience such as the "directing financial resources to combating poverty with insurance to play a key role" model used in Fuping of Hebei province, the "Poverty Reduction Insurance" initiated in Ningxia region and others, proactively promoting the pilot programmes of financing business which supported the agricultural sector. **Secondly, actively serving the development of modern agricultural sector.** The Company thoroughly implemented the spirit of the Central Rural Work Conference, deepened the reform of the agriculture insurance operation mechanism, vigorously explored innovative agriculture insurance products such as insurance for the price of agricultural products, weather index insurance and "insurance+futures" products, and throughout the year the Company innovated 126 types of agriculture insurance products and 5 types of futures price insurance products. In 2016, the Company realised a premium income of RMB19,361 million from the agriculture insurance business, and the insured amount of agriculture insurance (including farm buildings) was RMB2.8 trillion, providing coverage for farmlands of 630 million Mu, forests of 1,040 million Mu, and policy-supported farm buildings of 103 million households. **Thirdly, deeply participating in the social management innovation.** In 2016, the Company vigorously developed the liability insurance business and achieved a premium income of RMB13,701 million from the liability insurance business, with an insured amount of RMB38 trillion. The Company also proactively pushed forward the pilot programmes of the catastrophe insurance and formally launched the housing insurance against earthquake/catastrophe. The Company thoroughly promoted the insurance for armies and constantly expanded the scope and areas of cooperation.

Adhering to compliance with laws and regulations and effectively strengthening sustainable development capability. Firstly, further improving compliance management level by taking the implementation of the retrospective inspection of "Two Strengthenings and Two Restraints" (namely, strengthening internal control and external monitoring and restraining from illegal operations and illegal/criminal acts) as an opportunity. The Company rigorously implemented the deployment made by the State Council and the CIRC, steadily carried out the retrospective inspection of "Two Strengthenings and Two Restraints", deeply and thoroughly conducted fact-finding investigations and carried out the self-review and self-correction in a solid and orderly manner, thereby promoting business operation in compliance with laws and regulations. **Secondly, further improving the comprehensive risk management by implementing C-ROSS.** By benchmarking the requirements of C-ROSS, the Company improved the institutional rules and regulations and the risk management information system, thereby continuously strengthening its risk identification and prevention capability. In the C-ROSS risk management capability assessment carried out by the CIRC, the Company achieved a score of 85.03, ranking No.1 in the property and casualty insurance industry. **Thirdly, further strengthening the foundation for internal control management by reinforcing the construction of internal control system at the basic level.** The Company pushed forward the application of internal control system framework model in branches in different municipalities, cities, districts and counties, which played an active role in improving internal control management at the basic level.

2017 is a critical year for the Company in implementing its Thirteenth Five-Year Plan. **In terms of the external environment**, on one hand, under the guidance of "seeking progress while maintaining stability" by the central government, the prudent and neutral monetary policy and proactive and effective fiscal policy will promote the steady development of China's macro-economy, and social security policies such as policies guaranteeing the basic livelihood will continue to show effect; on the other hand, China still faces downward pressure on the macro-economy and there is still a long way to go for the transformation and upgrading of traditional industries. **In terms of the development of insurance industry**, the central government places the prevention of financial risks in a more prominent position. Regulatory authorities will strictly scrutinise any conduct which borderlines risk management incompliance, and guide the insurance institutions to stick to the protective function of insurance and emphasise value development.

In 2017, the Company will strive to achieve steady development, optimise business structure, promote value creation, prevent risks, vigorously push forward the reform and innovation, continuously advance the customer-oriented transformation and build market-leading service capability, so as to seek progress and improve quality while maintaining stability and firmly facilitate the implementation of the Thirteenth Five-Year Plan.

The Company will thoroughly promote the transformation of development mode, and facilitate the continuous increase in the value of the Company. In light of the overall environment containing economic slowdown, the deregulation of premium rate of commercial motor vehicle insurance and intensified market competition, in order to maintain sustainable competitive advantage and value creation capability, the Company will further promote the transformation of development by combining the strengthening of its traditional advantages and the building of new strengths. In terms of strengthening of traditional advantages, the Company will reinforce the interactions and synergies between different business lines, enhance the internal sharing of customer resources, consolidate and explore abundant customer resources in motor vehicle insurance, agriculture insurance and corporate insurance business; the Company will continuously pursue saving of the management cost, ensure support of expenses in favour of the basic level of the Company, continue to strengthen the refined management and consolidate and expand its cost leadership advantage. In terms of building of our new strengths, the Company will seize the opportunities presented in the incremental demands for insurance arising from the transformation of government functions and industrial upgrading and expand new development areas.

The Company will continuously strengthen the mentality to focus on the overall structure, and nourish our long-term competitiveness while serving the economic and social development. Serving the general interest of economic and social development is not only the duties of the Company as a state-owned large insurance company to act as a "booster of the economy", but also a necessary requirement for the Company to nourish new development driving force and foster long-term competitiveness. The Company will focus on the building of organisations, salesforce and systems, practically establish a long-term mechanism for poverty reduction, continue to deepen relationship with local governments and agriculture-related institutions to form in-depth cooperation models, and expand and extend services to agriculture, rural areas and farmers, thereby facilitating the supply-side structural reform of the agricultural sector. Meanwhile, the Company will also actively establish the tracking mechanism for the implementation of policies made by the central government to enhance the effectiveness in serving the development at a large scope.

The Company will strengthen internal control and compliance and risk prevention, and stick to the bottom line of avoiding systematic risks. The Company will strengthen the management and control of key risks, reinforce the construction of comprehensive risk management system, utilise tools and measures such as risk preference and economic capital to enhance the performance assessment of risk prevention and strengthen the rigid constraint of risk management on insurance and investment business so as to practically prevent systematic risks. Furthermore, we will establish effective systems and measures to identify, manage and prevent external risks, reinforce the risk prevention in critical sectors and practically prevent the inward-transferring of external risks. In terms of insurance business, we will attach great importance to the risks associated with premiums receivable, which may increase for insurance products such as certain policy-supported insurance, commercial property insurance, engineering insurance as a result of factors such as the slowdown of growth of local fiscal income, operation difficulties of certain enterprises. In terms of investment business, the Company will attach great importance to credit risk and trading risk, strengthen risk prevention in existing investment, and carry out credit screening for counterparties with respect to incremental investment, for the purpose of practically safeguarding investment of the Company.

The year of 2017 marks a new start for the Company to "Be faithful to the initial mind and achieve glory again". Standing on the new starting point, we will maintain our confidence and forge ahead to create more value for the shareholders and write a new chapter for PICC P&C's contributions to the "China Dream".

Wu Yan
Chairman

Beijing, China
24 March 2017

DIRECTORS

Wu Yan, aged 56, 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.

Lin Zhiyong, aged 54, a postgraduate, a Master, a senior economist, the Vice Chairman of the Board of Directors, an Executive Director and the President of the Company. Mr Lin currently is also a Vice Chairman of the Insurance Association of China, a Vice Chairman of the Insurance Society of China and the Director of the Agriculture Insurance Committee of the Insurance Association of China. Mr Lin joined The People's Insurance Company of China ("PICC") in 1980 and was previously the Deputy General Manager of Quanzhou Branch of PICC Property Insurance Company, Deputy General Manager and General Manager of PICC Fuzhou Branch, Deputy General Manager and General Manager of PICC Fujian Provincial Branch, and an Executive Vice President of the Company. 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 37 years of operation and management experience in the PRC insurance industry.

Yu Xiaoping, aged 59, a senior economist, a Non-executive Director of the Company. Ms Yu is currently a Vice President of PICC Group*, the Chairman of the Board of Directors of Beijing No. 88 West Chang'an Avenue Development Company Limited, a Director of China Insurance Investment Co., Ltd., and the Chairman of the Board of Directors of PICC Investment Holding Company Limited and PICC Capital Investment Management 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 35 years of operation and management experience in the PRC financial sector.

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

Li Tao, aged 51, 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 32 years of substantial experience in research and management, etc.

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Lin Hanchuan, aged 68, 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 65, 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 and an Independent Non-executive Director of China Shanshui Cement Group Limited*. 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 substantial experience in public management and financial industry.

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

** 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 60, Ph.D, a professor, an Independent Non-executive Director of the Company. Mr Na is an independent scholar and concurrently the Director of the International Department of Geju Business School Co., Ltd., Head of the Practice of Management Team of Peking University, a contracted professor of Tsinghua University, a visiting professor of Lingnan (University) College of Sun Yat-sen University, Southwestern University of Finance and Economics and Raffles Business Institute of Singapore, and a tutor for the 12th session of the Cradle Program of Asia America Multi-technology Association (AAMA). 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 56, 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.

Chu Bende, aged 63, a postgraduate of the Party School of the Central Committee of Communist Party of China, a senior economist, an Independent Non-executive Director of the Company. Mr Chu is currently the Chairman and the Secretary-General of the China Foundation for Development of Financial Education, a Vice Chairman of the National Internet Finance Association of China and an Adjunct Professor of University of International Business and Economics. Mr Chu was previously the Deputy Director of the Office of the State Administration of Foreign Exchange ("SAFE"), Director-General of the General Affairs Department and Director-General of the Supervision and Inspection Department of SAFE, Deputy Secretary of the Party Committee and Vice President of Shenyang Branch of the People's Bank of China and concurrently Deputy President of Liaoning Branch of SAFE, and Executive Deputy Director (department or bureau level) of Staff Union of the People's Bank of China. Mr Chu graduated from Chinese Academy of Social Sciences and the Party School of the Central Committee of Communist Party of China, respectively majoring in currency banking and history of the Communist Party of China. Mr Chu has substantial experience in public management and financial industry.

SUPERVISORS

Wang He, aged 59, Ph.D, a senior economist, Chairman of the Supervisory Committee of the Company since March 2017. Mr Wang is also Chairman of the Board of Directors of Donghai Marine Insurance Company Limited, a Director of China Aerospace Investment Holdings Limited, a Director of China Insurance Security Fund Company Limited, a Supervisor of Shanghai Insurance Exchange Co., Ltd., 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, Executive Deputy General Manager of the Products Development Center of PICC, and an Executive Director and an Executive Vice President of the Company. Mr Wang graduated from Xiamen University with a doctorate degree in public finance in 2004. He has 29 years of operation and management experience in the PRC insurance industry.

Li Zhuyong, aged 44, 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 22 years of work experience in the field of legal compliance and risk management.

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

Ding Ningning, aged 69, 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 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 35 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 53, 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, 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., Zhejiang Tailong Commercial Bank 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.

* These companies are listed on the Hong Kong Stock Exchange.

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

Li Fuhan, aged 57, a senior economist, an Employee Representative Supervisor of the Company since February 2017. Mr Li is currently the Deputy Secretary of the Commission for Discipline Inspection, General Manager of the Monitoring Department/Auditing Department and Director of the Nanjing Monitoring and Auditing Center of the Company. Mr Li joined PICC in 1991 and was previously the Deputy Manager (in charge) and Manager of the Personnel Division of PICC Fujian Provincial Branch, General Manager of the Human Resources Department, member of the Party Committee, Deputy General Manager and concurrently Secretary of the Commission for Discipline Inspection of Fujian Provincial Branch of the Company, and Deputy Director (in charge) and Director of the Nanjing Monitoring and Auditing Center of the Company. Mr Li graduated from PLA Dalian Naval Academy. He has 26 years of operation and management experience in the PRC insurance industry.

Gao Hong, aged 50, a university graduate, an engineer, an Employee Representative Supervisor of the Company since February 2017. Ms Gao is currently the Deputy Director of the Trade Union Work Committee and General Manager of the Trade Union Work Department of the Company. Ms Gao joined The People's Insurance Company (Group) of China in 1996 and was previously the Deputy Manager of the Education and Training Division of the Human Resources Department of PICC, Manager of the Training Division of the Human Resources Department, Assistant General Manager and Deputy General Manager of the Education and Training Department, Deputy General Manager of the Education and Training Department and concurrently Director of the Exam Center (equivalent to departmental manager) and Deputy General Manager of the Trade Union Work Department (equivalent to departmental manager) of the Company. Ms Gao has 21 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Wang Yueshu, aged 61, a postgraduate, a senior economist, a member of the Party Committee 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, the Responsible Compliance Officer and the Responsible Auditing Officer of the Company, the Chairman of the Supervisory Committee of the Company, the Deputy Secretary of the Party Committee and Secretary of the Commission for Discipline Inspection of the Company. Mr Wang has 38 years of operation and management experience in the PRC insurance industry.

Yun Zhen, aged 58, 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 currently is also the Director of the Education and Training Committee of the Insurance Association of China. 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 32 years of operation and management experience in the PRC insurance industry.

Wang Dedi, aged 59, 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 25 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, aged 51, Ph.D, a senior economist, an Executive Vice President of the Company. Mr Jiang currently is 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, a Deputy Director of the Rail Construction Safety Committee of China Association of Work Safety 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 concurrently the General Manager of the Business Development Department of The People's Insurance Company (Group) of China. Mr Jiang has 29 years of operation and management experience in the PRC insurance industry.

Xie Xiaoyu, aged 55, a postgraduate, a Master, a researcher, an Executive Vice President of the Company. Ms Xie currently is also a Deputy Director of the Health Insurance Committee of the Insurance Association of China. 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 25 years of experience in management.

Zhang Xiaoli, aged 52, a postgraduate, a Master, Secretary of the Commission for Discipline Inspection, 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, General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited, and an Executive Vice President of the Company. Mr Zhang graduated from China Europe International Business School with an MBA degree. Mr Zhang has 17 years of management experience in the PRC insurance industry.

Hua Shan, aged 52, 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 33 years of operation and management experience in the PRC insurance industry.

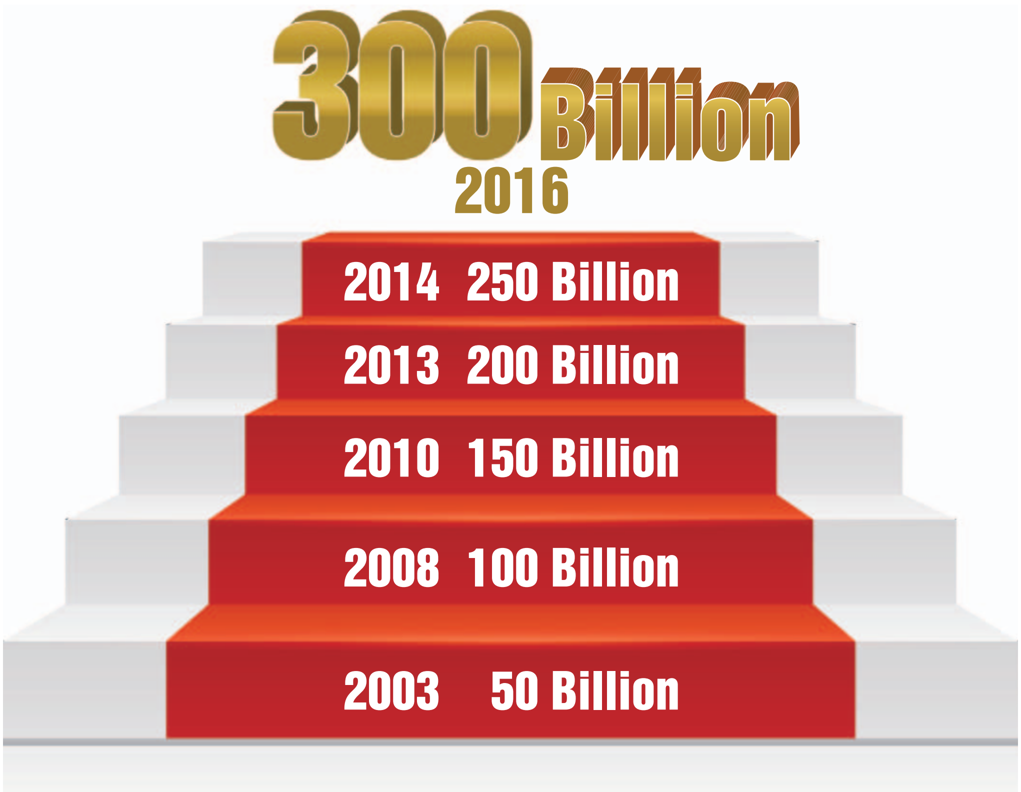
Feng Xianguo, aged 54, a Master, a senior economist, an Executive Vice President of the Company. Mr Feng began his career in 1978 and joined PICC in 1984. He was previously the Chief Economist of PICC Xianning Regional Branch, Deputy General Manager of PICC Xianning Branch, Manager of the Vehicles Insurance Division and General Manager of the Vehicles Insurance Department of PICC Hubei Provincial Branch, Deputy General Manager of Hubei Provincial Branch and concurrently General Manager of Wuhan Branch of the Company, the Chief Responsible Officer and General Manager of Tianjin Branch of the Company, and General Manager of Beijing Branch of the Company. Mr Feng graduated from Central China Normal University with a master's degree in economics. Mr Feng has 32 years of operation and management experience in the PRC insurance industry.

Shen Dong, aged 48, a master postgraduate, a senior accountant, an Executive Vice President, the Responsible Financial Officer, the Chief Accountant and concurrently the 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 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 25 years of financial management experience in the PRC insurance industry.

Wu Jianlin, aged 54, a university graduate, a senior economist, an Assistant to the President of the Company and concurrently General Manger of Zhejiang Provincial Branch of the Company. Mr Wu is also a member of the 11th Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference and a Model Worker of the Inner Mongolia Autonomous Region in 2010. Mr Wu began his career in 1979 and joined PICC in 1984. He was previously the Deputy Director, Deputy Manager and Director of the General Office and the Business Publicity Division of PICC Hangzhou Branch, the Chief Responsible Officer and Manager of Hangzhou Xihu Sub-branch and Manager of the General Office of Zhejiang Provincial Branch of PICC Property Insurance Company, Assistant General Manager and Deputy General Manager of PICC Zhejiang Provincial Branch, Deputy General Manager of Zhejiang Provincial Branch and concurrently General Manager of Hangzhou Branch of the Company, the Chief Responsible Officer and General Manager of Inner Mongolia Branch of the Company, and the Chief Responsible Officer and General Manager of Zhejiang Provincial Branch of the Company. Mr Wu graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management. Mr Wu has 32 years of operation and management experience in the PRC insurance industry.

Shao Liduo, aged 50, a doctoral postgraduate, a senior engineer, an Assistant to the President, the Chief Information Technology Officer and concurrently General Manger of the Information & Technology Department of the Company. Mr Shao began his career in 1985 and joined PICC Property Insurance Company in 1998. He was previously the Deputy Manager and Manager of the Software Development Division of the Information & Technology Department of PICC, and Manager of the Software Development Division of the Information & Technology Department, Deputy General Manager of the Vehicles Insurance Department and Deputy General Manager (in charge) of the Information & Technology Department of the Company. Mr Shao was awarded the special government allowance by the State Council in December 2016. Mr Shao graduated from the PLA Information Engineering College (now known as "PLA Information Engineering University") with a bachelor's degree in science, Beijing Institute of Technology with an MBA degree and Beijing Normal University with a doctorate degree in science. Mr Shao has 27 years of operation and management experience in the PRC insurance industry and the information and technology sector.

Wu Yan (left), Chairman of the Company, and Lin Zhiyong (right), President of the Company, both at the unveiling of plaque ceremony for the Company's achieving a premium income of over RMB300 billion.



In 2016, the Company recorded a premium income of over RMB300 billion and became the first property and casualty insurance company in Mainland China with its annual premium income exceeding RMB300 billion.

OVERVIEW

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

Recovery of market share for the first time with business growth rate exceeding that of the market. In 2016, the Company and its subsidiaries implemented proactive sales policy, effectively addressed the changes brought by the taxation system adjustment of "replacing business tax with value-added tax", achieved gross written premiums of RMB311,160 million, representing a year-on-year increase of 10.5%. The Company was the first property and casualty insurance company in Mainland China to achieve an annual premium income of over RMB300 billion with both the gross premiums and the incremental premiums maintaining No.1 ranking in the market. The Company's market share was 33.5% (*Note*) in the property and casualty insurance market of the PRC, rising by 0.1 percentage point year-on-year, marking the recovery of market share for the first time since its shareholding reform and listing. Gross written premiums of the motor vehicle insurance segment amounted to RMB225,640 million, representing a year-on-year increase of 10.5%, surpassing the growth rate of the market for the first time since its shareholding reform and listing; gross written premiums of the non-motor vehicle insurance business amounted to RMB85,520 million, representing a year-on-year increase of 10.4%.

Note: Calculated based on the PRC insurance industry data for 2016 published on the website of the CIRC.

Profitability surpassed that of the market, and leading edge continuously extended. In 2016, the market competition became more severe with the deregulation of premium rate of commercial motor vehicle insurance, the severity caused by various natural disasters rose dramatically, the capital market remained sluggish, and the combined ratio of the Company and its subsidiaries was 98.1%, representing a year-on-year increase of 1.6 percentage points, outperforming that of the market; underwriting profit was RMB5,024 million, representing a year-on-year increase in terms of market share of underwriting profit; total investment income reached RMB18,940 million; profit for the year was RMB18,021 million, representing a year-on-year decrease of 17.5%; the return on equity ratio was 15.8%, maintaining the industry leading position.

Stable financial position, steady enhancement of comprehensive strengths. As at the end of 2016, the total assets of the Company and its subsidiaries reached RMB475,949 million, representing a year-on-year increase of 13.2%. The total equity was RMB119,312 million, representing a year-on-year increase of 9.5%. The total amount of investment assets grew steadily, reaching RMB379,976 million. With the official implementation of C-ROSS, the Company's core solvency margin ratio reached 232%, and the comprehensive solvency margin ratio was 287%, much higher than the level achieved under the previous solvency regulation. In the C-ROSS risk management capability assessment carried out by the CIRC, the score achieved by the Company ranked No.1 across the property and casualty insurance industry. Attributable to the outstanding industry position and continuously increasing comprehensive strengths of the Company, the rating granted by Moody's Investors Service to the Company in terms of insurance financial strength is Aa3.

Fulfilment of corporate social responsibility, greater prominence of brand image. In 2016, the insured amount underwritten by the Company and its subsidiaries was RMB291 trillion in aggregate; the Company and its subsidiaries processed 29.69 million claims of all types and paid aggregate claims of RMB159.9 billion in total. The Company dealt with natural catastrophes such as Typhoons Meranti and Megi and the collapse of the cooling tower of Jiangxi Fengcheng Power Plant and such other severe disasters and accidents proactively and properly, which received high recognition from local governments and the vast range of customers. Through speeding up the construction of various customer service platforms such as mobile internet, integrated service counter and customer club, enhancing its claim settlement service and strengthening the handling of customer complaints, the Company continuously improved customer experience and steadily increased customer satisfaction. In 2016, the Company was awarded a number of honours including "Outstanding Chinese Enterprise in Social Responsibility" and "Best Listed Company", and maintained the No.1 ranking for the eighth consecutive year in terms of competitiveness among the Asian property and casualty insurance companies.

(I) Strengthening market benchmarking and implementing proactive market strategies to gain development initiatives

In terms of the development of the motor vehicle insurance business, the Company proactively built up a large scope motor vehicle insurance framework, accurately comprehended the inherent rule embedded in the deregulation of premium rate of commercial motor vehicle insurance, strengthened and updated the channel cooperation mode, improved the efficiency of differentiated allocation of resources, strategically developed the insurance market of middle to high end new automobiles, improved mechanism for coordination among the Company, PICC Life and PICC Health and strengthened management of the sales process, all of which contributed to a strong support for the rebound of the market share of the Company. **In terms of the commercial non-motor vehicle insurance business**, whilst endeavouring to deeply serve the national governance modernisation, the Company achieved a substantial development of the environmental pollution liability insurance, catastrophe insurance, the liability insurance for the preservation of properties under lawsuit and such other insurance products relating to the livelihood governance. The Company actively served the economic new normal and the national strategies of "the Belt and Road Initiatives" and the "Made-in-China 2025" plan, and its individual credit loan surety insurance business and the insurance for the first set of major technical equipment grew tremendously. The Company leveraged the opportunities presented in the demand for internet insurance and achieved a rapid growth in innovative and diversified business such as returned goods freight insurance, delayed voyage insurance and extended warranty liability insurance for motor vehicles. **In terms of the business with the State's financial support**, in response to the State's "agriculture, rural areas and farmers" development strategy, the Company vigorously developed innovative agriculture insurance such as insurance for the price of agricultural products and weather index, maintaining its leading position in the agriculture insurance business market. The Company vigorously answered the central government's call for the campaign to alleviate poverty and implemented pilot projects to develop poverty alleviation insurance and financing-for-agriculture business and promoted successful models for a wider application. The Company achieved effective results in carrying out the policy of "directing financial resources to combating poverty with insurance to play a key role". To leverage the opportunities of the "Healthy China" strategy, the Company developed its business to proactively serve the construction of a multi-facet social medical insurance system and gradually formed an integrated development structure, facilitating a rapid development of the social medical insurance business.

(II) Strengthening the construction of the basic level of the Company and enhancing sales efficiency through operation innovation

The Company continued to increase resources allocation in favour of the basic level of the Company by promoting the restructuring of the working environment, deepening the reform of the remuneration system for the basic level employees, improving the trainings for the basic level leaders and employees and expanding the front line sales workforce with a significant increase in the proportion of the basic level sales personnel. The Company strengthened the construction of the basic level sales capabilities with a tilting of sales resources allocation towards the basic level, and moderately increased the business management approval authority and business operation autonomy at the basic level. The Company established and promoted county-level best practices, steadily formulated the differentiated business development models at county level, vigorously developed county-level sales channels, actively established e-commerce teams and promoted the construction of county-level sales channels on all fronts. The Company also strengthened the promotion of its brand at the county level, upgraded the models for underwriting, policy issuance and claim settlement, steadily promoted the construction of the support platforms for the county-level business, and all these measures brought initial good results.

(III) Furthering the implementation of the cost leadership strategy and enhancing the value creation capability through refined management

The Company made efforts to further the implementation of the cost leadership strategy, enable the accurate allocation of resources, implement the interlinked adjustments of the expense rate budget and business quality, continuously optimise the expense structure, strictly control management expenses, upgrade management tools, optimise core processes, carry out the trial operation of electronic policies, electronic invoices and underwriting files electronisation, speed up the construction of low-cost channels, improve the resources allocation efficiency, focus on the development of quality business, implement the lean claims project, further the construction of such sectors as auto parts, working hours, claim adjustment, human injury claims, non-motor vehicle insurance claims, and inspection and claim recovery for loss prevention, increase disaster and loss prevention and control efforts and enhance the value creation capability through refined management.

(IV) Improving the comprehensive risk management system and continuing to enhance risk management capabilities

The Company made efforts to fully satisfy regulatory requirements, standardise business activities, enhance compliance management according to law, achieve the promotions of both compliance and development, improve the solvency risk management system and capital management structure, develop solvency emergency management guidelines, establish capital monitoring and emergency response mechanism, improve the solvency information compilation and disclosure system, continuously improve the risk management information system and rules and regulations, improve the risk management mechanism and technology, establish top-down risk preference, tolerance and limit system, build a key risk early warning system based on risk classification framework, and use the risk management information system to enhance the informationalisation level of risk management, achieving continuous strengthening of risk identification and prevention capabilities.

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			
	2016		2015	
	RMB million	*%*	*RMB million*	*%*
Net earned premiums	**270,261**	**100.0**	244,567	100.0
Net claims incurred	**(171,759)**	**(63.5)**	(153,419)	(62.7)
Total expenses	**(93,478)**	**(34.6)**	(82,544)	(33.8)
Underwriting profit	**5,024**	**1.9**	8,604	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 2016 RMB million	2015 RMB million
Motor vehicle insurance	225,640	204,266
Commercial property insurance	12,321	12,916
Accidental injury and health insurance	23,432	18,560
Liability insurance	13,703	11,558
Cargo insurance	2,977	3,225
Agriculture insurance	19,535	18,944
Other insurance	13,552	12,229
Total	311,160	281,698

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 2016		2015	
	Amount RMB million	Percentage %	Amount RMB million	Percentage %
Insurance agents	206,904	66.7	162,617	57.9
Among which:				
Individual insurance agents	109,044	35.1	85,579	30.5
Ancillary insurance agents	56,681	18.3	52,749	18.8
Professional insurance agents	41,179	13.3	24,289	8.6
Direct sales	87,968	28.3	103,755	36.9
Insurance brokers	15,581	5.0	14,638	5.2
Total	310,453	100.0	281,010	100.0

Gross written premiums of the Company and its subsidiaries were RMB311,160 million in 2016, representing an increase of RMB29,462 million (or 10.5%) from RMB281,698 million in 2015. 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 RMB225,640 million, representing an increase of RMB21,374 million (or 10.5%) from RMB204,266 million in 2015. In 2016, the Company actively responded to the deregulation of premium rate of commercial motor vehicle insurance, continuously increased the efforts in marketing of product mix of motor vehicle insurance, as a result there was a further increase in the proportion of customers buying both compulsory and commercial motor vehicle insurance. In 2016, the Company upgraded the mechanism for cooperation with auto dealers and, as a consequence, both the number of new vehicles insured and the premium income from the new vehicles kept continuous growth. Meanwhile, the Company made an in-depth development of existing business resources, made efforts to realise the renewal and transferred-in of existing business, and the motor vehicle insurance business recorded stable growth.

Impacted by the deep adjustment of economic structure as “cutting overcapacity and increasing efficiency”, there was inadequate demand for commercial property insurance and the overall premium rate declined. In 2016, the comprehensive commercial property insurance business and the machinery damage insurance business of the Company, both with relatively high premium rates, declined. The gross written premiums of the commercial property insurance segment were RMB12,321 million, representing a decrease of RMB595 million (or -4.6%) from RMB12,916 million in 2015.

Gross written premiums of the accidental injury and health insurance segment were RMB23,432 million, representing an increase of RMB4,872 million (or 26.3%) from RMB18,560 million in 2015. In 2016, by seizing the policy opportunity, the Company consolidated the insurance renewal business, actively developed new markets, strengthened horizontal integration and development, deeply developed clients resources, further enhanced the sales ability at basic level, made great efforts to promote the application of new platforms such as sales through mobile, as a result of which the new business such as accidental insurance for drivers and passengers of motor vehicles developed rapidly, the traditional business such as accidental injury insurance for school students and young children and contractors accidental injury insurance grew steadily, and critical illness insurance, supplementary medical insurance for urban employees and new rural cooperative basic medical insurance contributed significantly to the incremental premiums.

Gross written premiums of the liability insurance segment were RMB13,703 million, representing an increase of RMB2,145 million (or 18.6%) from RMB11,558 million in 2015. In 2016, the State Council and the relevant ministries and commissions formulated and issued various policy documents successively, this provided powerful policy supports for expanding the coverage and enhancing the penetration of liability insurance. The traditional business such as employer liability insurance, medical liability insurance, public and product liability insurance showed sound development. At the same time, the Company actively developed innovative business, such as insurance for the first set of major technical equipment, liability insurance for the preservation of properties under lawsuit, insurance for the loss of freight on online shopping and extended warranty liability insurance for motor vehicle, all these brought new growth points to the Company’s liability insurance segment.

In 2016, China’s economy entered into a new development normal, the economic structure was adjusted deeply, the atmosphere of import and export trade was depressed, the rail transport volume dropped, the sources of cargo insurance business shrank and the premium rate declined. Gross written premiums of the cargo insurance segment were RMB2,977 million, representing a decrease of RMB248 million (or -7.7%) from RMB3,225 million in 2015.

Gross written premiums of the agriculture insurance segment were RMB19,535 million in 2016, representing an increase of RMB591 million (or 3.1%) from RMB18,944 million in 2015. In 2016, the agriculture insurance market was further opened and the market competition was increasingly intense. The Company’s agriculture insurance business growth slowed down, the main growth point of which centered on breeding insurance business, such as insurance for fattening pigs, insurance for reproductive sow and insurance for dairy cows. Some new business, such as aquaculture insurance and insurance for group breeding and aquaculture also developed well.

Gross written premiums of the other insurance segment were RMB13,552 million, representing an increase of RMB1,323 million (or 10.8%) from RMB12,229 million in 2015. In 2016, the Company’s innovative household property insurance product and individual credit loan surety insurance segment achieved a relatively rapid growth, this drove household property insurance business and credit and surety insurance business to develop quickly.

NET EARNED PREMIUMS

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

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Motor vehicle insurance	**209,667**	190,067
Commercial property insurance	**7,527**	7,900
Accidental injury and health insurance	**19,833**	15,193
Liability insurance	**9,572**	8,386
Cargo insurance	**2,161**	2,350
Agriculture insurance	**14,428**	14,552
Other insurance	**7,073**	6,119
Total	**270,261**	244,567

Net earned premiums of the Company and its subsidiaries were RMB270,261 million in 2016, representing an increase of RMB25,694 million (or 10.5%) from RMB244,567 million in 2015.

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			
	2016		2015	
	Net claims incurred	Loss ratio	Net claims incurred	Loss ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	**(124,718)**	**(59.5)**	(115,085)	(60.5)
Commercial property insurance	**(5,741)**	**(76.3)**	(5,243)	(66.4)
Accidental injury and health insurance	**(17,649)**	**(89.0)**	(13,695)	(90.1)
Liability insurance	**(5,767)**	**(60.2)**	(4,857)	(57.9)
Cargo insurance	**(1,149)**	**(53.2)**	(1,155)	(49.1)
Agriculture insurance	**(11,233)**	**(77.9)**	(9,425)	(64.8)
Other insurance	**(5,502)**	**(77.8)**	(3,959)	(64.7)
Total	**(171,759)**	**(63.5)**	(153,419)	(62.7)

Net claims incurred of the Company and its subsidiaries in 2016 were RMB171,759 million, representing an increase of RMB18,340 million (or 12.0%) from RMB153,419 million in 2015. The loss ratio was 63.5% in 2016, increased by 0.8 percentage points from 62.7% in 2015. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB124,718 million, representing an increase of RMB9,633 million (or 8.4%) from RMB115,085 million in 2015. The loss ratio decreased by 1.0 percentage point from 60.5% in 2015 to 59.5% in 2016. In 2016, the Company strengthened customer classification and risk control, and with respect to those profitable motor vehicle insurance, expanded the coverage and increased the proportion of customers buying both compulsory and commercial motor vehicle insurance. The Company also improved the efficiency in resources allocation and further optimised its business structure. After the deregulation of premium rate of commercial motor vehicle insurance, the percentage of customers with no record of reported claims increased, and the valid claim reports and frequency witnessed an obvious decrease. Meanwhile, the Company strengthened the refined management of claim settlement, and reinforced the control on property damage in motor vehicle insurance, personal injuries cost, inspection and claim recovery, etc.

In 2016, net claims incurred of the commercial property insurance segment were RMB5,741 million, representing an increase of RMB498 million (or 9.5%) from RMB5,243 million in 2015. The loss ratio increased by 9.9 percentage points from 66.4% in 2015 to 76.3% in 2016. In 2016, due to Typhoon Meranti, the tornado in Yancheng, Jiangsu Province and natural catastrophes such as rainstorms and floods across China, high-value claims of the commercial property insurance increased to some extent, and the loss ratio grew on a year-on-year basis.

In 2016, the Company strived to improve the underwriting conditions for the accidental injury and health insurance segment, strictly controlled underwriting quality, optimised its business structure and carried out and continuously enhanced risk adjustment and medical control. Net claims incurred of the accidental injury and health insurance segment were RMB17,649 million, representing an increase of RMB3,954 million (or 28.9%) from RMB13,695 million in 2015. The loss ratio decreased by 1.1 percentage points from 90.1% in 2015 to 89.0% in 2016.

Net claims incurred of the liability insurance segment were RMB5,767 million, representing an increase of RMB910 million (or 18.7%) from RMB4,857 million in 2015. The loss ratio increased by 2.3 percentage points from 57.9% in 2015 to 60.2% in 2016. The year 2016 faced an increase in the claim cost for human injuries of third party liability insurance. Specifically, employer's liability insurance, carrier's liability insurance and medical malpractice liability insurance had relatively high loss ratios.

Net claims incurred of the cargo insurance segment were RMB1,149 million, representing a decrease of RMB6 million (or -0.5%) from RMB1,155 million in 2015. The loss ratio increased by 4.1 percentage points from 49.1% in 2015 to 53.2% in 2016. The year 2016 faced an intense competition in the cargo insurance market, a continuous decline in premium rate and a rapid increase in the number of low- and medium-value cases settled in the cargo insurance segment, with the loss ratio growing relatively.

In 2016 when losses caused by cold wave, rainstorms, floods, typhoons, drought, wheat scab and other natural catastrophes increased sharply compared to the previous year, net claims incurred of the agriculture insurance segment were RMB11,233 million, representing an increase of RMB1,808 million (or 19.2%) from RMB9,425 million in 2015. The loss ratio increased by 13.1 percentage points from 64.8% in 2015 to 77.9% in 2016.

Net claims incurred of the other insurance segment were RMB5,502 million, representing an increase of RMB1,543 million (or 39.0%) from RMB3,959 million in 2015. The loss ratio increased by 13.1 percentage points from 64.7% in 2015 to 77.8% in 2016. Amongst this segment, the loss ratios of the engineering insurance, marine hull insurance and credit and surety insurance increased as a result of major catastrophes and accidents as well as changes in the credit environment at home and abroad.

TOTAL EXPENSES

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

	Year ended 31 December			
	2016		2015	
	Total expenses *RMB million*	Expense ratio *%*	Total expenses *RMB million*	Expense ratio *%*
Motor vehicle insurance	**(77,924)**	**(37.2)**	(67,596)	(35.6)
Commercial property insurance	**(3,542)**	**(47.1)**	(3,358)	(42.5)
Accidental injury and health insurance	**(2,482)**	**(12.5)**	(2,560)	(16.8)
Liability insurance	**(3,277)**	**(34.2)**	(3,271)	(39.0)
Cargo insurance	**(785)**	**(36.3)**	(950)	(40.4)
Agriculture insurance	**(2,813)**	**(19.5)**	(2,680)	(18.4)
Other insurance	**(2,655)**	**(37.5)**	(2,129)	(34.8)
Total	**(93,478)**	**(34.6)**	(82,544)	(33.8)

Total expenses of the Company and its subsidiaries were RMB93,478 million in 2016, increased by RMB10,934 million (or 13.2%) from RMB82,544 million in 2015, with the expense ratio increasing by 0.8 percentage points from 33.8% in 2015 to 34.6% in 2016. In 2016, 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 the use of motor vehicles, business-related entertainment, travel and conference as compared to the previous year, significantly improved its refined cost management and control capability, achieving administrative expenses of RMB7,377 million (representing a decrease of RMB137 million or 1.8% on a year-on-year basis) and an administrative expense ratio of 2.7% (representing a decrease of 0.4 percentage points on a year-on-year basis); in addition, the Company effectively responded to the deregulation of premium rate of commercial motor vehicle insurance, strengthened market benchmarking, implemented the proactive financial policies and precise marketing plans, adjusted the expense ratio budget based on business quality, and improved efficiency in resources allocation, thereby striving to improve its ability to obtain high-quality business and achieving an underwriting expense ratio of 31.9%, representing a year-on-year increase of 1.2 percentage points.

UNDERWRITING PROFIT

The following table sets forth the underwriting profit/(loss) of the Company and its subsidiaries 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			
	2016		2015	
	Underwriting profit/(loss) *RMB million*	Underwriting profit/(loss) ratio *%*	Underwriting profit/(loss) *RMB million*	Underwriting profit/(loss) ratio *%*
Motor vehicle insurance	7,025	3.3	7,386	3.9
Commercial property insurance	(1,756)	(23.4)	(701)	(8.9)
Accidental injury and health insurance	(298)	(1.5)	(1,062)	(6.9)
Liability insurance	528	5.6	258	3.1
Cargo insurance	227	10.5	245	10.5
Agriculture insurance	382	2.6	2,447	16.8
Other insurance	(1,084)	(15.3)	31	0.5
Total	5,024	1.9	8,604	3.5

The Company and its subsidiaries recorded an underwriting profit of RMB5,024 million in 2016, representing a decrease of RMB3,580 million (or -41.6%) from RMB8,604 million in 2015; the underwriting profit ratio was 1.9%, representing a decrease of 1.6 percentage points as compared with 2015.

INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2016 Balance RMB million	31 December 2016 Percentage %	31 December 2015 Balance RMB million	31 December 2015 Percentage %
By category:				
Cash and cash equivalents	25,144	6.6	22,828	6.6
Term deposits	68,286	18.0	98,663	28.7
Debt securities	110,645	29.1	107,404	31.2
Equity securities and mutual funds	67,038	17.6	68,714	20.0
Investments classified as loans and receivables	63,855	16.8	30,052	8.7
Investment properties	4,902	1.3	4,783	1.4
Investments in associates	37,045	9.8	8,584	2.5
Other investment assets *(Note)*	3,061	0.8	2,997	0.9
Total investment assets	379,976	100.0	344,025	100.0

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

In 2016, 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 RMB35,951 million (or 10.5%) on a year-on-year basis. In 2016, while enhancing the overall size of the investment assets, the Company timely adjusted its investment assets mix, improved the quality of its investment portfolio and achieved a balance between profit gaining and risk taking based on the conditions of the capital market as well as its own risk preferences.

In 2016, the Company proactively seized the operating opportunities in the market to timely adjust weighing of the equity investment positions; increased the allocations in financial products and infrastructure debt securities investment schemes and carefully allocated its investment to high credit rating and high-quality corporate bonds for the purpose of increasing both the channels for application of capital and the investment income and subject to rigorous risk control and repayment of principal and interest being secured.

As at 31 December 2016, the Company had investments in associates of RMB37,045 million, representing a year-on-year increase of RMB28,461 million. The Company completed its acquisitions of PICC Health and Hua Xia Bank at the respective prices of RMB2,500 million and RMB22,444 million in June and November 2016 respectively.

In 2016, the Company acquired 19.99% of the total issued shares of Hua Xia Bank. A derivative financial instrument arose from the transaction and at the date of acquisition, a realised gain of RMB1,009 million was recognised in the consolidated income statement. In addition, an excess of RMB2,636 million, which represented the share of fair value of identifiable net assets of Hua Xia Bank over the initial cost of the investment, was included as income in share of profits of associates in the consolidated income statement.

Investment Income

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Operating lease income from investment properties	**256**	209
Interest income	**12,351**	12,425
Dividend income	**2,466**	1,634
Total of investment income	**15,073**	14,268

Investment income of the Company and its subsidiaries was RMB15,073 million in 2016, representing an increase of RMB805 million (or 5.6%) from RMB14,268 million in 2015. With continuous increase and improvement in the level and mechanism for dividend distributions of listed companies in 2016, dividend income increased by RMB832 million (or 50.9%) on a year-on-year basis.

Net Realised and Unrealised Gains on Investments

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Realised gains on investments	**1,176**	6,343
Unrealised (losses)/gains on investments	**(304)**	74
Impairment losses	**(98)**	–
Fair value gains on investment properties	**148**	145
Total of net realised and unrealised gains on investments	**922**	6,562

In 2016, as a result of the fluctuation of the capital market, the realised gains on investments of the Company and its subsidiaries decreased by RMB5,167 million (or -81.5%) on a year-on-year basis. The net unrealised losses on investments for the Year were RMB304 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	
	2016	2015
	RMB million	*RMB million*
Profit before tax	**22,451**	28,203
Income tax expense	**(4,430)**	(6,356)
Profit for the year	**18,021**	21,847
Total assets *(Note)*	**475,949**	420,420

Note: Based on the data as at 31 December 2016 and 31 December 2015.

TOTAL PROFIT

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB22,451 million in 2016, representing a decrease of RMB5,752 million (or -20.4%) from RMB28,203 million in 2015.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB4,430 million in 2016, representing a decrease of RMB1,926 million from RMB6,356 million in 2015.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year was RMB18,021 million in 2016, representing a decrease of RMB3,826 million (or -17.5%) from RMB21,847 million in 2015. Basic earnings per share attributable to owners of the parent in 2016 was RMB1.215.

CASH FLOW

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

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Net cash flows from operating activities	**22,077**	27,232
Net cash flows used in investing activities	**(18,206)**	(26,507)
Net cash flows used in financing activities	**(1,555)**	(2,054)
Net increase/(decrease) in cash and cash equivalents	**2,316**	(1,329)

In 2016, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB22,077 million, representing a decrease of RMB5,155 million from RMB27,232 million in 2015. In 2016, the Company adhered to market benchmarking, implemented proactive sales policy and focused on improving its ability to acquire high-quality business. Accordingly, the amount of cash paid by the Company for underwriting expenses, commission expenses, tax expenses and etc. increased, and their respective percentages in cash inflow from premiums increased.

In 2016, the net cash flows used in investing activities of the Company and its subsidiaries were RMB18,206 million, representing a decrease of RMB8,301 million from RMB26,507 million in 2015. In 2016, the cash flows from maturities of term deposits of the Company and its subsidiaries were RMB30,401 million and the cash flows used in investment in Hua Xia Bank were RMB22,444 million.

In 2016, the net cash flows used in financing activities of the Company and its subsidiaries were RMB1,555 million, representing a decrease of RMB499 million from RMB2,054 million in 2015. In 2016, the Company's net cash flows from the issuance of capital supplementary bonds were RMB15 billion, the net cash flows used in redemption of subordinated debts increased by RMB2 billion on a year-on-year basis, and the net cash flows from transactions of securities sold under agreements to repurchase decreased by RMB12,105 million on a year-on-year basis.

As at 31 December 2016, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB25,144 million.

LIQUIDITY

The cash flows of the Company and its subsidiaries are primarily derived from cash generated from operating activities, which are 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 November 2016, the Company issued fixed-rate capital supplementary bonds of RMB15 billion and in October 2014, the Company issued fixed-rate subordinated term debts of RMB8 billion, each with a term of 10 years, to institutional investors in the PRC for the primary purpose of supplementing the capital and increasing the solvency margin of the Company.

Save for the capital supplementary bonds and 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 RMB2,105 million in 2016.

SOLVENCY MARGIN REQUIREMENT

As at 31 December 2016, the actual capital of the Company was RMB140,793 million, the core capital was RMB113,864 million, the minimum capital was RMB49,071 million, the comprehensive solvency margin ratio was 287%, and the core solvency margin ratio was 232%.

GEARING RATIO

As at 31 December 2016, the gearing ratio *(Note)* of the Company and its subsidiaries was 70.1%, representing a decrease of 0.1 percentage point from 70.2% as at 31 December 2015.

Note: Gearing ratio is represented by total liabilities (excluding capital supplementary bonds and 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 position or operating results of the Company and its subsidiaries.

As at 31 December 2016, 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 24 March 2017, the Board proposed a final dividend of RMB0.309 per ordinary share for the Year. This proposal is subject to the approval at shareholders' general meeting of the Company.

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 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, reprice 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 2016, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB100 million.

DEVELOPMENT OF NEW PRODUCTS

In 2016, the Company focused on the hot spots of the market and the needs of clients and submitted a total of 715 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 151 national provisions and premium rates, 564 regional provisions and premium rates, and 574 main insurance provisions and premium rates and 141 rider provisions and premium rates. As at 31 December 2016, the Company had 10,023 insurance provisions in use and operation.

EMPLOYEES

As at the end of 2016, the Company had 174,545 employees. In 2016, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB26,783 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 employee 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 2017, the Company will pursue supply upgrades and encourage innovation along the main line of supply-side structural reform. The Company will energise the front-end segment, optimise the middle tier segment and strengthen the back-end segment to enhance value creation capability and adhere to the bottom line of risk compliance. Through the above efforts, the Company aims at surpassing the market in terms of development and profitability and leading the industry in service quality. To ensure achievement of the annual operating targets, the Company will take solid measures in the following key areas:

(1) **Seize the opportunity and pursue supply upgrades to create a new landscape for the development of the Company.** Supply upgrading is necessary as time advances and for the Company to achieve leapfrog development. With serving the general economic and social development as its mission, the Company will expand its scope of service and pursue innovation of insurance supply and development approaches. It will establish a platform for business development and build up new advantage of policy-oriented business. It will also promote supply upgrades and accelerate the implementation of the strategy of internationalisation in order to build up new advantage and create new room for the development of the Company.

(2) **Energise the front-end segment and activate the vitality to build up new energy for business development.** Sales is the starting point of the business of an insurance company. Aiming at enhancing both the sales capability and the market competitiveness, the Company will organise a creative operation mechanism and improve the sales system development; continuously promote construction at, and activate the vitality of, the basic level; coordinate the channel construction and precisely connect with the clients; release the productivity of the first-line and free the capacity of the sales of the Company.

(3) **Optimise the middle tier segment and enhance the capability to create value of the professional business line.** The middle tier segment supports the front-end sales and the business results of the Company with its professional capability. With the objective of uplifting the capability of responding to the market and creating value, the Company will enhance the developments of business lines, claim settlement, customer services and professional investment capability and provide professional and efficient service support to the development of the first-line business to ensure that the development and profitability of the Company are always leading the industry.

(4) **Strengthen the back-end segment and amplify the effectiveness to build up new advantage of back-end support.** Being the foundation of the operation of a company, the back-end segment ensures the efficiency of the front-end sales and the effectiveness of the middle tier management. Aiming at increasing the operation efficiency and the service safeguard capability, the Company will accelerate the IT transformation and upgrading to continuously enhance the operation support capability; upgrade the underlying resources management to enhance the operation safeguard capability; improve the comprehensive risk control to uplift the risk prevention capability; step up brand development to promote the influence of its brand; make full efforts to build up a strong back-end support to fully elevate the backup support capability.

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 plays an important role in the operation and management of the Company. The Company has adopted a prudent risk management strategy and the risk management service is guided by the overall business strategy of the Company to ensure that the Company's major risks are fundamentally controlled, business continues healthy development and business performance makes steady improvement. During the Year, the Company fully implemented the C-ROSS regulatory requirements, continued to improve the comprehensive risk management system, promoted the steady implementation of various risk management measures, continuously strengthened the daily management and control of the 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, changes to the external environment and policies, such as the subsisting pressure of downward trend of the macro-economy, upscaled supply and demand in the insurance sector, the market structure being at a crucial upgrading stage between continuation of the old and the transition into the new, new technologies and new business trends will bring uncertainties for the Company. **Firstly**, the increasingly complicated economic conditions and stepped-up uncertainties stemmed from the volatility of the capital market, a gradual liberalisation of insurance fund utilisation channels, the adoption of a more stringent policy of capital regulation and the full implementation of C-ROSS may have an impact on the investment and financing strategy, capital management, compliance management and other areas of the Company. **Secondly**, due to the slowdown of economic growth, the entry into a period of high-default rate of bonds with such defaults demonstrating a trend of spreading, an increase in the probability of a future outbreak of credit risk crisis due to risks accumulated from early on which is made possible by changes in the basic credit conditions, the credit risk faced by the credit assets of the insurance business, reinsurance business and investment business of the Company may increase. **Thirdly**, the impact of the deregulation of premium rate of commercial motor vehicle insurance and the policy of replacement of business tax with value-added tax has become more and more noticeable and will continue to have an impact on the business models, cost structure and operating strategy of the Company. **Fourthly**, with a crossover participation of the Internet, big data, cloud computing and such other new technologies in the insurance business, the pace of providing insurance service online via the Internet has accelerated, and the market is undergoing a structural reshaping, where the competition among the insurance companies has been intensified and the competition from crossover business players starts to exist concurrently.

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

Potential 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

Environmental policies and performance of the Company are set out in the "Corporate Social Responsibility" section of this annual report.

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, and 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 various newly implemented regulations and policies on the Company's business operation, proactively took measures to ensure the implementation of various reform initiatives in a continuous and orderly manner; continuously strengthened the promotion and training regarding law and compliance culture, and through introducing innovative means and methods to the promotion and training, expanded the coverage of such promotion and training, 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 establishment 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 minor non-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

Key relationships with employees, customers and suppliers that have a significant impact on the Company are set out in the "Corporate Social Responsibility" section of this annual report.

DIVIDEND

On 24 March 2017, the Board proposed the distribution of a final dividend of RMB0.309 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 23 June 2017 (Friday). If approved, the Final Dividend is expected to be paid on 22 August 2017 to the shareholders whose names appear on the register of members of the Company on 5 July 2017 (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 30 June 2017 (Friday) to 5 July 2017 (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 5 July 2017 (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 29 June 2017 (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 23 June 2017 (Friday), the register of members of the Company will be closed from 24 May 2017 (Wednesday) to 23 June 2017 (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 23 June 2017 (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 23 May 2017 (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税法》) 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 (國家税務總局《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税有關問題的通知》(國税函〔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 China-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税法》) and its implementing rules, the Tax Measures, 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) (《國家税務總局關於國税發〔1993〕045號文件廢止後有關個人所得税徵管問題的通知》(國税函〔2011〕348號)) 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 Measures. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Measures 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 CHINA-HONG KONG STOCK CONNECT

Withholding and Payment of Individual Income Tax on behalf of Domestic Individual Shareholders Investing through China-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)) and the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui〔2016〕No. 127) (《關於深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〔2016〕127號)), for domestic individual shareholders who invest in H shares of the Company through China-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 China-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 China-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)) and the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui〔2016〕No. 127) (《關於深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〔2016〕127號)), for domestic enterprise shareholders who invest in H shares of the Company through China-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 and 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 2016, according to the PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB30,554 million and the distributable reserves of the Company were RMB30,584 million.

CAPITAL SUPPLEMENTARY BONDS

During the Year, the Company issued capital supplementary bonds, details of which are set out in the "Liquidity" subsection of the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB51 million, of which RMB27 million were donations for public benefits.

MAJOR CUSTOMERS

The 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 2016 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 and PICC Health, both being associates of the Company and 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. 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.

The Company holds 40% of the issued capital of Donghai Marine Insurance Company Limited. Hull insurance, ship builder's risk insurance, shipping cargo insurance, shipping liability insurance and the reinsurance of the foregoing are the principal business of Donghai Marine Insurance Company Limited. Such business falls within the Company's scope of business as well. Mr Wang He, the former executive director of the Company (now the Chairman of the Supervisory Committee of the Company), is also the Chairman of the Board of Donghai Marine Insurance Company Limited.

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 2016 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 provided appropriate cover of legal liabilities of Directors when performing their duties during the Year. The relevant policy was 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 2016 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 the 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 2016, 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	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
JPMorgan Chase & Co.	Beneficial owner, investment manager, trustee (excluding bare trustee), custodian corporation/approved lending agent	367,586,004 *(Note 1)*	Long position	7.99%	2.48%
	Beneficial owner	11,068,383 *(Note 1)*	Short position	0.24%	0.07%
	Custodian corporation/ approved lending agent	100,826,577	Lending pool	2.19%	0.68%
BlackRock, Inc.	Interest of controlled corporations	265,089,533 *(Note 2)*	Long position	5.76%	1.79%

Notes:

1. Among which, 4,494,870 H shares (Long position) and 11,068,383 H shares (Short position) were held through derivatives, categorised as: 578,000 H shares (Long position) and 4,412,000 H shares (Short position) – through physically settled listed securities; 5,642,000 H shares (Short position) – through cash settled listed securities; and 3,916,870 H shares (Long position) and 1,014,383 H shares (Short position) – through physically settled unlisted securities.

2. Among which, 1,244,000 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 2016.

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 was the subscription of shares in PICC Health. As PICC Group is the controlling shareholder of the Company and PICC Health, PICC Health is therefore a connected person of the Company under the Listing Rules.

On 23 June 2016, the Company entered into a capital increase agreement with PICC Health and its shareholders, pursuant to which PICC Health shall increase its capital by way of issuance of new shares. The number of new shares shall be 2,118,644,067, representing approximately 24.73% of the total share capital of PICC Health after the completion of the capital increase, all of which shall be subscribed by the Company for a consideration of approximately RMB2,500 million. PICC Health is a specialised health insurance company and the Company considered that the subscription of new shares in PICC Health and becoming its major shareholder would be beneficial for the Company's strategic layout in the health insurance sector, and the Company would gain from the rapid growth of this sector.

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 and the memorandum of understanding entered into between the Company and PICC AMC; and (iv) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively. PICC Group is the controlling shareholder of the Company and holds 75%, approximately 93% and 100% of the issued capital of PICC HK, ZSIB and PICC AMC, respectively and directly and indirectly holds 80% and approximately 95% of the issued capital of PICC Life and PICC Health, respectively. Therefore, according to the Listing Rules, all of 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 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 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. 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 acts 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 may enter into various types of reinsurance agreements in respect of specific reinsurance business. Under the renewed agreement, the annual caps for the insurance premiums expected to be ceded to PICC HK by the Company and the commissions (including taxes) expected to be received by the Company from PICC HK for the Year were RMB600 million and RMB230 million, respectively. 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. The actual insurance premiums ceded to PICC HK by the Company and the commissions (including taxes) received by the Company from PICC HK were RMB481 million and RMB203 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 RMB6 million and RMB1 million, respectively, for the Year.

On 7 March 2017, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2017 and expiring on 31 December 2017.

(ii) The Company and ZSIB entered into the comprehensive strategic cooperation agreement on 17 June 2013 for a term of three years commencing from 17 June 2013 and expiring on 16 June 2016. On 17 June 2016, the Company and ZSIB renewed the comprehensive strategic cooperation agreement for a term of three years commencing from 17 June 2016 and expiring on 16 June 2019 in order to continue and enhance their cooperation. The comprehensive strategic cooperation 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 building up of the Company's distribution channels and the promotion of the Company's development capability in the broker business market. Pursuant to such agreements, the Company and ZSIB (and its subsidiaries) will cooperate within the prescribed scope of insurance businesses, including businesses of insurance sales, insurance broker and insurance loss assessment. When entering into actual cooperation in particular business projects, the Company will enter into specific agreements with, and pay brokerage fees to, ZSIB and/or its subsidiaries. Pursuant to such agreements, the annual cap for the brokerage fees expected to be paid by the Company to ZSIB and its subsidiaries for the Year was RMB185 million. The actual brokerage fees paid by the Company to ZSIB and its subsidiaries were RMB96 million for the Year.

(iii) The Company and PICC AMC have entered into asset management agreements since 2003. PICC AMC is principally engaged in the provision of asset management and asset management advisory services in the PRC, with the experience and expertise in asset management and with good investment management capability and its management fee rates at comparatively lower level in the asset management industry, and has established a good cooperation relationship with the Company. On 19 December 2015, the Company and PICC AMC entered into a memorandum of understanding relating to the renewal of the asset management agreement for a term of six months commencing from 1 January 2016 and expiring on 30 June 2016. On 23 June 2016, the Company and PICC AMC renewed the asset management agreement for a term of three years commencing from 1 July 2016 and expiring on 30 June 2019. Pursuant to such memorandum and renewed agreement, PICC AMC would provide investment and management services in respect of the assets entrusted by the Company from time to time to PICC AMC for its management, subject to compliance by PICC AMC of the relevant requirements set out in the investment guidelines and the agreement, each as prescribed by the Company. The Company would pay management fees and incentives (if any) to PICC AMC for services provided by PICC AMC. Under such memorandum and renewed agreement, the annual cap for the management fees expected to be paid by the Company to PICC AMC for the Year was RMB200 million. The actual aggregate management fees and performance bonus paid by the Company to PICC AMC were RMB168 million for the Year.

On 24 November 2016, the Company and PICC AMC further entered into a memorandum of understanding, commencing from 24 November 2016 and expiring on 30 June 2019 in relation to the asset management agreement effective on 1 July 2016, in order to regulate the subscriptions by the Company of the financial products which are set up and managed by PICC AMC, PICC Capital and/or PICC Investment, either jointly or singly, and subscribed for by connected person(s). Under such memorandum, for subscriptions of the financial products that are set up and managed by PICC AMC, PICC Capital and/or PICC Investment, either jointly or singly, PICC AMC and the Company agreed that, for the financial products that are subscribed for by such connected person(s), the annual aggregate subscription amount for subscription of such financial products by PICC AMC through application of the funds entrusted by the Company shall not exceed RMB8.0 billion. The aggregate amount of the actual subscriptions in the Year was RMB1,054 million.

(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. On 30 August 2016, the Company renewed the mutual agency agreements with PICC Life and PICC Health respectively for a term of three years commencing from 31 August 2016 and expiring on 30 August 2019. 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 expected to be paid by the Company to PICC Life and PICC Health for the Year was RMB213 million, and 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. The actual commissions paid by the Company to PICC Life and PICC Health for the Year were RMB258 million, slightly exceeding the annual cap, details of which have been set out in the announcement of the Company dated 15 March 2017. The actual commissions received by the Company from PICC Life and PICC Health were RMB128 million for the Year.

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 (Revised) "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. The Board of Directors has received a confirmation letter issued by the auditor in relation to the continuing connected transactions mentioned above, confirming that for the Year:

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, except for the commissions of RMB258 million paid to PICC Life and PICC Health under the continuing connected transaction set out in item (iv) above, nothing has come to its attention that causes it to believe that the transactions have exceeded the annual caps set by the Company.

Except that the commissions paid by the Company to PICC Life and PICC Health under the continuing connected transaction set out in item (iv) above has exceeded the annual cap, 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 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. The proposal for re-appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditor and domestic auditor, respectively, of the Company will be submitted at the forthcoming annual general meeting.

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
24 March 2017

Dear Shareholders,

In 2016, 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 Supervisory Committee convened two regular meetings in March and August 2016, respectively, at which the resolutions, including the Auditor's Report and the Audited Financial Statements for 2015, the Profit Distribution Plan for 2015, the Report of the Supervisory Committee for 2015, the Corporate Governance Report for 2015 – the Supervisory Committee section, the 2016 Interim Financial Statements and the 2016 Interim Profit Distribution Plan, were considered and unanimously approved.

During the Year, the Supervisory Committee also convened two extraordinary meetings in April and December 2016, respectively, at which the resolutions, including the Evaluation Report on Implementation of the Development Plan for 2015 and the Development and Planning Outline of the Thirteenth Five-Year Plan of the Company, were considered and unanimously approved.

Work of the Supervisory Committee

During the Year, the Supervisory Committee attended the Company's 2015 annual general meeting and submitted the Report of the Supervisory Committee of the Company for 2015 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 nine meetings of the Audit Committee and eleven 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, to perform its responsibilities, went down to the branches of the Company to conduct a number of visits and inspections. Through such visits and inspections, the Supervisory Committee 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, and further improved the actual work of the Supervisory Committee and broadened its scope of practice.

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 2016 and audited annual financial statements for the year of 2016 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 2017, 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.

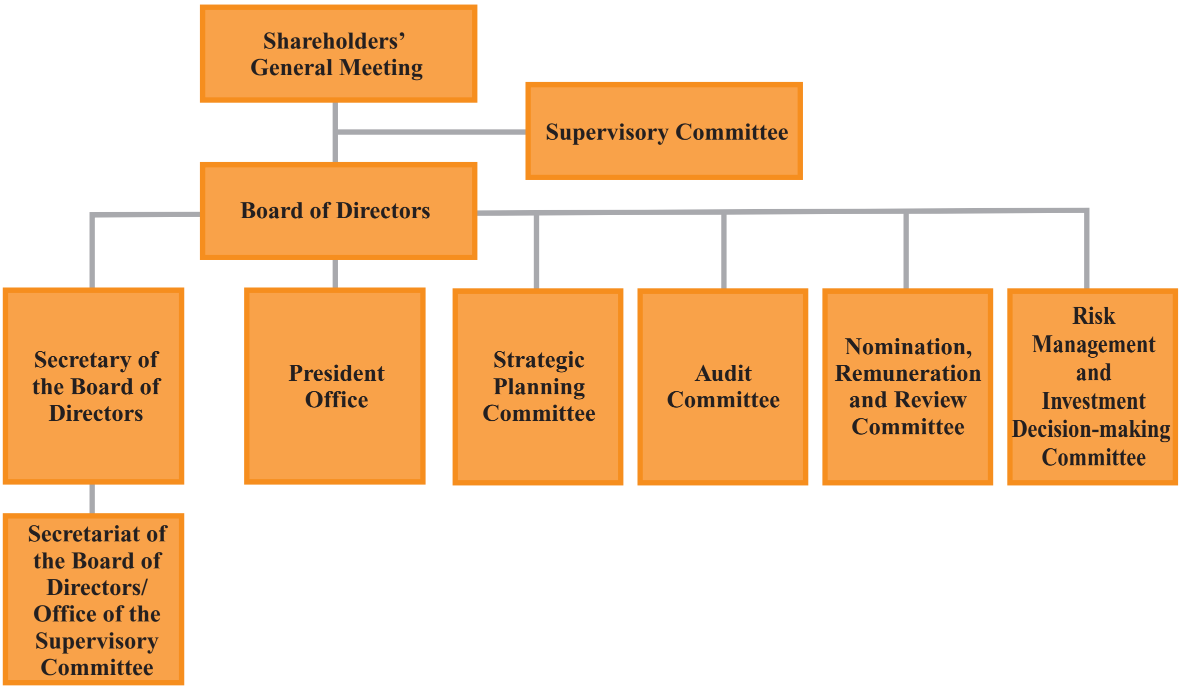
By Order of the Supervisory Committee
Wang He
Chairman of the Supervisory Committee

Beijing, the PRC
24 March 2017

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 2016, 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 Working Rules for the Internal Audit of 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.



The Company complied with all the code provisions of the Corporate Governance Code during the Year.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened one shareholders' general meeting and submitted twelve proposals and reports to the shareholders' general meeting, held eleven Board meetings, at which fifty-nine 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, considered and approved the distribution of the final dividend for 2015 and the issue of capital supplementary bonds, elected the Vice Chairman, appointed the President, 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 holds regular meetings at least four times a year, and convenes 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 enhance 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 (Resigned) *(Note 1)*	Vice Chairman, Executive Director	17 January 2011	From 26 June 2015 to 8 August 2016 (Resigned on 9 August 2016)
Mr Lin Zhiyong *(Note 2)*	Vice Chairman, Executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Wang Yincheng (Resigned) *(Note 3)*	Non-executive Director	6 July 2003	From 26 June 2015 to 5 March 2017 (Resigned on 6 March 2017)
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 Wang He (Resigned) *(Note 4)*	Executive Director	17 January 2011	From 26 June 2015 to 23 March 2017 (Resigned on 24 March 2017)
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
Mr Chu Bende*	Independent Non-executive Director	24 June 2016	From 24 June 2016 to 25 June 2018

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Notes:

1. Mr Guo Shengchen resigned as the Vice Chairman, an Executive Director and the President on 9 August 2016.

2. Mr Lin Zhiyong was elected as the Vice Chairman and appointed as the President on 9 August 2016.

3. Mr Wang Yincheng resigned as a Non-executive Director on 6 March 2017.

4. Mr Wang He was originally an Executive Director and an Executive Vice President. Mr Wang He was appointed as a Supervisor at the Extraordinary General Meeting of the Company on 24 March 2017, whose term of office commenced on the same day. Mr Wang He resigned as an Executive Director and an Executive Vice President on the same day.

* Pending the CIRC's approval of the qualification of the relevant personnel for serving as a Director.

Changes in the Board members during the period from 1 January 2016 to the date of this report are as follows:

At the Annual General Meeting of the Company on 24 June 2016, Mr Chu Bende was appointed as an Independent Non-executive Director, whose term of office commenced on the same day and will continue until the expiry of the term of the current session of the Board. The term of the current session of the Board will expire on 25 June 2018.

Mr Guo Shengchen resigned as the Vice Chairman, an Executive Director and the President due to his age, with effect from 9 August 2016.

Mr Lin Zhiyong was elected as the Vice Chairman and appointed as the President on 9 August 2016. Mr Lin's qualification for serving as the Vice Chairman and the President has been approved by the CIRC.

Mr Wang Yincheng resigned as a Non-executive Director due to his personal circumstances, with effect from 6 March 2017.

Mr Wang He was originally an Executive Director and an Executive Vice President. Mr Wang He was appointed as a Supervisor at the Extraordinary General Meeting of the Company on 24 March 2017, whose term of office is three years commencing immediately after the conclusion of the Extraordinary General Meeting and expiring on 23 March 2020. To comply with the provision of the Articles of Association that no Director or other senior management personnel of the Company may serve as a Supervisor concurrently, Mr Wang He resigned as an Executive Director and an Executive Vice President on the same day, with effect from the commencement of his term of office as a Supervisor.

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.

BOARD OF DIRECTORS *(continued)*

Duties and Responsibilities *(continued)*

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.

Summary of Work Undertaken

During the Year, the Board convened one shareholders' general meeting and submitted twelve proposals and reports to the shareholders' general meeting. Eleven Board meetings were convened, at which fifty-nine 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	10/11	91%	1/1	100%
Guo Shengchen	6/6	100%	1/1	100%
Lin Zhiyong	11/11	100%	1/1	100%
Wang Yincheng	8/11	73%	0/1	0%
Yu Xiaoping	11/11	100%	0/1	0%
Li Tao	11/11	100%	0/1	0%
Wang He	11/11	100%	1/1	100%
Lin Hanchuan	9/11	82%	1/1	100%
Lo Chung Hing	10/11	91%	1/1	100%
Na Guoyi	10/11	91%	1/1	100%
Ma Yusheng	11/11	100%	1/1	100%
Chu Bende	3/6	50%	–	–

Notes:

1. During the Year, the Board had appointed a new Director and a Director resigned. 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, Mr Lo Chung Hing and Mr Na Guoyi attended ten Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his behalf; Mr Wang Yincheng attended eight Board meetings in person and three Board meetings by appointing another Director as proxy to attend on his behalf; Mr Lin Hanchuan attended nine Board meetings in person and two Board meetings by appointing another Director as proxy to attend on his behalf; and Mr Chu Bende attended three Board meetings in person and three Board meetings 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 twelve proposals and reports to the shareholders' general meeting, including the Report of the Board for 2015, the Auditor's Report and the audited financial statements for 2015, the profit distribution plan for 2015, the appointment of an independent non-executive director, the issue of capital supplementary bonds and the re-appointment of the auditors, etc., all of which were approved at the shareholders' general meeting;

- elected Mr Lin Zhiyong as the Vice Chairman of the Board;

- considered and approved the appointment of Mr Lin Zhiyong as the President;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- 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 Internal Control Assessment Report for 2015 and the Compliance Assessment Report for 2015 of the Company, 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 Risk Assessment Report for 2015, the Solvency Report for 2015 and the Solvency Stress Test Report for 2015 of the Company, considered and approved the formulation of the Risk Tolerance and Limit System (2016 Edition) and the Reputation Risk Management Measures (Pilot) of the Company, revised and improved the Comprehensive Risk Management Measures and the Risk Preference System Framework of the Company, and reviewed and continuously improved the effectiveness of the Company's risk management;
- considered and approved the Information Disclosure Report for 2015, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2015, the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2015, the Evaluation Report on Implementation of the Development Plan for 2015 and the Outline of the Thirteenth Five-year Development Plan of the Company;
- revised and improved the Working Rules of the Audit Committee and the Working Rules of the Risk Management and Investment Decision-making Committee to meet new regulatory requirements;
- considered and approved the 2016 interim results;
- considered and approved the participation of the Company in the establishment of Shanghai Insurance Exchange Co., Ltd.;
- considered the proposal for the shareholders' general meeting to authorise the Board to issue capital supplementary bonds of no more than RMB15 billion; and
- considered and approved the Company's subscription for the Equity Investment Scheme of PICC AMC – China Cinda Equity Investment Fund and several other equity investment programs with its entrusted assets.

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 or exchange 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.

Lin Zhiyong: attended various trainings and meetings organised by the Party School of the Central Committee of C.P.C. and PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as 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 macro-economic trend in the PRC, etc.

Yu Xiaoping: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc., and attended the Special Seminar on "Fostering the Core Competitiveness of State-owned Enterprises" organised by the Organisation Department of the CPC Central Committee.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Li Tao: attended various trainings and meetings organised by PICC Group and gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, 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, visited Harvard Business School to interview Clayton Christensen, the master of disruptive innovation, visited Wall Street, U.S.A to interview financial experts, visited world class enterprises such as Apple, Google and Facebook in Silicon Valley, U.S.A, attended the world class management forums and engaged in academic exchanges with foreign experts in management, and gave management lessons to domestic and foreign entrepreneurs and executive officers.

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.

Chu Bende: paid continuous attention to and conducted research on corporate finance and corporate governance, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., 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. Mr Guo Shengchen resigned as the Vice Chairman of the Board and the President on 9 August 2016. Mr Lin Zhiyong was elected as Vice Chairman and appointed as the President on 9 August 2016. 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 made amendments to the Working Rules of the Audit Committee of the Company based on the revisions to the Corporate Governance Code which came into effect on 1 January 2016 and the Working Rules for the Internal Audit of Insurance Institutions circulated by the CIRC in December 2015. Such amendments had been approved by the Board and the new regulatory requirements were followed in the work. 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 an active 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: Lin Hanchuan (Independent Non-executive Director)

Members: Lo Chung Hing (Independent Non-executive Director), Li Tao (Non-executive Director), Chu Bende (Independent Non-executive Director, appointed as a member of the committee on 24 June 2016)

Duties and Responsibilities

The Company made amendments to the scope of work of the Audit Committee based on the revisions to the Corporate Governance Code which came into effect on 1 January 2016 and the Working Rules for the Internal Audit of Insurance Institutions circulated by the CIRC in December 2015. Details of the revised duties and responsibilities are as follows:

Relationship with the external accounting firm:

- make recommendations to the Board in respect of the appointment, removal or non-reappointment of the external accounting firm providing audit services to the Company, deal with any matters concerning the resignation or dismissal of the external accounting firm;
- consider the remuneration and terms of engagement of the external accounting firm;
- review the independence of the external accounting firm and the effectiveness of their audit procedures, discuss the nature and scope of the audit and the relevant reporting obligations with the external accounting firm before commencement of the audit;
- review and ascertain the independence and objectivity of the external accounting firm in respect of its provision of non-audit services, decide whether to retain such accounting firm to provide non-audit services, formulate relevant rules and monitor the implementation of such rules;
- meet at least twice a year with the external accounting firm to discuss auditors' remuneration and matters concerning the audit; and
- act as the key representative body of the Company for overseeing the Company's relations with the external accounting firm.

AUDIT COMMITTEE *(continued)*

Duties and Responsibilities *(continued)*

Reviewing the financial reports of the Company:

- examine the completeness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports and review material opinions on financial reporting set out in such financial statements and reports;
- when reviewing the relevant financial statements and reports, focus on the review of the changes in accounting policies and practices, material judgements, material audit adjustments, assumptions of going concern and any qualified opinions, and compliance with the applicable accounting standards and the provisions relating to financial reporting under the Listing Rules and other laws and regulations; and
- when reviewing the relevant financial statements, reports and accounts, consider any significant or unusual matters that are, or may need to be, reflected in such financial statements, reports and accounts, and give due consideration to any matters that have been raised by the Company's department heads responsible for the finance and accounting function, monitoring function and internal audit function, or the external accounting firm.

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

- review the financial control and internal control system of the Company, and:
    (1) ensure that a review of the effectiveness of the internal control systems of the Company and its subsidiaries has been conducted at least annually. The review should cover all material controls, including financial, operational and compliance controls;

    (2) the annual review should, in particular, consider:

        (a) the scope and quality of management's ongoing monitoring of the internal control system, the work of internal audit function and other assurance providers;

        (b) the extent and frequency of communication of monitoring results to the Board;

        (c) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition;

        (d) the effectiveness of the Company's processes for financial reporting and compliance with the Listing Rules, and the procedures and internal control for the handling and dissemination of inside information; and

        (e) ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.
- discuss with management the internal control system of the Company and ensure that management has performed its duty to establish an effective internal control system;
- consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings, handle and respond to complaints relating to major internal control problems on a timely basis, supervise the rectification of major problems identified in the process of internal audit and external audit;
- ensure coordination between internal audit and external audit;

AUDIT COMMITTEE *(continued)*

Duties and Responsibilities *(continued)*

- review the management rules for the Company's internal audit and provide opinions to the Board, guide the internal audit of the Company to conduct effectively, review and monitor the effectiveness of the internal audit function, review the work reports of the internal audit, consider the Company's annual internal audit plans, internal audit budgets and human resources plans and give opinions to the Board as well as take charge of their implementation after the approval of the Board, ensure that the internal audit department is adequately resourced and has appropriate standing within the Company, regularly meet and communicate with the officer in charge of the Company's internal audit department, consider the annual work plans and annual work reports of the internal audit department;

- review the Company's financial and accounting polices and practices;

- review the Management Recommendation Letters issued by the external accounting firm to management, any material queries raised by the external accounting firm to management in respect of accounting records, accounts or the internal control system and inspect management's response in relation thereto, and ensure that the Board will provide a timely response to the issues raised in the Management Recommendation Letters;

- examine and verify material related party transactions of the Company, consider the reports on special audits in respect of related party transactions;

- consider the reports on the progress of audit work from the Responsible Auditing Officer at least quarterly, consider the reports on internal control assessment in a timely manner, assess the work of the Responsible Auditing Officer and provide comments to the Board; evaluate the work of the department heads responsible for the finance and accounting function and the internal audit function of the Company;

- regularly consider the reports on compliance matters from the Responsible Compliance Officer and the Compliance Department and provide opinions and recommendations to the Board, consider and submit to the Board the Company's annual compliance reports and consider the interim compliance reports;

- review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions; and

- other matters authorised by the Board.

Remuneration of Auditors

In the Year, the Company paid RMB13.87 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2016 and the review of the interim financial statements for 2016. In the Year, the Company paid approximately RMB950,000 to the auditors for non-audit services, including remunerations for translation and review services relating to the 2015 annual and 2016 interim filing materials to Kanto Local Finance Bureau of Japan and the internal control audit relating to the operation of using insurance funds for 2015. 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 nine meetings and considered thirty-three proposals. The attendance record of committee members at the meetings is as follows:

Name	Lin Hanchuan	Lo Chung Hing	Li Tao	Chu Bende
Number of meetings attended/Number of meetings that require attendance	9/9	9/9	9/9	3/4
Attendance rate	100%	100%	100%	75%

Notes:

1. During the Year, a new member was added to the Audit Committee. The table above lists the numbers of meetings held and attended by each member during his term of office.

2. Mr Chu Bende attended three meetings in person and one meeting by appointing Mr Lin Hanchuan as proxy to attend on his behalf.

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 2015 and on the interim review work for 2016, discussed with the auditors about provisions of loss and loss adjustment expense reserves, provisions of impairment on available-for-sale financial assets 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 2016, 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 2015, the Information Disclosure Report for 2015, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2015, the Solvency Report for 2015, the Solvency Report for the fourth quarter of 2015 (C-ROSS), the Solvency Stress Test Report for 2015, the Solvency Report for the second quarter of 2016 and the financial statements and results announcement for the interim period of 2016, discussed with the management on issues relating to, among other things, the premiums receivable, the impact of the deregulation of premium rate of commercial motor vehicle insurance on the Company's motor vehicle insurance business and the premium growth rate and the profit of each insurance segment, and advised the management to pay more attention to the balanced development of insurance segments.

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

- considered and approved the Company's Internal Control Assessment Report for 2015, reviewed the duties and functions of the Company's internal control system;

- considered and approved the Compliance Assessment Reports for 2015 and for the interim period of 2016;

- considered and approved the Report on Progress of Improvement Based on the Management Recommendation Letter for 2014, considered the Management Recommendation Letter for 2015, acknowledged the improvement work made by the management on the management recommendations and made further requests for follow-up improvement;

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- 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 2015 and the work plans for 2016, 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 2015;
- considered and approved the amendments to the Working Rules of the Audit Committee; and
- considered and approved seven proposals for related party transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, the Nomination, Remuneration and Review Committee considered the structure and composition of the Board, nominated candidate for Independent Non-executive Director 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:	Ma Yusheng (Independent Non-executive Director)
Members:	Guo Shengchen (Executive Director, resigned), Lin Hanchuan (Independent Non-executive Director), Chu Bende (Independent Non-executive Director, appointed as a member of the committee on 24 June 2016)

Note: Mr Guo Shengchen resigned as the Vice Chairman and an Executive Director on 9 August 2016 and ceased to act as a member 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 directorships, formulating remuneration policies and structures for directors, the president and other senior management, formulating appraisal standards and conducting annual appraisals, 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, REMUNERATION AND REVIEW COMMITTEE *(continued)*

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' education background, 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 directorship on a merit basis following objective standards, take into account factors such as gender, age, culture and education background and professional experience of the Board members, and select candidates for directorships 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 expense, 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.

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 three meetings, at which six proposals were considered, and at one of these meetings remuneration-related matters were discussed. The attendance record of committee members at the meetings is as follows:

Name	Ma Yusheng	Guo Shengchen	Lin Hanchuan	Chu Bende
Number of meetings attended/Number of meetings that require attendance	3/3	3/3	3/3	–
Attendance rate	100%	100%	100%	–

Note: During the Year, a new member was added to the Nomination, Remuneration and Review Committee, 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 term of office.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

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;
- nominated Mr Chu Bende as an Independent Non-executive Director according to the director nomination procedures and considerations above, which was approved by the Board and the shareholders' general meeting;
- 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 2016, and such recommendations were approved by the Board and the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2015 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the Chairman, the Directors, the President and 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 Corporate Governance Report for 2015.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee considered the annual business development plan and financial plan, major investments, financing plan, 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 (Executive Director)
Members:	Wang Yincheng (Non-executive Director, resigned), Guo Shengchen (Executive Director, resigned), Lin Zhiyong (Executive Director), Li Tao (Non-executive Director), Na Guoyi (Independent Non-executive Director), Wang He (Executive Director, resigned)

Notes:

1. Mr Guo Shengchen resigned as the Vice Chairman and an Executive Director on 9 August 2016 and ceased to act as a member of the Strategic Planning Committee simultaneously.
2. Mr Wang Yincheng resigned as a Non-executive Director on 6 March 2017 and ceased to act as a member of the Strategic Planning Committee simultaneously.
3. Mr Wang He resigned as an Executive Director on 24 March 2017 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 investment plans, 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 five meetings and considered fifteen proposals. The attendance record of committee members at the meetings is as follows:

Name	Wu Yan	Wang Yincheng	Guo Shengchen	Lin Zhiyong	Li Tao	Na Guoyi	Wang He
Number of meetings attended/Number of meetings that require attendance	5/5	5/5	3/3	5/5	5/5	5/5	5/5
Attendance rate	100%	100%	100%	100%	100%	100%	100%

Note: During the Year, a Director resigned and ceased to act as a member of the Strategic Planning Committee 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 business development plan and fixed assets investment plan for the Year and the Evaluation Report on Implementation of the Development Plan for 2015 and the Corporate Governance Report for 2015;
- considered and approved the financial plan for the Year;
- considered and approved the profit distribution plans for 2015 and the interim period of 2016;
- considered and approved the proposal for the shareholders' general meeting to authorise the Board to issue capital supplementary bonds with an aggregate amount of not exceeding RMB15 billion;
- considered and approved the participation of the Company in the establishment of Shanghai Insurance Exchange Co., Ltd.;
- considered and approved the Outline of the Thirteenth Five-year Development Plan of the Company and the Capital Plan (2016-2018) of the Company;
- considered and approved the Measures on Profit Distribution Management and the Capital Management Measures of the Company;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and supervised the regular update of the Normative Manual on Rights and Duties by the Company; 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, the Company made amendments to the Working Rules of the Risk Management and Investment Decision-making Committee of the Company based mainly on the revisions to the Corporate Governance Code which came into effect on 1 January 2016. Such amendments had been approved by the Board and the new regulatory requirements were followed in the work. 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, various risk management basic rules and investment plans of the Company.

Composition

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

Chairman:	Wu Yan (Executive Director)
Members:	Wang Yincheng (Non-executive Director, resigned), Lin Zhiyong (Executive Director), Yu Xiaoping (Non-executive Director), Wang He (Executive Director, resigned)

Notes:

1. Mr Wang Yincheng resigned as a Non-executive Director on 6 March 2017 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

2. Mr Wang He resigned as an Executive Director on 24 March 2017 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

Duties and Responsibilities

The Company made 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 which came into effect on 1 January 2016. Details of the revised duties and responsibilities are as follows:

- evaluate and clearly determine the nature and extent of the risks the Company is willing to take in achieving the Company's business objectives; consider the overall goal, basic policies and working system of risk management of the Company;
- consider the organisational structure and duties and responsibilities of risk management of the Company;
- consider the report on risk assessment of major decisions and proposed solutions to major risks of the Company;
- consider the annual risk assessment reports of the Company;
- discuss the risk management system of the Company with management to ensure that management has performed its duty to establish an effective risk management system;
- review the risk management system of the Company, and ensure that a review of the effectiveness of the risk management system of the Company and its subsidiaries has been conducted at least annually;
- consider major investigation findings on risk management matters as delegated by the Board or on its own initiative and management's response to these findings;
- consider the overall objective, preference for risks, risk tolerance level and risk management policies in respect of the Company's risk management of solvency margin;

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

Duties and Responsibilities *(continued)*

- consider the organisational structure and duties and responsibilities of the Company's risk management of solvency margin;
- evaluate the effectiveness of the operation of the Company's risk management system of solvency margin;
- consider the proposed solutions to the major risk matters of the Company's solvency margin;
- consider the management system for the operations of using insurance funds and the plans for entrusting and custody of insurance funds of the Company, review the effectiveness and adequacy of the investment management system of the Company;
- consider the internal rules and regulations, decision-making process, delegation policies, plans for delegation by the Board to the operational management in relation to the operations of using insurance funds of the Company;
- formulate the Company's annual strategic allocation plans for and investment policies on assets;
- formulate investment strategies and plans for new investment products;
- regularly review any findings of the Company's inspection of risk control on the operations of using insurance funds and understand the risks faced by the Company in relation to the operations of using insurance funds;
- review the annual Reports on Assets and Liabilities Matching of the Company;
- examine matters in relation to changes in accounting policies of the Company regarding the operations of using insurance funds; and
- other matters authorised by the Board.

Summary of Work Undertaken

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

Name	Wu Yan	Wang Yincheng	Lin Zhiyong	Yu Xiaoping	Wang He
Number of meetings attended/Number of meetings that require attendance	6/6	6/6	6/6	6/6	6/6
Attendance rate	100%	100%	100%	100%	100%

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 2015, and gave advice on further development of the comprehensive risk management system;
- considered and approved amendments to the Comprehensive Risk Management Measures and the Risk Preference System Framework, and discussed with the management on ongoing improvement in risk management policies and procedures and ensuring the effectiveness of the risk management system of the Company;

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

Summary of Work Undertaken *(continued)*

- considered and approved the Risk Tolerance and Limit System (2016 Edition) and the Reputation Risk Management Measures (Pilot) of the Company;
- considered and approved the Framework and Responsibility Division for Solvency Risk Management of the Company to improve the organisational framework for solvency risk management and streamline the mechanism and process for C-ROSS risk management;
- considered and approved the revisions to the Working Rules of the Risk Management and Investment Decision-making Committee;
- inspected the risk management system of the Company and reviewed the effectiveness of the risk management system of the Company (including all subsidiaries of the Company);
- considered and approved the strategic allocations of and investment policies on entrusted assets, the guidance on offshore investment and the compliance issue list of the Company for the Year;
- considered and approved the Capital Management Measures and the Capital Plan (2016-2018) of the Company;
- considered and approved the Company's participation in the establishment of Shanghai Insurance Exchange Co., Ltd.; and
- considered and approved the Company's subscription for the Equity Investment Scheme of PICC AMC – China Cinda Equity Investment Fund and several other equity investment programs with its entrusted assets.

INTERNAL CONTROL

In accordance with the Basic Rules for Internal Control of Enterprises and their supporting guidelines and the Basic Standards for Internal Control of Insurance Companies issued by the CIRC and having regard to the Company's internal control system and assessment methods, the Company conducted an annual self-assessment of the effectiveness of the design and operation of its internal control as of 31 December 2016. The Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2016 to review and continuously improve the effectiveness of the internal control system of the Company and its subsidiaries.

The Board is responsible for establishing, improving and effectively implementing internal control, and the management is responsible for organising and leading for the day-to-day operation of the Company's internal control. In internal control assessment, the Board takes charge of determining major defects in internal control and approving the annual internal control assessment reports. The President Office is responsible for leading and organising internal control assessment as required by the Board, and approving the internal control assessment work plan as authorised by the Board. The Compliance Department/Risk Management Department is responsible for organising and implementing the internal control assessment work, and assessing the highly risky fields and units which are included in the scope of assessment. All departments of and directly operating entities under the head office and all provincial branches have established internal control assessment work teams to carry out assessment work as required by the work plan.

During the Year, the internal control assessment, in terms of the target entities, covered all departments of the head office, 38 provincial branches, Northeast Backup Service Center and Shipping Insurance Operation Center, and in terms of the target business, covered controls on tiers of the Company, business and information technology without major omissions.

INTERNAL CONTROL *(continued)*

The assessment result demonstrated that effective and appropriate internal control had been established for all businesses and matters that were within the scope of assessment, which achieved the internal control objectives of the Company without major defects. No major changes in internal control which would cause fundamental impact on assessment result occurred between the reference date of internal control assessment and the issuance date of the internal control assessment report. According to the Measures on the Administration of Internal Control Assessment of the Company, after being aware of any major or material defects in internal control, the main responsible department or entity should make rectifications within the prescribed period and report them to the Board and the President Office. The Company will arrange for audit of such rectification to the defects, and hold those attributing to the defects accountable according to the extent of damage incurred to the Company.

The objectives of the Company's internal control are to reasonably ensure the lawfulness and compliance of its operation and management, security of the assets and the truthfulness and completeness of its financial statements and related information, to improve operating efficiency and performance and to achieve the development strategy. Due to its inherent limitations, internal control can only give reasonable but not absolute assurance for achieving such objectives. In addition, when reviewing the effectiveness of the operation of internal control, the Board can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has the Responsible Auditing Officer and internal audit bodies in place. The audit bodies include the Company's Monitoring/Auditing Department, nine Monitoring and Auditing Centers and the Audit Departments of 38 provincial branches, which form an internal audit organisational framework featuring "coordination between the head office and the branches and management at different levels".

The Company has formulated the regulations for the administration of information disclosure, setting out the procedures for identification, handling and dissemination of inside information. All departments of the head office and all provincial branches provide the Secretariat of the Board with information, within the scope of their duties, which may need to be disclosed, and the Secretariat of the Board is responsible for dealing with the specific information disclosure matters, including identification of inside information, submission of inside information to the Secretary of the Board, the President Office and the Directors for approval, and publication of inside information, etc. The Company organised regular trainings on information disclosure to shape awareness of information disclosure in compliance with laws and regulations, and enhance risk prevention, management and control involving information disclosure. The Company will impose disciplinary measures upon those who violate its information disclosure administration regulations.

RISK MANAGEMENT

The Company believes that sound risk management plays an important role in the Company's operation. The Board is ultimately responsible for the completeness and effectiveness of the risk management system of the Company. The Board is committed to establishing a complete and effective risk management system, continuously paying close attention to and monitoring the effectiveness of the risk management, examining and approving the risk preference system, the organisational structure for risk management, the solutions to significant risk and the annual risk assessment reports of the Company, etc. The Risk Management and Investment Decision-making Committee under the Board is responsible for considering the risk management system, the annual risk assessment reports and the solutions to significant risk as well as continuously reviewing, monitoring and assessing the effectiveness 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 work of risk management, internal control and compliance of the Company. The President Office reviews the quarterly risk assessment reports on a quarterly basis, reports the Company's risk level and management situations to the Risk Management and Investment Decision-making Committee under the Board at least once a year and is subject to the Board's supervision. The functional departments bear primary responsibilities for the risk management, where the internal control, compliance and risk management department is responsible for the coordination, planning and organising the implementation of risk management, internal control and compliance before and during implementation, and the monitoring and auditing department is responsible for the supervision over the operation and effect of the risk management system and for holding people accountable for any breach of the provisions thereof. The Company puts significant risk events under centralised management by specialised department and, based on full identification of the risk, establishes daily monitoring, early warning and information communication mechanism, formulates risk emergency plan and pays continuous attention to and pushes forward the improvement of the plan.

RISK MANAGEMENT *(continued)*

By closely focusing on the overall development strategy, the Company implements a steady marketing, underwriting, reinsurance and investment policy, upholds a prudential and rational approach in the significant risk management, and maintains the underwriting ability and solvency compatible to the business scale and development speed. The Company continues to improve the overall risk management system, makes efforts to improve the process and system for effective management of all main risks, explores introduction of advanced methods and instruments, constructs a sound closed-loop operating mechanism and practically enhances the risk management and control ability.

In 2016, the Company fully implemented the regulatory requirements of C-ROSS of the CIRC, steadily pushed forward various tasks in overall risk management, and achieved a score of 85.03 in the 2016 on-site assessment of C-ROSS risk management capability conducted by the CIRC. **Firstly, the Company improved the overall risk management system.** With the approval from the Board, the Company amended and issued the comprehensive risk management measures, updated the risk preference system, formulated the risk tolerance and limit system, and promoted the implementation of the risk tolerance and limit system. **Secondly, the Company carried out risk assessment and measurement.** The Company regularly carried out its C-ROSS solvency measurement and stress test as well as cash flow stress test, organised the transition from the old risk rating rules to the new comprehensive risk rating rules under C-ROSS, assisted the CIRC's on-site Solvency Aligned Risk Management Requirements and Assessment (SARMRA), promoted improvement based on the assessment result, and continuously improved the risk management working mechanism. **Thirdly, the Company strengthened the risk prevention capabilities in key areas.** The Company actively cooperated with the CIRC in implementing the specialised retrospective inspection campaign of "Two Strengthenings and Two Restraints", and taking the external inspection as a chance and taking into consideration of the operation and management weaknesses, the Company proactively prevented the relevant risks by compliance surveillance, specialised internal control assessment and risk survey, etc. **Fourthly, the Company continuously enhanced the risk management and control capabilities.** The Company consistently enhanced its daily management and control of seven categories of risks including insurance risk, market risk, credit risk, operation risk, strategy risk, reputation risk and liquidity risk, from the perspectives of regulation establishment, system management and control, appraisal and evaluation, accountability and punishment, methods and instruments, etc.

With a view to reviewing and continuously enhancing the effectiveness of the risk management system of the Company and its subsidiaries, the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2016.

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 (retired on 24 March 2017)
Supervisors:	Li Zhuyong (Supervisor), Ding Ningning* (Independent Supervisor), Lu Zhengfei (Independent Supervisor), Qu Yonghuan (Employee Representative Supervisor, retired on 28 February 2017), Shen Ruiguo (Employee Representative Supervisor, retired on 28 February 2017)

Changes in the members of the Supervisory Committee during the period from 1 January 2016 to the date of this report are as follows:

SUPERVISORY COMMITTEE *(continued)*

Composition *(continued)*

At the meeting of representatives of employees of the Company on 28 February 2017, Mr Li Fuhan* and Ms Gao Hong* have been elected as the Employee Representative Supervisors of the Company for a term of three years effective immediately after the conclusion of the meeting of representatives of employees and expiring on 27 February 2020.

Ms Qu Yonghuan and Mr Shen Ruiguo retired as Employee Representative Supervisors of the Company on 28 February 2017.

At the Extraordinary General Meeting of the Company on 24 March 2017, Mr Wang He* was appointed as a Supervisor with a term of three years commencing immediately after the conclusion of the Extraordinary General Meeting and expiring on 23 March 2020. Mr Wang He was also elected by the Supervisory Committee as the Chairman of the Supervisory Committee on the same day, whose term of office is the same as his term of office as Supervisor.

Mr Wang Yueshu retired as a Supervisor and the Chairman of the Supervisory Committee on 24 March 2017.

* Pending the CIRC's approval of the qualification of the relevant personnel for serving as a Supervisor.

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.

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 Supervisory Committee held four meetings, at which eight 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	4/4	3/4	4/4	4/4	2/4	4/4
Attendance rate	100%	75%	100%	100%	50%	100%

Note: During the Year, Mr Li Zhuyong attended three meetings in person and one meeting by appointing Mr Wang Yueshu as proxy to attend on his behalf. Ms Qu Yonghuan attended two meetings in person and two meetings by appointing Mr Shen Ruiguo as proxy to attend on her 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 2015 annual results and the 2016 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.

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 Extraordinary General Meeting held at PICC Building, No. 88 Xichang'an Street, Xicheng District, Beijing, the PRC on 24 March 2017, at which a proposal for the appointment of a Supervisor was considered. The resolution was passed at the Extraordinary General Meeting by way of poll.

In 2016, the Company adhered to its mission and responsibility of "the people's insurance serves the people" and took the initiative to proactively adapt to the macro-environment of development by continuously enhancing its capabilities to serve the economic and social needs as a whole and improving its management of the key issue of sustainable development, thereby realising a mutual promotion of the economic efficiency and the social benefit, along with the coordinated development of the interests of shareholders, customers, employees, society and environment.

ENVIRONMENT

Emissions

The emissions of the Company mainly included the emissions pertaining to the consumption of electric power, gasoline, diesel oil and natural gas, thus the emission reduction management focused on saving energy consumption, improving energy efficiency, and reducing greenhouse gas emission through energy saving management. By encouraging and promoting the use of video or conference call meetings, the Company reduced the number of business trips and therefore effectively reduced the business trip related carbon emission and energy consumption. The Company adopted the paperless work and electronic policy practice. In order to increase energy saving awareness of the employees, the Company made energy saving labels for the switches of electrical equipment and apparatuses in the common areas of the headquarters of the Company. In accordance with the relevant provisions of Beijing Municipal Environmental Protection Bureau and Beijing Municipal Traffic Management Bureau, the Company undertook the procedures to stop using old vehicles falling under the State's Emission Standards I and II, and gradually progressed abandonment and replacement of these vehicles, thereby reducing the air pollution brought by automobile emission.

The waste disposal was managed in accordance with the principles of waste classification and disposal. The household waste, construction waste and kitchen waste were handled through classification management on the front-end, and the property management entrusted to qualified operators for specialised waste treatment on the back-end, which was in strict accordance with the relevant state environmental standards. As for the worn-out electronic equipment which could not be repaired or had no repair value, the head office of the Company appointed relevant qualified specialised operators to dispose such equipment for recycling. In terms of the waste papers and worn-out electronic devices derived from daily operation, those of confidential nature were centrally managed and destructed in an integrated way, and those office papers of non-confidential nature were collected for recycling use. In accordance with the principle of reusing, worn-out computer equipment was, after erasing of the data on the hardware memory by use of specialised data removal software, donated to the relevant organisations supported by the Company, with some of such equipment retained for short-term borrowing purpose, and some allocated to various basic level organisations for the construction of training centers.

The Company strictly complied with all relevant environmental laws and regulations. In 2016, the Company had no environmental pollution accidents and had no complaints, penalty or punishment relating to environmental pollution or arising from violation of environmental regulations.

Use of Resources

In terms of energy consumption, the Company advocated the "green office" practices and encouraged the employees to practise green and low-carbon concepts in daily work and life. The Company actively promoted to increase the level of office automation at its branches of various levels in order to reduce paper usage. By the construction of various electronic platforms such as automated office system, core business system, operation and maintenance management platform and report system, the Company implemented paperless business operation. The Company explored the energy saving way to organise meetings and supply conference materials by using electronic tools and such other innovative methods so as to improve work efficiency and reduce the consumption of office paper at the same time, and implemented two-sided printing and photocopying. The Company continued to promote the construction of electronic supporting platform, speeded up the application of digital tools such as electronic policy issuing and invoicing, created and adopted a product sales service model entirely consisting of digitalised process and effectively improved the insurance technology service level, thereby lowering the operating costs and reducing the energy consumption. The Company advocated the green procurement concept, set requirements for power consumption, and for the purchase of computers, printing and copying equipment, picked models with low power consumption over others, and gave special attention to environmentally friendly products while upholding the principle of procuring the product with the best cost-performance ratio.

ENVIRONMENT *(continued)*

Use of Resources *(continued)*

The Company actively promoted the implementation of energy saving management at the workplace, thereby reducing the property operating costs and related resources consumption. The Company designated personnel responsible for the building's energy saving management of the headquarters building of the Company and set clear energy saving assessment objectives. The Company implemented time-classification measures (based on normal run-time and non-office hour run-time) while operating the air-conditioning system, lighting in the common areas and elevator/lift equipment, with adjustments to be made according to the actual condition upon occurrence of any special event. In terms of the utilisation of water resources, under the premise of having sufficient water for the normal use of the sanitary ware, the amount of water used for flushing was adjusted, and there was generally reclaimed water for flushing the sanitary ware.

Starting from 2014 the Company adopted strict scientific management measures in the use of building automation control system in the headquarters building, thereby achieving electricity savings of approximately RMB1 million for the Year as compared with the previous year, and such measures had been included as a part of the daily operation and management regulation on the building.

Environment and Natural Resources

In response to environmental changes, the Company innovatively explored ways to deal with risks through the market-led mechanism. The Company made great efforts to develop environmental pollution liability insurance, actively provided environmental risk assessment services and helped enterprises to improve their environmental risk management ability. The Company subscribed for CGN's Third-Phase Industrial Investment Fund and Haixia Chenyang's Clean Energy Industry Fund and invested in new energy sectors such as wind power and PV industry. According to the characteristics of the region-specific disaster risk and economic development, the Company explored to establish a multi-leveled risk sharing mechanism, sought for an effective protection model against disasters such as landslide, mudslide, flood and forest fire, proactively pushed forward the pilot-programme of the local catastrophe insurance in places such as Guangdong, instructed Hunan and other places to draft catastrophe insurance proposal and successfully completed renewal of catastrophe insurance programme in Ningbo and Yunnan. In Sichuan and Hebei, the Company commenced to combine and link up regional catastrophe insurance programme and community programme against earthquakes. Under the leadership of the CIRC, the Company took the lead to promote the implementation of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance System, constructed a catastrophe platform which centrally issued insurance policy and operated in an integrated way. The Company designed a system under which losses were to be undertaken by different levels, consisting of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool, reinsurance companies, special reserve and financial support, focusing the industry's power to establish China's catastrophe risk diversification mechanism.

In response to the climate change, innovative products and services were introduced. The Company developed weather index insurance products covering a variety of agricultural products including rubber, tea, sheep and cattle, aquatic products and rice and could effectively compensate farmers for the losses incurred by weather disasters. The Company strengthened management and control over the key links such as the integration of agriculture insurance claim settlement with the detoxification of poultry that died of illness in order to support the ecological construction. In 2016, according to the severe El Nino alert, the Company made careful pre-arrangement for disaster relief and insurance claim settlement to actively respond to major natural disasters; the Company established an integrated and vertical "ground-air-space" service system comprising of satellite remote sensing, UAV remote sensing and ground survey which obtained better social benefit in the Company's dealing with severe disasters such as rainstorms, floods and Typhoons Haima and Sarika. Continuous operating mechanism was also established to provide disaster early warning information service and disaster/loss prevention service for customers. Through meteorological and hydrological early warning information service, the Company instructed and urged all subsidiaries to carry out disaster prevention work for customers to reduce customers claim frequencies and the Company's loss ratio. The Company also discussed the possibility of providing real-time warning and disaster/loss prevention service by using IoT-based on-line urban waterlogging monitoring data, carried out urban waterlogging risk map study and demonstration work, and studied urban waterlogging risk map by using historical investigation method and dynamic model. In this way, the Company provided more targeted risk management value-add services, and the loss caused by disasters was reduced. Also, these measures supported the State in making accurate decision on disaster relief and taking corresponding emergency mitigation measures on a timely basis.

SOCIETY

Employment

Employee rights protection system was continuously improved. The Company attached great importance to the democratic management of staff and workers, actively pushed forward and continuously improved the democratic management system of enterprise with the staff representative meeting as the basis, protected employees' rights to information, participation, expression and supervision in the operation and management of the Company. The Company also focused on regulating labour management, insisted on equal pay for equal work and provided all employees with an equal platform for career development.

In the Year, the Company had 147,155 employees on the payroll, 25,304 staff under labour dispatch and 330,764 sales persons; the ratio of male to female employees among the staff on the payroll was 1.09:1; 26,013 new employees were employed, 5,804 employees resigned on their own volition, 137 employees were dismissed and 1,615 employees retired.

The Company formulated a set of reasonable recruitment plan to attract and motivate the most outstanding talents, and provided a competitive remuneration scheme. The Company was committed to creating excellent development environment for employees and established a series of promotion systems to encourage employees to learn, develop and succeed. For employees who violate the Company's rules or are incompetent to perform their job, the Company formulated a set of reasonable procedures for terminating employment contract strictly in accordance with relevant requirements under the PRC Labour Law and the PRC Labour Contract Law. In the Company's current policies and employment contracts, the requirement of the shortest notice period that might have a significant impact on employees is consistent with the PRC Labour Contract Law.

In terms of working hours, rest periods, other benefits and welfare, the Company strictly complied with the national laws and regulations on working hours, annual leave, labour protection and birth control, protecting employees' rights to enjoy the national statutory rest periods and holidays. The Company formulated internal management regulations to regulate the rest periods, benefits and welfare of employees. The Company fully carried out the relevant national laws and regulations, paid basic social security and housing funds for all employees on the payroll and offered optimal welfare and benefit protection to them.

The Company devoted itself to creating equal, diverse and fair employment opportunity and would not discriminate against employees by reasons of gender, disability, pregnancy, family background, nationality, sexual orientation and other factors when implementing the recruitment plan.

Health and Safety

The Company spared no effort to provide employees with healthy and safe working environment. The Company carried out the PRC Labour Law and other relevant national and local policies and regulations and arranged the safety management in a scientific way according to its actual situation, organised and held various activities on safety education and promotion, carried out emergency drillings on a regular basis, continuously improved security system and focused on internalising employees' safety awareness. The Company cared about employees' health and organised regular health check, continuously purchased insurance plans for the employees, such as the commercial supplementary medical insurance and employer liability insurance, thereby assuring employees' personal health and safety during their employment with the Company. The Company attached great importance to employees' work-life balance, for instance, adopted flexible working arrangements for female employees in nursing period and employees in poor health condition, carried out flexible working arrangement for pregnant employees when the local government of the place where employees worked issued red alert for heavy smog, and assisted employees to deal with the dual responsibility they had for family and work.

SOCIETY *(continued)*

Development and Training

Centering on the employees' demand for enhancing ability, the Company paid close attention to employees' career development and formulated customised development measures and career profile for employees in a scientific method. The Company provided a smooth development channel for the employees, established diversified promotion channels covering management sequence, occupational sequence and technical sequence to promote multi-channel communications among employees in different levels, specialties and divisions. The Company focused on cultivating employees' professional ability, promoted the training programmes to develop in a systematic, standardised and scientific way, enhanced employees' skills and promoted their growth and career development through various channels including face-to-face training, online training and authentication examination. The Company strove to enhance employees' comprehensive ability, used various kinds of high-quality training resources to continuously strengthen the construction of learning-orientated organisation, held several high-quality and demonstrative training projects such as "shared classroom" lecture series, knowledge sharing salon for the youth and "course materials sharing center". The Company also organised employees to actively participate in external high-quality training, fully utilised the Company's knowledge management platform, provided all employees of the Company and its subsidiaries with a platform for internal communications, learning and knowledge sharing in order to practically promote the advancement in both employees' personal growth and enterprise development.

Labour Standards

The Company practised the corporate culture of people-oriented, harmony and endeavour in-depth and proactively sought to create a healthy, harmonious and democratic working environment by implementing projects of employees' happiness enhancing and carrying out positive activities. The Company encouraged hard-working and pioneering spirits and valued the merits of dedication, diligence and readiness to take on responsibilities. The Company recognised the employees' long-term contributions to the reform and growth of the Company and launched the awards of "Touching PICC P&C – Employee of the Year" for the fifth consecutive year to report and reward best-performing groups and model workers across the Company, so as to encourage employees' dedication and contribution to the stable enhancement of the value of the Company. The Company actively implemented the annuity system so that the Company's key employees and general staff could share the success of the Company. The Company continued to give care and assistance to employees in need to provide support in different ways and from different sources.

The Company strictly complied with the existing national employment laws and regulations and there had been no use of child or forced labour. To prevent child and forced labour, the Company stringently managed its recruitment process whereby all recruits had to be reported to the Company's headquarters through the internal HR system for review and approval.

Supply Chain Management

The Company continuously improved the supply chain management and established good and standardised business relationship with the suppliers. The Company sourced suppliers in an orderly manner and carried out various forms of cooperation to jointly enhance business development. The Company strictly complied with relevant national policies and laws and regulations in formulating the supplier management system and the procurement management system and strengthened standardised supplier management, strictly implemented the relevant rules in the sourcing, assessment and selection of suppliers, selected suppliers through measures such as bidding or competitive negotiations and complied with relevant laws and regulations in procurement. When assessing and selecting suppliers, the Company observed the principles of "fairness, impartiality and honesty", emphasised their commitments to the environmental protection and applied effective selection criteria in this regard.

SOCIETY *(continued)*

Supply Chain Management *(continued)*

During the Year, the Company established headquarters-to-headquarters business cooperation relationship with 30 engine manufacturers, 31 auto distributors and 8 auto maintenance chains, basically covering all major brand car joint venture manufacturers in the market. The Company also established cooperation relationship with 421 insurance broker companies (legal person) and 1,359 specialised agencies (legal person), representing a steady increase in the number of the cooperating insurance brokers and agents. The Company also cooperated with over 360 hospitals covered by social medical insurance at various levels around the country to carry out the Company's inspection and verification and set up service desks and deploy personnel on site. The Company had all-rounded business cooperation relationship with all major state-owned banks, policy banks and joint stock commercial banks in China. The total number of cooperating banks of the Company within the PRC reached 318 (first-tier legal person), among which 28 signed "headquarters-to-headquarters" cooperation agreements with the Company, with the percentage of key cooperating banks exceeding 73%. The Company's bancassurance business steadily expanded as well. Through resource sharing and exchange, both sides enhanced their value in aspects such as customers, products, brands, channels and businesses.

Product Responsibility

In response to the trend of accelerating the advancement of the State's innovation-driven development strategy, the Company actively conducted practice of innovation, kept on pushing forward innovation on insurance, so as to satisfy the demand for diversified and high-quality insurance and continuously improved customer services and product system. The Company conducted product innovation and promotion work in emerging sectors, such as patent insurance, network risk insurance and life science insurance, held the first creative contest on contextual products for personal life of the Company and set up the platform for demonstration of innovation projects. The Company advanced a series of innovation on "insurance+service", introducing insurance mechanism to the government social governance and exploring new mechanism and new ways of risk management and conflicts dissolution. The Company attached great importance to exploring product innovation in technology sector so as to support the implementation of the innovation-driven development strategy and the strategy of building up intellectual property rights power of the State. In response to policy demand, the Company introduced new dimension for the policy insurance in serving the governance modernisation, so as to serve technology innovation, culture sector and micro and small enterprises, fully utilise the functions of insurance on financing credit enhancement, risk protection, compensation, etc., and support the social transformation and development with a deep sense of social responsibility and industry mission.

With sticking to the customer-oriented principle, the Company's service capability continuously improved. The Company strictly abided by the current national laws and regulations, proactively corrected misleading sales and strengthened management on customer complaints. The Company formulated the "Guidelines on Review of Legal Risks of Advertisements and Publicity Products" and reinforced the review of broadcasting and distribution of advertising works on communication and distribution media. The Company strictly followed insurance product information disclosure system and continuously advanced the popularisation, simplification and standardisation of insurance terms. The Company also speeded up the establishment of service platforms such as mobile internet, integrated service counter and customer club, launched online "PICC" APP, aiming at building up smart claim settlement, claim settlement via mobile phone and swift claim settlement and continuously improving customer experience, thus the Company's customer satisfaction was steadily enhanced. Through information technology method, the Company was building up a professional, standardised and uniform database for personal injury, and by using the system's powerful automatic processing rules, the Company improved the fast-track handling process for motor vehicle insurance with small amounts, leading to simultaneous improvement of the efficiency of claim settlement and the risk control for cases of motor vehicle insurance with small amounts. The Company also kept on providing customers with training services and risk management services such as risk assessment, disaster and loss prevention, etc.

SOCIETY *(continued)*

Product Responsibility *(continued)*

In terms of strengthening information security protection and respecting and protecting customers' privacy, the Company, through its customer information management system, integrated the customer information archive management and followed the "one file for one customer" principle, protecting a long-term effectiveness of customer information. The Company conducted centralised management on customer information, the customer information management department and technology department of the Company regularly assessed the risks of customer data disclosure and implemented necessary management measures including the requirements for management and feasible technical control methods, etc. In terms of the system, the Company strictly followed the systems and rules to prevent the use of information in violation of regulations, established customer information security management system and internal operational process, strengthened the review and approval of the use and management of customer information, so as to ensure that the customer information was operated on the basis of standardisation and orderliness and practically safeguarded the lawful rights and interests of insurance consumers. In terms of technology, the Company, to a maximum extent, protected customer information from internal and external disclosures, and conducted screening on those sensitive information of customers in the IT system used by frontline sales representatives. Where the IT system of the Company had to be connected to the IT system of a third party due to business needs, the cooperation was conducted based on protecting the security of customer information of the Company to the maximum extent and the access to the information of the customers of the Company was prohibited, so as to avoid the disclosure of customer privacy.

Anti-corruption

The Company continuously promoted and adhered to the philosophy that carrying out business in accordance with laws and regulations is its bottom line and realised the promotion of both the compliance and the development through strengthening the compliance management, cooperating proactively with the inspection activities conducted by external authorities, conducting a self-inspection and self-correction process on the key businesses and regulating the standards for business conducts. The Company continuously advanced the construction of its comprehensive risk management system, established a long-term effective mechanism for risk management, and updated and improved its risk preference system. The Company continuously developed the monitoring and early warning of risks in key areas and segments, strengthened the special assessment on major risk events, and advanced the implementation of C-ROSS. The Company continuously improved the internal control and strengthened the test, assessment and rectification actions in respect of the internal control relating to the processes of underwriting, claim settlement, customer services, corporate governance, etc., in order to effectively protect the legitimate rights and interests of the insurance consumers. The Company organised and carried out the compliance inspection campaign and various kinds of risk inspections in order to have an early reveal of and to prevent from compliance risk. The Company advocated and enhanced anti-money laundering, established and continuously improved various internal control rules relating to anti-money laundering, improved the management and control of the anti-money laundering information system, consolidated the foundation of anti-money laundering practice, and effectively prevented the occurrence of money laundering activities.

The Company strictly followed the national laws and regulations and diligently implemented the central government initiatives relating to anti-corruption, continuously deepened and advanced the practices in respect of internal and external anti-corruption, which achieved relatively good results. The Company enhanced the investigation on the key employees and general staff allegedly involved in corruption, bribery, embezzlement, neglect or misconduct of duty or financial fraud cases, seriously imposed the penalties on those having committed corruption offence in order to uphold the solemn principle of the rule of law and the disciplines and to maintain an orderly conduct of business operation and management. The Company enhanced the practices relating to internal control and risk prevention, strengthened its coordination with and established a coordinated mechanism for joint action with the public security authorities and industry associations in order to seriously crackdown on insurance frauds. In the Year, a total of 208 judicial cases involving 452 non-insurance persons were reported by the Company, of which 177 cases involved insurance fraud and their related evidences were transferred to the public security authorities. The Company assisted the public security authorities in accepting the report of, investigating into and imposing penalties in relation to 132 cases, thereby forming a deterrence to illegal persons and further promoting the construction of a healthy and orderly insurance market environment.

SOCIETY *(continued)*

Community Investment

The Company has always been committed to the sacred responsibility of an outstanding corporate citizen, playing an active role in social welfare and community service, helping those in distress and poverty, and using its best endeavours to make contribution to social harmony, stability and well-being. As an active participant in philanthropy, the Company established a social welfare platform and a voluntary service team, organised environmental protection events, and extended their compassion and gratitude to society in various forms and through multiple channels, which earned wide recognition and commendation.

Since 2012 when it launched the urban network strategy to proactively introduce insurance products to communities, the Company had, playing the part of a “good neighbour”, offered a full range of insurance services and comprehensive insurance products to community residents. As the Company further developed outlets in communities, in the Year, the 550 outlets across the country provided insurance services to a total of 1.12 million person-time in communities. Meanwhile, they also provided them with diversified value-added services such as providing “vehicle manager” service, insurance-related legal advice, claim settlement assistance and advice, vehicle maintenance and safety driving training, paying water and electricity bills or receiving courier on customers’ behalf, and so on.

In the Year, the Company organised more than a thousand philanthropic events in various forms, such as donation to needy students, advocacy of environmentally friendly travel, blood donation, environmental protection programmes, visits to old people living in nursing homes and assistance to disadvantaged groups. In particular, some high-profile welfare events, such as “Small Hand in Big Hand” Students Assistance Programme, “Sunshine Village” Left-Behind Children Assistance Programme and Donation to Pre-College Students, spread the “positive energy” from the insurance sector.

The Company deepened its voluntary services, and organised and carried out insurance knowledge trainings, assistance to the old and the disabled people, blood donation, afforestation, low-carbon travel, traffic safety campaign, one-to-one student assistance, environment beautification, emergency care, philanthropic donations and all forms of other welfare and voluntary services. The Company also mobilised the employees to provide voluntary services to those in special difficulty and in need of help.

"BEST CALL CENTER IN CHINA" AND "BEST ONLINE CUSTOMER SERVICE IN CHINA"

In September 2016, at the Fourteenth Summit Forum of China Call Center Industry and the Presentation Ceremony, the 95518 Customer Service Center of the Company was awarded the "Best Call Center in China" and the "Best Online Customer Service in China" prizes. It was the ninth time that the Company won the "Best Call Center in China" prize.

12 GRAND AWARDS INCLUDING "MOST INFLUENTIAL INSURANCE BRAND OF THE YEAR 2016"

In October 2016, in the election for the "Eleventh China Insurance Innovation Prize" organised by *Insurance Culture*, the Company won 12 grand awards including the "Most Influential Insurance Brand of the Year 2016", keeping its number one position among all property insurance companies in terms of the number of awards.

"INSURANCE COMPANY (PROPERTY INSURANCE) OF THE YEAR"

In November 2016, the Company was awarded the "Insurance Company (Property Insurance) of the Year" in the Financial Value Ranking 2016 election organised by *China Business News*.

"BEST LISTED COMPANY"

In November 2016, in the election for the sixth "China Securities Golden Bauhinia Awards" organised by Hong Kong Ta Kung Wen Wei Media Group Limited jointly with several other institutions, the Company was awarded the "Best Listed Company" prize.

"2016 BEST PROPERTY INSURANCE COMPANY IN ASIA"

In November 2016, in the "Competitiveness Rankings of Asian Insurance Companies" organised by *21st Century Business Herald* and 21st Century Finance Research Institute, the Company won the award of "2016 Best Property Insurance Company in Asia".

"2016 OUTSTANDING CHINESE ENTERPRISE IN SOCIAL RESPONSIBILITY"

In December 2016, at the Ninth Enterprises Social Responsibility Summit organised by the website of www.xinhuanet.com and Research Center for Corporate Social Responsibility of Chinese Academy of Social Science, the Company was awarded the prize of "2016 Outstanding Chinese Enterprise in Social Responsibility".

"LEAD THE CHINESE ADVANCE 2016 – AWARD OF OUTSTANDING PROPERTY INSURANCE BRAND"

In December 2016, it was announced by the website of www.JRJ.com in its election of "Lead the Chinese Advance 2016" financial industry rankings that the Company won the "Lead the Chinese Advance 2016 – Award of Outstanding Property Insurance Brand" prize.

"CHINA BEST EMPLOYER AWARD 2016 – TOP 30 BEST EMPLOYERS OF THE YEAR"

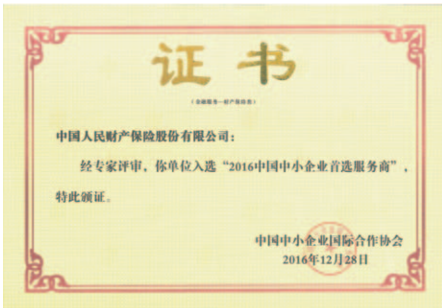
In December 2016, the election result of "China Best Employer Award" jointly organised by the website of www.Zhaopin.com and Social Survey and Research Center of Peking University was announced, the Company was awarded the title of "China Best Employer Award 2016 – Top 30 Best Employers of the Year". The Company has maintained this title for six consecutive years.

"2016 CHINESE SME SERVICE PROVIDER OF CHOICE"

In December 2016, at the Fifth Chinese SME Service Conference 2016 jointly organised by China Center for Promotion of SME Development of Ministry of Industry and Information Technology of China, China International Cooperation Association of Small and Medium Enterprises and the Government of Changping District of Beijing City, the Company, as the only candidate from the insurance industry, was presented the certificate of "2016 Chinese SME Service Provider of Choice".

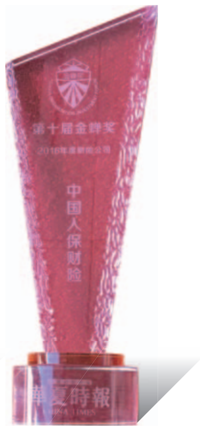
"PROPERTY INSURANCE COMPANY OF THE YEAR 2016"

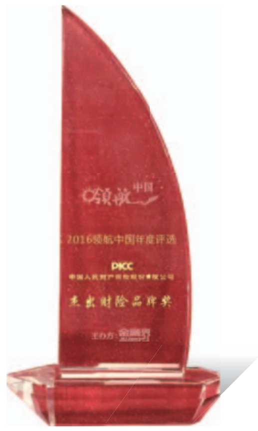
In January 2017, in the election for the "Golden Cicada Award" organised by *China Times*, the Company was awarded the "Property Insurance Company of the Year 2016".

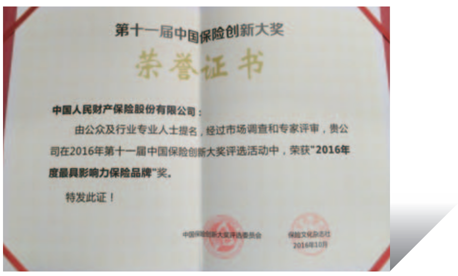


"EXCELLENT FINANCIAL BONDS ISSUER"

In January 2017, in the "2016 Excellent Members of Chinese Debt Market" election organised by China Central Depository & Clearing Co., Ltd., the Company was awarded the title of "Excellent Financial Bonds Issuer" for its successful issuance of RMB15 billion capital supplementary bonds in 2016.







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

OPINION

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 76 to 174, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of insurance contract liabilities	

We identified the valuation of insurance contract liabilities as a key audit matter as the estimation of insurance contract liabilities involves a significant degree of judgement.
 	
The Group recorded insurance contract liabilities of RMB242,093 million as at 31 December 2016.
 	
The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Small changes in these assumptions could result in material changes to the account balance.
 	
Details of the insurance contract liabilities are set out in note 37 to the consolidated financial statements.
	Our procedures in relation to the valuation of insurance contract liabilities included:
	
	• Testing the key internal controls over the estimation of insurance contract liabilities;
	
	• Testing the underlying company data to source documentation on a sample basis;
	
	• With the assistance of our actuarial specialists:
	
	  • Comparing the methodology, models and assumptions used against recognised actuarial practices by applying our industry knowledge and experience;
	
	  • Performing independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves, and comparing our re-projected claims reserves to those recorded by management to assess its reasonableness; and
	
	  • Evaluating the methodology and assumptions, or performing a diagnostic check to identify any abnormalities for the remaining classes.

Acquisition of an associate	

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

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2017

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
GROSS WRITTEN PREMIUMS	5	311,160	281,698
Net earned premiums	5	270,261	244,567
Net claims incurred	6	(171,759)	(153,419)
Net policy acquisition costs	7	(62,954)	(54,255)
Other underwriting expenses		(23,147)	(20,775)
Administrative expenses		(7,377)	(7,514)
UNDERWRITING PROFIT		5,024	8,604
Investment income	8	15,073	14,268
Net realised and unrealised gains on investments	9	922	6,562
Investment related expenses		(637)	(645)
Interest expenses credited to policyholders' deposits		(2)	(3)
Exchange gains, net		422	351
Sundry income		369	404
Sundry expenses		(457)	(173)
Finance costs	10	(1,208)	(1,638)
Share of profits of associates		2,945	473
PROFIT BEFORE TAX	11	22,451	28,203
Income tax expense	14	(4,430)	(6,356)
PROFIT FOR THE YEAR		18,021	21,847
Profit attributable to			
– owners of the parent		18,020	21,847
– non-controlling interests		1	–
		18,021	21,847
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (in RMB)	15	1.215	1.473

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

For the year ended 31 December 2016

	Note	2016 RMB million	2015 RMB million
PROFIT FOR THE YEAR		18,021	21,847
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value (losses)/gains		(4,368)	12,480
– Reclassification of losses/(gains) to profit or loss on disposals		69	(5,981)
– Impairment losses		98	–
Income tax effect	31	1,050	(1,625)
		(3,151)	4,874
Net losses on cash flow hedges		(5)	(5)
Income tax effect	31	1	1
		(4)	(4)
Share of other comprehensive (expense)/income of associates		(203)	298
NET OTHER COMPREHENSIVE (EXPENSE)/INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		(3,358)	5,168
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		275	217
Income tax effect	31	(69)	(54)
		206	163
Share of other comprehensive income of associates		–	2
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		206	165
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		(3,152)	5,333
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14,869	27,180
Total comprehensive income attributable to			
– owners of the parent		14,868	27,180
– non-controlling interests		1	–
		14,869	27,180

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	31 December 2016 RMB million	31 December 2015 RMB million
ASSETS			
Cash and cash equivalents	17	25,144	22,828
Derivative financial assets	18	3	8
Debt securities	19	110,645	107,404
Equity securities and mutual funds	20	67,038	68,714
Insurance receivables, net	21	30,479	19,317
Reinsurance assets	22	30,707	26,426
Term deposits	23	68,286	98,663
Investments classified as loans and receivables	24	63,855	30,052
Prepayments and other assets	25	15,805	16,180
Investments in associates	26	37,045	8,584
Investment properties	28	4,902	4,783
Property, plant and equipment	29	14,977	14,110
Prepaid land premiums	30	3,185	3,351
Deferred tax assets	31	3,878	–
TOTAL ASSETS		475,949	420,420
LIABILITIES			
Payables to reinsurers	33	16,443	9,141
Accrued insurance protection fund	34	834	741
Securities sold under agreements to repurchase	35	21,030	23,688
Income tax payable		2,680	2,943
Other liabilities and accruals	36	48,115	39,107
Insurance contract liabilities	37	242,093	217,288
Policyholders' deposits	38	2,330	2,226
Bonds payable	39	23,112	16,297
Deferred tax liabilities	31	–	38
TOTAL LIABILITIES		356,637	311,469
EQUITY			
Issued capital	40	14,828	14,828
Reserves		104,478	94,118
Equity attributable to owners of the parent		119,306	108,946
Non-controlling interests		6	5
TOTAL EQUITY		119,312	108,951
TOTAL EQUITY AND LIABILITIES		475,949	420,420

For the year ended 31 December 2016

	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	Share of other comprehensive income of associates	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*	*RMB million*
Balance at 1 January 2016	14,828	18,986*	2,673*	10,174*	6*	30,804*	7,527*	1,885*	379*	21,684*	108,946	5	108,951
Profit for the year	–	–	–	–	–	–	–	–	–	18,020	18,020	1	18,021
Other comprehensive income/(expense)	–	–	206	(3,151)	(4)	–	–	–	(203)	–	(3,152)	–	(3,152)
Total comprehensive income/(expense)	–	–	206	(3,151)	(4)	–	–	–	(203)	18,020	14,868	1	14,869
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	–	1,810	1,810	–	–	(3,620)	–	–	–
2015 final dividend****	–	–	–	–	–	–	–	–	–	(4,508)	(4,508)	–	(4,508)
Balance at 31 December 2016	14,828	18,986*	2,879*	7,023*	2*	32,614*	9,337*	1,885*	176*	31,576*	119,306	6	119,312

* The consolidated reserves of RMB104,478 million (31 December 2015: RMB94,118 million) in the consolidated statement of financial position as at 31 December 2016 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 24 June 2016, the shareholders of the Company at a general meeting approved a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million for the year ended 31 December 2015.

For the year ended 31 December 2016

	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* (Restated)	Available-for-sale investment revaluation reserve *RMB million* (Restated)	Cash flow hedging reserve *RMB million* (Restated)	Surplus reserve*** *RMB million*	General risk reserve *RMB million*	Agriculture catastrophic loss reserve *RMB million*	Share of other comprehensive income of associates *RMB million* (Restated)	Retained profits *RMB million*	Total *RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2015	14,828	18,986*	2,510*	5,300*	10*	28,674*	5,397*	721*	79*	9,265*	85,770	5	85,775
Profit for the year	–	–	–	–	–	–	–	–	–	21,847	21,847	–	21,847
Other comprehensive income/(expense)	–	–	163	4,874	(4)	–	–	–	300	–	5,333	–	5,333
Total comprehensive income/(expense)	–	–	163	4,874	(4)	–	–	–	300	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*	2,673*	10,174*	6*	30,804*	7,527*	1,885*	379*	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 2016

	Notes	2016 RMB million	2015 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		22,451	28,203
Adjustments for:			
Investment income	8	(15,073)	(14,268)
Net realised and unrealised gains on investments	9	(922)	(6,562)
Interest expenses credited to policyholders' deposits		2	3
Exchange gains, net		(422)	(208)
Share of profits of associates		(2,945)	(473)
Depreciation of property, plant and equipment	11, 29	1,573	1,697
Amortisation of prepaid land premiums	11, 30	147	156
Net gains on disposal of items of property, plant and equipment	11	(121)	(86)
Finance costs	10	1,208	1,638
Investment related expenses		637	645
Impairment losses on insurance receivables	11, 21	387	320
Impairment losses on prepayments and other assets	11, 25	36	365
Operating cash flows before working capital changes		6,958	11,430
Changes in working capital:			
Increase in insurance receivables		(11,549)	(2,237)
Increase in other assets		(1,741)	(867)
Increase/(decrease) in payables to reinsurers		7,302	(1,262)
Increase/(decrease) in accrued insurance protection fund		93	(14)
Increase in other liabilities and accruals		8,117	8,178
Increase in insurance contract liabilities, net		20,524	18,406
Cash generated from operations		29,704	33,634
Income tax paid		(7,627)	(6,402)
Net cash flows from operating activities		22,077	27,232
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		13,017	11,618
Rental income received from investment properties		256	209
Dividend income received from equity securities and mutual funds		2,465	1,627
Payment for capital expenditure		(2,105)	(2,141)
Proceeds from disposal of items of property, plant and equipment		208	252
Payment for acquisition of associates		(24,944)	(3,190)
Payment for purchase of debt securities, equity securities and mutual funds		(86,564)	(98,244)
Payment for purchase of investments classified as loans and receivables		(42,983)	(8,300)
Dividend income received from associates		234	128
Proceeds from sale of debt securities, equity securities and mutual funds		82,629	81,900
Proceeds from sale of investments classified as loans and receivables		9,180	–
Decrease/(increase) in term deposits, net		30,401	(10,366)
Net cash flows used in investing activities		(18,206)	(26,507)

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds payable	39	15,000	–
Payment for redemption of bonds payable	39	(8,000)	(6,000)
(Decrease)/increase in securities sold under agreements to repurchase, net		(2,658)	9,447
Increase in policyholders' deposits		104	440
Interest paid		(1,493)	(1,937)
Dividends paid		(4,508)	(4,004)
Net cash flows used in financing activities		(1,555)	(2,054)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,316	(1,329)
Cash and cash equivalents at beginning of year		22,828	24,157
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	25,144	22,828

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 is listed on The Stock Exchange of Hong Kong Limited.

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 STATEMENT 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 ("HKICPA"). 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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on 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 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

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

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(continued)*

Amendments to HKAS 1 – Disclosure Initiative

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

In the past, share of items of other comprehensive income ("OCI") arising from associates were grouped by nature into OCI of the Group.

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

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

As a result of these changes, certain items of OCI, which amounted to RMB298 million for the year ended 31 December 2015, in the consolidated statement of comprehensive income were singled out and reclassified to conform to these new requirements. A reserve with an opening balance of RMB379 million (1 January 2015: RMB79 million) attributable to the parent was also separately established as at 1 January 2016 to record the cumulative share of OCI arising from associates in the consolidated statement of changes in equity. The opening balance attributable to the parent of asset revaluation reserve excluded amounts arising from associates and was reduced by RMB29 million (1 January 2015: RMB27 million). The opening balance attributable to the parent of available-for-sale investment revaluation reserve excluded amounts arising from associates and was reduced by RMB350 million (1 January 2015: RMB51 million). The opening balance attributable to the parent of cash flow hedging reserve excluded amounts arising from associates and was reduced by RMB1 million as at 1 January 2015. The Group has applied these changes retrospectively.

2.4 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[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 HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

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

Except as described below, the directors of the Company do not anticipate that the new and amendments to HKFRSs will have a material 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 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(continued)*

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("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 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 attributable to a financial liability's 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 is 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.

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

- The Group classified equity investments of RMB56,495 million as available-for-sale financial assets as at 31 December 2016. Upon application of HKFRS 9, fair value changes arising from these financial instruments will be recognised as profit or loss instead of an investment revaluation reserve in the equity, except for those that are eligible and the Group elects to designate as FVTOCI, in which fair value changes arising from these financial assets will not be recycled to the income statement on their disposals and only dividend income of these financial assets will be recognised in profit or loss;

- The Group classified debt investments of RMB41,651 million and RMB63,855 million as held-to-maturity investments and investments classified as loans and receivables, respectively, as at 31 December 2016. Some of these investments may fail to satisfy the contractual cash flows characteristics that are solely payments of principal and interest on the principal outstanding. As a consequence, these investments may have to be measured subsequently at fair value instead of amortised cost. Fair value changes arising from these financial instruments will be recognised in profit or loss;

2.4 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

- The Group classified debt investments of RMB65,743 million as available-for-sale financial assets as at 31 December 2016. Some of these investments may fail to satisfy that they are held within a business model whose objective is both to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding and to sell financial assets. Fair value arising from these financial instruments will be recognised in profit or loss instead of other comprehensive income.

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

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

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

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

In January 2017, the amendments to HKFRS 4 – Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts was issued. The amendments provide entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current HKFRS accounting and to defer the application of HKFRS 9 until the earlier of the application of the new insurance standard or periods beginning on or after 1 January 2021. The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment.

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

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

2.4 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(continued)*

Amendments to HKAS 7 – Disclosure Initiative

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

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

HKFRS 15 – Revenue from Contracts with Customers and the related Amendments

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.

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

The Group will continue to apply HKFRS 4 Insurance Contracts to its insurance contracts and apply HKFRS 15 to non-insurance contracts (or unbundled components of insurance contracts). As the Group predominantly carries out insurance business, potentially the adoption of HKFRS 15 will only have impacts on service income for handling certain taxes or levies for relevant authorities.

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

HKFRS 16 – Leases

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

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

2.4 NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(continued)*

HKFRS 16 – Leases *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, a lessee recognises an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the lessee presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of RMB1,410 million as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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.

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

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after reattribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary, which is reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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

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 32.33%

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and building *(continued)*

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.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement *(continued)*

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 bonds payable 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.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement *(continued)*

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

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

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

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

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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of other 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 personnel expenses, business tax and other surcharges, insurance protection fund 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Provisions

Except for 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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Short-term and other long-term employee benefits *(continued)*

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

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

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

(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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 general accepted accounting principles ("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.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional and presentation currency. RMB 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.

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, macro-economic 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.

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

Judgements *(continued)*

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.

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

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

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the investor and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

An investee is accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset in accordance with HKAS 39.The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 26.

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

Judgements *(continued)*

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, whether or not the Group has powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers. Details of these structured entities are disclosed in note 24.

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 91-101 basis points as at 31 December 2016 (31 December 2015: 102-111 basis points). The discount rates of the different duration used as at 31 December 2016 were 3.6%-4.0% (31 December 2015: 4.1%-4.4%).

- 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	2016	2015
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	2016	2015
Agriculture insurance	33.3%	33.3%
Motor vehicle insurance	2.5%	2.5%
Others insurance	5.5%	5.5%

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

Estimation uncertainty *(continued)*

Valuation of insurance contract liabilities *(continued)*

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 under-provision or over-provision 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).

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

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

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.

Fair value measurement of financial assets based on unobservable inputs

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

Fair value of investment properties

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

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

Estimation uncertainty *(continued)*

Taxation

The Group pays value-added taxes, corporate income tax and related surcharges in various localities. Due to the uncertainty of final tax treatment for various transactions during the normal course of business, the Group needs to exercise significant judgement when determining tax expenses. The Group recognises tax liabilities based on estimates of whether there will be additional tax payments resulting from tax inspection. If there is any difference between the final result and previously recorded amounts, the difference will impact current tax and deferred tax.

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 for the year 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, bonds payable, 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 2016 and 2015.

In 2016 and 2015, 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 2016 and 2015 are as follows:

2016	Insurance							Corporate	Total
	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	225,640	12,321	2,977	13,703	23,432	19,535	13,552	–	311,160
Net earned premiums	209,667	7,527	2,161	9,572	19,833	14,428	7,073	–	270,261
Net claims incurred	(124,718)	(5,741)	(1,149)	(5,767)	(17,649)	(11,233)	(5,502)	–	(171,759)
Net policy acquisition costs	(55,387)	(2,717)	(407)	(2,049)	(1,351)	196	(1,239)	–	(62,954)
Other underwriting expenses	(17,282)	(501)	(247)	(888)	(780)	(2,407)	(1,042)	–	(23,147)
Administrative expenses	(5,255)	(324)	(131)	(340)	(351)	(602)	(374)	–	(7,377)
Underwriting profit/(loss)	7,025	(1,756)	227	528	(298)	382	(1,084)	–	5,024
Investment income	–	–	–	–	–	–	–	15,073	15,073
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	922	922
Investment related expenses	–	–	–	–	–	–	–	(637)	(637)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	–	(2)	–	(2)
Exchange gains, net	–	–	–	–	–	–	–	422	422
Finance costs	–	–	–	–	–	–	–	(1,208)	(1,208)
Sundry income and expenses, net	–	–	–	–	–	–	–	(88)	(88)
Share of profits of associates	–	–	–	–	–	–	–	2,945	2,945
Profit/(loss) before tax	7,025	(1,756)	227	528	(298)	382	(1,086)	17,429	22,451
Income tax expense	–	–	–	–	–	–	–	(4,430)	(4,430)
Profit/(loss) for the year – segment results	7,025	(1,756)	227	528	(298)	382	(1,086)	12,999	18,021

4. OPERATING SEGMENT INFORMATION *(continued)*

	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 expenses 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) for the year – segment results	7,386	(701)	245	258	(1,062)	2,447	28	13,246	21,847

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets, liabilities and other segment information of the Group as at 31 December 2016 and 2015 are as follows:

31 December 2016	Insurance							Corporate	Total
	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*
Segment assets	13,517	11,754	1,410	6,064	6,240	6,465	18,471	412,028	475,949
Segment liabilities	190,900	19,216	3,158	17,344	15,556	12,865	24,927	72,671	356,637
Other segment information:									
Depreciation and amortisation	1,406	75	19	85	146	121	82	–	1,934
Impairment losses on insurance receivables, prepayments and other assets	6	51	31	64	78	58	135	–	423
Interest income	–	–	–	–	–	–	–	12,351	12,351

31 December 2015	Insurance							Corporate	Total
	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*
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, prepayments and other assets	48	213	28	118	51	82	145	–	685
Interest income	–	–	–	–	–	–	–	12,425	12,425

5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	2016 *RMB million*	2015 *RMB million*
Gross written premiums		
Direct written premiums	310,453	281,010
Reinsurance premiums assumed	707	688
	311,160	281,698
Net earned premiums		
Gross written premiums	311,160	281,698
Less: Reinsurance premiums ceded	(30,386)	(29,569)
Net written premiums	280,774	252,129
Gross change in unearned premium reserves	(11,360)	(7,277)
Less: Reinsurer's share of change in unearned premium reserves	847	(285)
Net change in unearned premium reserves	(10,513)	(7,562)
Net earned premiums	270,261	244,567

6. NET CLAIMS INCURRED

	2016 *RMB million*	2015 *RMB million*
Gross claims paid	180,496	160,981
Less: Paid losses recoverable from reinsurers	(18,748)	(18,406)
Net claims paid	161,748	142,575
Gross change in loss and loss adjustment expense reserves	13,445	11,874
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	(3,434)	(1,030)
Net change in loss and loss adjustment expense reserves	10,011	10,844
Net claims incurred	171,759	153,419

7. NET POLICY ACQUISITION COSTS

	2016 *RMB million*	2015 *RMB million*
Commission expenses	46,557	31,523
Less: Reinsurance commission income	(9,559)	(9,012)
Underwriting personnel expenses	16,288	15,032
Business tax and other surcharges	6,208	13,682
Insurance protection fund *(note 34)*	2,398	2,181
Others	1,062	849
	62,954	54,255

8. INVESTMENT INCOME

	2016 *RMB million*	2015 *RMB million*
Operating lease income from investment properties	256	209
Interest income from:		
Current and term deposits	4,921	5,793
Debt securities		
– Held-to-maturity	2,101	2,131
– Available-for-sale	2,822	2,897
– Held-for-trading	55	40
Derivative financial instruments	118	14
Investments classified as loans and receivables	2,334	1,550
	12,351	12,425
Dividend income from equity securities and mutual funds:		
– Available-for-sale	2,151	1,484
– Held-for-trading	315	150
	2,466	1,634
	15,073	14,268

9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	2016 *RMB million*	2015 *RMB million*
Realised gains from:		
Debt securities		
– Available-for-sale	**285**	110
– Held-for-trading	**13**	12
Equity securities and mutual funds		
– Available-for-sale	**(354)**	5,871
– Held-for-trading	**223**	350
Derivative financial instrument	**1,009**	–
	1,176	6,343
Unrealised (losses)/gains from:		
Debt securities classified as held-for-trading	**(23)**	10
Equity securities and mutual funds classified as held-for-trading	**(271)**	64
Derivative financial instruments	**(10)**	–
	(304)	74
Fair value gains on investment properties *(note 28)*	**148**	145
Impairment losses on equity securities and mutual funds classified as available-for-sale	**(98)**	–
	922	6,562

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

10. FINANCE COSTS

	2016 *RMB million*	2015 *RMB million*
Interest on bonds payable	650	896
Interest on securities sold under agreements to repurchase	509	628
Other finance costs	49	114
	1,208	1,638

11. PROFIT BEFORE TAX

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

	Notes	2016 *RMB million*	2015 *RMB million*
Depreciation of property, plant and equipment	29	1,573	1,697
Amortisation of prepaid land premiums	30	147	156
Employee expenses (including directors', supervisors' and senior management's remuneration)			
– Salaries, allowances and performance related bonuses		26,661	25,091
– Pension scheme contributions		2,651	2,630
Impairment losses on insurance receivables	21	387	320
Impairment losses on prepayments and other assets	25	36	365
Minimum lease payments under operating leases in respect of land and buildings		808	768
Net gains on disposal of items of property, plant and equipment		(121)	(86)
Auditors' remuneration		15	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:

2016	Fees *RMB'000*	Salaries and allowances *RMB'000*	Retirement benefits *RMB'000*	Housing fund and other benefits *RMB'000*	Total remuneration before tax *RMB'000*
Executive directors:					
Mr. Wu Yan (Chairman of the Board)	–	–	–	–	–
Mr. Lin Zhiyong (President)	–	827	33	39	899
Mr. Guo Shengchen (resigned on 9 August 2016)	–	936	75	60	1,071
Mr. Wang He (resigned on 24 March 2017)	–	815	75	59	949
Non-executive directors:					
Ms. Yu Xiaoping *(note 1)*	–	–	–	–	–
Mr. Li Tao *(note 1)*	–	–	–	–	–
Mr. Wang Yincheng *(note 1)* (resigned on 6 March 2017)	–	–	–	–	–
Independent non-executive directors:					
Mr. Lin Hanchuan	239	–	–	–	239
Mr. Lo Chung Hing	239	–	–	–	239
Mr. Na Guoyi	239	–	–	–	239
Mr. Ma Yusheng	239	–	–	–	239
Mr. Chu Bende (appointed on 24 June 2016)	114	–	–	–	114
Supervisors:					
Mr. Wang He (appointed on 24 March 2017) (Chairman of the Supervisory Committee)	–	–	–	–	–
Mr. Li Zhuyong *(note 1)*	–	–	–	–	–
Mr. Li Fuhan (appointed on 28 February 2017)	–	–	–	–	–
Ms. Gao Hong (appointed on 28 February 2017)	–	–	–	–	–
Mr. Wang Yueshu (retired on 24 March 2017)	–	842	75	59	976
Ms. Qu Yonghuan (retired on 28 February 2017)	–	–	–	22	22
Mr. Shen Ruiguo (retired on 28 February 2017)	–	557	75	54	686
Independent supervisors:					
Mr. Lu Zhengfei	239	–	–	–	239
Mr. Ding Ningning	239	–	–	–	239
	1,548	3,977	333	293	6,151

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 supervisor 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 SARs granted to senior executives, in compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the China Insurance Regulatory Commission (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 2016 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)*

2015 (Restated)	Fees *RMB'000*	Salaries and allowances *RMB'000*	Performance related bonuses *RMB'000*	Retirement benefits *RMB'000*	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	936	71	61	2,004
Mr. Wang He	–	815	815	71	61	1,762
Mr. Lin Zhiyong (appointed on 26 June 2015)	–	749	749	31	61	1,590
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	842	71	61	1,816
Mr. Li Zhuyong (appointed on 26 June 2015) *(note 1)*	–	–	–	–	–	–
Ms. Qu Yonghuan	–	446	1,262	52	47	1,807
Mr. Shen Ruiguo	–	446	1,071	71	61	1,649
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	5,675	367	352	11,875

Note:

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

The compensation amounts for certain executive directors and supervisors for the year ended 31 December 2015 were restated based on the finalised amounts determined during 2016. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to approximately RMB8 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:

	2016 *RMB'000*	2015 (Restated) *RMB'000*
Other emoluments		
– Salaries and allowances	5,837	6,406
– Performance related bonuses	–	6,548
– Retirement benefits	600	568
– Housing fund and other benefits	450	539
	6,887	14,061

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 2016 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:

	2016	2015 (Restated)
RMB0 to RMB1,000,000	8	–
RMB1,000,001 to RMB1,500,000	–	3
RMB1,500,001 to RMB2,000,000	–	5
RMB2,000,001 to RMB2,500,000	–	1
	8	9

The compensation amounts for certain members of senior management for the year ended 31 December 2015 were restated based on the finalised amounts determined during 2016. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to approximately RMB13 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 four directors/supervisors for the year ended 31 December 2016 and four directors/supervisors for the year ended 31 December 2015. Details of the remaining highest paid individuals are set out below:

	2016 *RMB'000*	2015 (Restated) *RMB'000*
Other emoluments		
– Salaries and allowances	749	679
– Performance related bonuses	–	1,495
– Retirement benefits	75	–
– Housing fund and other benefits	59	51
	883	2,225

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

	2016	2015 (Restated)
HKD0 to HKD1,000,000	1	–
HKD1,500,001 to HKD2,000,000	–	–
HKD2,500,001 to HKD3,000,000	–	1
	1	1

The compensation amounts for highest other emoluments paid individuals for the year ended 31 December 2015 were restated based on the finalised amounts determined during 2016. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to approximately RMB0.7 million (approximately HKD0.8 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% (2015: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2016 *RMB million*	2015 *RMB million*
Current		
– Charge for the year	7,327	8,521
– Adjustments in respect of current tax of prior years	37	6
Deferred *(note 31)*	(2,934)	(2,171)
Total tax charge for the year	4,430	6,356

14. INCOME TAX EXPENSE *(continued)*

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:

	2016 *RMB million*	2015 *RMB million*
Profit before tax	22,451	28,203
Tax at the statutory tax rate of 25% (2015: 25%)	5,613	7,051
Income not subject to tax	(1,552)	(831)
Expenses not deductible for tax	332	130
Adjustments in respect of current tax of prior years	37	6
Tax charge at the Group's effective tax rate	4,430	6,356

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

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

	2016	2015
Earnings:		
Profit attributable to owners of the parent (RMB million)	18,020	21,847
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	14,828	14,828
Basic earnings per share (RMB)	1.215	1.473

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 2016 and 2015 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDEND

	2016 *RMB million*	2015 *RMB million*
Dividends recognised as distribution during the year:		
2015 final dividend – RMB0.304 per ordinary share	4,508	–
2014 final dividend – RMB0.270 per ordinary share	–	4,004

No interim dividend was proposed by the Board of Directors in 2016 and 2015.

Pursuant to the shareholders' approval at the general meeting on 24 June 2016, a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million in respect of the year ended 31 December 2015 was declared.

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.

17. CASH AND CASH EQUIVALENTS

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Demand deposits	18,590	12,581
Securities purchased under resale agreements with original maturity of less than three months	5,492	9,591
Deposits with banks with original maturity of less than three months	1,062	656
	25,144	22,828
Classification of cash and cash equivalents:		
Loans and receivables	25,144	22,828

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 2016 and 31 December 2015.

18. DERIVATIVE FINANCIAL ASSETS

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Interest rate swaps	3	8

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 2016			
1 year deposit rate by the People's Bank of China	4.00%	24 February 2018	100
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

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 (2015: a post-tax loss of RMB4 million) was recognised as other comprehensive expense. There was no gain or loss transferred from other comprehensive income to profit or loss in 2016 (2015: Nil).

19. DEBT SECURITIES

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Classification of debt securities:		
Held for trading, at fair value		
– Government bonds	946	259
– Financial bonds	–	122
– Corporate bonds	2,305	64
	3,251	445
Available-for-sale, at fair value		
– Government bonds	7,075	6,803
– Financial bonds	8,783	12,474
– Corporate bonds	49,885	45,424
	65,743	64,701
Held-to-maturity, at amortised cost		
– Government bonds	3,026	3,026
– Financial bonds	26,761	27,826
– Corporate bonds	11,864	11,406
	41,651	42,258
	110,645	107,404

20. EQUITY SECURITIES AND MUTUAL FUNDS

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Investments, at fair value:		
Mutual funds	28,805	28,744
Shares	28,593	31,256
Preferred shares	5,561	5,654
Perpetual bonds	252	260
Equity schemes	3,827	2,800
	67,038	68,714

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.

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

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.

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Classification of equity securities and mutual funds:		
Held for trading, at fair value	**10,543**	14,576
Available-for-sale, at fair value	**56,495**	54,138
	67,038	68,714

During the year, an impairment loss of RMB98 million was provided by the Group on equity securities and mutual funds (2015: Nil).

21. INSURANCE RECEIVABLES, NET

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Premiums receivable and agents' balances	**13,786**	9,823
Receivables from reinsurers	**19,911**	12,366
	33,697	22,189
Less: Impairment provisions on		
– Premiums receivable and agents' balances	**(2,960)**	(2,684)
– Receivables from reinsurers	**(258)**	(188)
	30,479	19,317

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

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Not yet due	**18,827**	14,609
Within 1 month	**2,496**	893
1 to 3 months	**3,770**	1,691
3 to 6 months	**3,594**	793
6 to 12 months	**1,472**	1,079
1 to 2 years	**208**	163
Over 2 years	**112**	89
	30,479	19,317

21. INSURANCE RECEIVABLES, NET *(continued)*

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

	2016 *RMB million*	2015 *RMB million*
At 1 January	2,872	2,690
Impairment losses recognised *(note 11)*	387	320
Amount written off as uncollectible	(41)	(138)
At 31 December	3,218	2,872

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB117 million (31 December 2015: RMB100 million). Please refer to note 48(c) for details.

22. REINSURANCE ASSET

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Reinsurers' share of:		
Unearned premium reserves *(note 37)*	10,154	9,307
Loss and loss adjustment expense reserves *(note 37)*	20,553	17,119
	30,707	26,426

23. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
More than 3 months to 1 year	162	962
1 to 2 years	8	8
2 to 3 years	213	1,355
More than 3 years	67,903	96,338
	68,286	98,663

24. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Long-term debt investment schemes	28,339	23,462
Wealth management products	28,400	1,000
Asset management products	3,616	2,200
Trust plans	3,000	2,850
Subordinated debts held	500	500
Asset-backed securities	–	40
	63,855	30,052

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

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% as at 31 December 2016 (31 December 2015: 2% to 100%) of the total funds raised. The interest rates of these Debt Schemes are 4.30% to 7.00% (31 December 2015: 4.53% to 7.20%) per annum as at 31 December 2016.

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

Wealth management products are financial products offered by banks which offer fixed or determinable payments and are not quoted in active market. The original terms of these products held at year end date ranges from 2 months to 1 year and the interest rates are 3.50% to 4.90% (31 December 2015: 4.20%) per annum as at 31 December 2016.

The original term of subordinated debt held 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 2015: 5.60%) per annum as at 31 December 2016.

25. PREPAYMENTS AND OTHER ASSETS

	Note	**31 December 2016** *RMB million*	31 December 2015 *RMB million*
Interest receivables		**5,379**	6,041
Capital security fund	(i)	**2,966**	2,966
Co-insurance receivables		**1,636**	1,660
Securities settlement accounts		**–**	1,520
Prepayments and deposits		**673**	555
Other receivables		**1,841**	897
Amounts due from PICC Group *(note 48(c))*		**64**	116
Amounts due from fellow subsidiaries *(note 48(c))*		**11**	29
Other assets		**3,793**	2,918
		16,363	16,702
Less: Impairment provision on			
– Co-insurance receivables		**(401)**	(365)
– Other receivables		**(157)**	(157)
		15,805	16,180

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 2016 *RMB million*	31 December 2015 *RMB million*
Cost of investments in associates	36,053	7,463
Share of post-acquisition profit and other comprehensive income, net of dividend received	992	1,121
	37,045	8,584

Acquisition of associates

In February 2015, the Group invested RMB2.79 billion in Sinopec Marketing Project Equity Investment Plan ("Sinopec Marketing Plan"), an equity investment plan set up and managed by PICC Assets Management Company Limited (the "PICC AMC"), for 29.399% interests. 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.

On 23 June 2016, the Company, PICC Health Insurance Company Limited ("PICC Health") and other shareholders of PICC Health entered into a share subscription agreement. Pursuant to this agreement, the Company subscribed approximately 2,119 million shares of PICC Health through private placement at a consideration of RMB2,500 million and on completion of the subscription, the Company held 24.726% interests in PICC Health. On 30 June 2016, the capital injection of PICC Health was approved by CIRC. Therefore, the investment in PICC Health was accounted for as an associate of the Company under the equity method as from that date. Previously, the Group held no direct or indirect interests in PICC Health.

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 sell to the Company 877,302,599 shares, 267,072,000 shares and 991,671,286 shares of Hua Xia Bank, respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.990% of the total issued ordinary shares of Hua Xia Bank) and the Company conditionally agreed to purchase these shares. This transaction was completed on 17 November 2016.

The Group holds the view that it has the ability to have significant influence over Hua Xia Bank since 17 November 2016 and therefore accounts for its interests in Hua Xia Bank as an associate. An excess of RMB2,636 million, which represents the Group's share of the net fair value of the identifiable assets and liabilities of Hua Xia Bank over the cost of the investment, was included as income in the Group's share of profits of associates for the current year. As disclosed in note 3, the amount is provisional.

26. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of material associates

Particulars of material associates as at 31 December 2016 and 2015 are as follows:

Name	Place of registration and operations	Nominal value of registered share capital *RMB million*	Proportion of ownership interest and voting right as at 31 December 2016	2015	Measurement method	Principal activities
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 Plan	Shanghai	9,490	29.399%	29.399%	Equity method	Equity investment
Hua Xia Bank	Beijing	10,686	19.990%	–	Equity method	Commercial banking
PICC Health	Beijing	8,568	24.726%	–	Equity method	Provision of health insurance products

Management has assessed the level of influence that the Group has on certain associates, with a total carrying amount of RMB31,411 million as at 31 December 2016 (2015: RMB5,393 million), and determined that it has significant influence even though the respective shareholding is below 20% because of the board representation or other arrangements made. Consequently, these investments have been classified as associates.

Except for Hua Xia Bank, all the associates are private companies or structured entities, and there are no quoted market prices available for these shares. Hua Xia Bank is listed on the Shanghai Stock Exchange and the fair value of the Group's interests in Hua Xia Bank as at 31 December 2016 was RMB23,176 million.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associates' 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)*

Summarised financial information of material associates *(continued)*

PICC Life

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Total assets	375,490	357,561
Total liabilities	342,427	322,345
Equity attributable to		
Equity holders of PICC Life	33,051	35,210
Non-controlling interests	12	6
Total equity	33,063	35,216

	2016 *RMB million*	2015 *RMB million*
Revenue	125,533	113,926
Profit attributable to		
Equity holders of PICC Life	529	3,531
Non-controlling interests	6	(11)
Profit for the year	535	3,520
Other comprehensive (expense)/income attributable to equity holders of PICC Life	(1,827)	1,733
Other comprehensive (expense)/income for the year	(1,827)	1,733
Total comprehensive (expense)/income attributable to		
Equity holders of PICC Life	(1,298)	5,264
Non-controlling interests	6	(11)
Total comprehensive (expense)/income for the year	(1,292)	5,253
Dividends received from the associate during the year	74	41

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

PICC Life *(continued)*

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

	31 December 2016 ***RMB million***	31 December 2015 *RMB million*
Net assets attributable to equity holders of PICC Life	**33,051**	35,210
Proportion of the Group's shareholders' interests in PICC Life	**8.615%**	8.615%
The Group's shareholders' interests in net assets of PICC Life	**2,847**	3,033
Goodwill	**16**	16
Carrying amount of the Group's interests in PICC Life	**2,863**	3,049

Aerospace Investment

	30 September 2016 ***RMB million***	30 September 2015 *RMB million*
Total assets	**13,382**	12,873
Total liabilities	**1,172**	807
Equity attributable to		
Equity holders of Aerospace Investment	**11,992**	11,880
Non-controlling interests	**218**	186
Total equity	**12,210**	12,066

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Aerospace Investment *(continued)*

	Period from 1 October 2015 to 30 September 2016 *RMB million*	Period from 1 October 2014 to 30 September 2015 *RMB million*
Revenue	136	111
Profit attributable to		
Equity holders of Aerospace Investment	1,178	1,002
Non-controlling interests	19	25
Profit for the period	1,197	1,027
Other comprehensive income attributable to equity holders of Aerospace Investment	45	893
Other comprehensive income for the period	45	893
Total comprehensive income attributable to		
Equity holders of Aerospace Investment	1,223	1,895
Non-controlling interests	19	25
Total comprehensive income for the period	1,242	1,920
Dividends received from the associate during the period	94	88

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Aerospace Investment *(continued)*

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

	30 September 2016 *RMB million*	30 September 2015 *RMB million*
Net assets attributable to equity holders of Aerospace Investment	11,992	11,880
Proportion of the Group's shareholders' interests in Aerospace Investment	16.835%	16.835%
The Group's shareholders' interests in net assets of Aerospace Investment	2,019	2,000
Effect of fair value adjustments at acquisition	269	269
Others	169	75
Carrying amount of the Group's interests in Aerospace Investment	2,457	2,344

Since the audited financial statements of Aerospace Investment for the year ended 31 December 2016 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 2015 to 30 September 2016 based on the unaudited management accounts. For the year ended 31 December 2015, the Group had 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.

Sinopec Marketing Plan

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Total assets	9,490	9,490
Total liabilities	10	–
Equity attributable to		
Plan holders of Sinopec Marketing Plan	9,480	9,490
Non-controlling interests	–	–
Total equity	9,480	9,490

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Sinopec Marketing Plan *(continued)*

	2016 *RMB million*	2015 *RMB million*
Revenue	253	1
Profit and total comprehensive income attributable to		
Plan holders of Sinopec Marketing Plan	234	(16)
Non-controlling interests	–	–
Dividends received from the associate during the year	67	–

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

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Net assets attributable to plan holders of Sinopec Marketing Plan	9,480	9,490
Proportion of the Group's interests in Sinopec Marketing Plan	29.399%	29.399%
The Group's interests in net assets of Sinopec Marketing Plan	2,787	2,790
Carrying amount of the Group's interests in Sinopec Marketing Plan	2,787	2,790

Hua Xia Bank

Reconciliation of the provisional net assets to the carrying amount of the interests in Hua Xia Bank recognised in the consolidated financial statements:

	17 November 2016 Provisional values *RMB million*
Net assets attributable to equity holders of Hua Xia Bank	130,910
Proportion of the Group's shareholders' interests in Hua Xia Bank	19.990%
The Group's shareholders' interests in net assets of Hua Xia Bank	26,169
Net fair value adjustment to the investee's identifiable assets and liabilities	(78)
Carrying amount of the Group's interests in Hua Xia Bank	26,091

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Hua Xia Bank *(continued)*

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

PICC Health

	31 December 2016 *RMB million*
Total assets	45,227
Total liabilities	39,548
Equity attributable to	
Equity holders of PICC Health	5,679
Non-controlling interests	–
Total equity	5,679

	Period from 1 July 2016 to 31 December 2016 *RMB million*
Revenue	5,187
Profit attributable to	
Equity holders of PICC Health	206
Non-controlling interests	–
Profit for the year	206
Other comprehensive expense attributable to equity holders of PICC Health	(192)
Other comprehensive expense for the period	(192)
Total comprehensive income attributable to	
Equity holders of PICC Health	14
Non-controlling interests	–
Total comprehensive income for the period	14
Dividends received from the associate during the period	–

26. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

PICC Health *(continued)*

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

	31 December 2016 *RMB million*
Net assets attributable to equity holders of PICC Health	5,679
Proportion of the Group's shareholders' interests in PICC Health	24.726%
The Group's shareholders' interests in net assets of PICC Health	1,404
Net fair value adjustment to the investee's identifiable assets and liabilities	521
Amortisation of the investee's identifiable assets and liabilities recognised in fair value adjustments	(45)
Goodwill	578
Carrying amount of the Group's interests in PICC Health	2,458

27. SUBSIDIARIES

	Company	
	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Unlisted shares, at cost	96	96

Particulars of the subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Equity interest and voting right held by the Group as at 31 December		Share capital registered/ paid-up capital	Principal activities
		2016	2015	*RMB million*	
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

	2016 *RMB million*	2015 *RMB million*
At 1 January	4,783	4,684
Transfers from property, plant and equipment and prepaid land premiums *(notes 29 and 30)*	113	112
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	275	217
Increase in fair value of investment properties during the year *(note 9)*	148	145
Transfer to property, plant and equipment and prepaid land premiums *(notes 29 and 30)*	(417)	(375)
At 31 December	4,902	4,783
Hierarchy of fair value:		
Level 3	4,902	4,783

The Group is still in the process of applying for title certificates for investment properties with a carrying value of RMB136 million as at 31 December 2016 (31 December 2015: RMB94 million).

As at 31 December 2016 and 31 December 2015, 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 judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used from the prior year. In estimating the fair value of the properties, the highest and best use of the properties 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% as at 31 December 2016 (31 December 2015: 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 RMB256 million (2015: RMB209 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 2016	14,630	1,526	6,392	2,025	24,573
Additions	199	365	663	920	2,147
Transfers	960	–	4	(964)	–
Transfers from investment properties *(note 28)*	417	–	–	–	417
Transfers to investment properties *(note 28)*	(159)	–	–	–	(159)
Disposals	(42)	(163)	(316)	(7)	(528)
At 31 December 2016	16,005	1,728	6,743	1,974	26,450
ACCUMULATED DEPRECIATION					
At 1 January 2016	(4,462)	(966)	(5,035)	–	(10,463)
Charge for the year *(note 11)*	(566)	(223)	(784)	–	(1,573)
Transfers to investment properties *(note 28)*	85	–	–	–	85
Disposals	21	151	306	–	478
At 31 December 2016	(4,922)	(1,038)	(5,513)	–	(11,473)
NET BOOK AMOUNT					
At 31 December 2016	11,083	690	1,230	1,974	14,977
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

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

As at 31 December 2016, certain acquired buildings of the Group with a net book amount of RMB516 million (31 December 2015: RMB540 million) were still in the process of title registration.

30. PREPAID LAND PREMIUMS

	2016 *RMB million*	2015 *RMB million*
At 1 January	3,351	3,431
Additions	50	137
Amortisation recognised during the year *(note 11)*	(147)	(156)
Transfers to investment properties *(note 28)*	(39)	(7)
Disposal	(30)	(54)
At 31 December	3,185	3,351

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 2016	890	–	–	2,284	1,075	–	538	4,787
Deferred tax credited/(charged) to the income statement during the year *(note 14)*	134	–	–	2,683	(104)	–	185	2,898
Gross deferred tax assets at 31 December 2016	1,024	–	–	4,967	971	–	723	7,685
Deferred tax liabilities								
At 1 January 2016	–	(3,393)	(2)	–	–	(1,210)	(220)	(4,825)
Deferred tax (charged)/credited to the income statement during the year *(note 14)*	–	–	–	–	–	(37)	73	36
Deferred tax credited/(charged) to other comprehensive income during the year	–	1,050	1	–	–	(69)	–	982
Gross deferred tax liabilities at 31 December 2016	–	(2,343)	(1)	–	–	(1,316)	(147)	(3,807)
Net deferred tax assets at 31 December 2016								3,878

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 2015	738	–	–	576	1,288	–	410	3,012
Deferred tax credited/(charged) 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 (charged)/credited 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)

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 offset current tax assets against current tax liabilities as they relate to the same tax authority.

32. RESTRICTED DEPOSITS

As at 31 December 2016, term deposits containing an amount of RMB1,216 million (31 December 2015: RMB1,318 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 to settle for catastrophic losses from agriculture insurance business.

33. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Reinsurance payables	16,443	9,141

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 RMB131 million (31 December 2015: RMB110 million). Please refer to note 48(c) for details.

34. ACCRUED INSURANCE PROTECTION FUND

	2016 *RMB million*	2015 *RMB million*
At 1 January	741	755
Accrued during the year *(note 7)*	2,398	2,181
Paid during the year	(2,305)	(2,195)
At 31 December	834	741

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 (2015: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2015: 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 2016 *RMB million*	31 December 2015 *RMB million*
Transactions by market places:		
Stock exchange	11,924	17,081
Inter-bank market	9,106	6,607
	21,030	23,688

35. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE *(continued)*

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 2016, the carrying amount and fair value of securities deposited in the collateral pool was RMB17,354 million and RMB17,426 million (31 December 2015: RMB19,898 million and RMB20,142 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 2016, bonds with carrying amount and fair value of RMB9,539 million and RMB10,034 million (31 December 2015: RMB6,788 million and RMB7,586 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 2016 *RMB million*	31 December 2015 *RMB million*
Premiums received in advance	13,854	11,308
Salaries and staff welfare payables	9,551	8,777
Commission payable	6,843	4,862
Claims payable	3,529	2,883
Premium payable	2,170	1,736
Interest payable	163	260
Accrued capital expenditure	395	188
Amounts due to fellow subsidiaries *(note 48(c))*	91	43
Others	11,519	9,050
	48,115	39,107

Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2016 and 31 December 2015, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

37. INSURANCE CONTRACT LIABILITIES

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Unearned premium reserves	114,275	102,915
Loss and loss adjustment expense reserves	127,818	114,373
	242,093	217,288

37. INSURANCE CONTRACT LIABILITIES *(continued)*

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

	2016 Gross amount *RMB million*	2016 Reinsurers' share *RMB million (note 22)*	2016 Net amount *RMB million*	2015 Gross amount *RMB million*	2015 Reinsurers' share *RMB million (note 22)*	2015 Net amount *RMB million*
Unearned premium reserves						
At 1 January	102,915	(9,307)	93,608	95,638	(9,592)	86,046
Increase during the year	238,846	(20,726)	218,120	218,092	(20,501)	197,591
Release during the year	(227,486)	19,879	(207,607)	(210,815)	20,786	(190,029)
At 31 December	114,275	(10,154)	104,121	102,915	(9,307)	93,608
Loss and loss adjustment expense reserves						
At 1 January	114,373	(17,119)	97,254	102,499	(16,089)	86,410
Increase during the year	193,926	(22,183)	171,743	172,855	(19,436)	153,419
Release during the year	(180,481)	18,749	(161,732)	(160,981)	18,406	(142,575)
At 31 December	127,818	(20,553)	107,265	114,373	(17,119)	97,254
Total insurance contract liabilities	242,093	(30,707)	211,386	217,288	(26,426)	190,862

38. POLICYHOLDERS' DEPOSITS

As at 31 December 2016, 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 2016 *RMB million*	31 December 2015 *RMB million*
Interest-bearing deposits	625	448
Non-interest-bearing deposits	1,705	1,778
	2,330	2,226

For the years ended 31 December 2016 and 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. BONDS PAYABLE

As at 31 December 2016, bonds payable comprised of subordinated debts and capital supplementary bonds.

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Subordinated debts:		
Carrying amount repayable		
Within one year	–	3,031
More than five years	8,133	13,266
	8,133	16,297
Capital supplementary bonds:		
Carrying amount repayable		
More than five years	14,979	–
	23,112	16,297

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

On 3 June 2016, the Company exercised the redemption rights of subordinated debts of RMB5,000 million issued on 3 June 2011 and fully redeemed the subordinated debts.

On 23 November 2016, the Company issued capital supplementary bonds of RMB15,000 million.

On 19 December 2016, the subordinated debts of RMB3,000 million issued by the Company on 19 December 2006 have expired.

Terms of the subordinated debts of the Company 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 rate of the subordinated debts is 5.75% in the first five years and 7.75% in the second five years.

Terms of the capital supplementary bonds of the Company are ten years. With proper notice to the counterparties, the Group has an option to redeem the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rate of the capital supplementary bonds is 3.65% per annum in the first five years and 4.65% per annum in the second five years.

40. ISSUED CAPITAL

	31 December 2016 *RMB million*	31 December 2015 *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

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 bonds payable, 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 2016 *RMB million*	31 December 2015 *RMB million*	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Financial Assets				
Derivative financial assets	3	8	3	8
Held-for-trading				
– Equity securities and mutual funds	10,543	14,576	10,543	14,576
– Debt securities	3,251	445	3,251	445
Available-for-sale				
– Equity securities and mutual funds	56,495	54,138	56,495	54,138
– Debt securities	65,743	64,701	65,743	64,701
Held-to-maturity investment				
– Debt securities	41,651	42,258	44,465	46,565
Loans and receivables				
– Cash and cash equivalents	25,144	22,828	25,144	22,828
– Term deposits	68,286	98,663	68,286	98,663
– Investments classified as loans and receivables	63,855	30,052	67,086	33,830
– Insurance receivables, net	30,479	19,317	30,479	19,317
– Other assets	13,769	14,556	13,769	14,556
Total financial assets	379,219	361,542	385,264	369,627
Financial liabilities				
Other financial liabilities, at amortised cost				
– Payables to reinsurers	16,443	9,141	16,443	9,141
– Accrued insurance protection fund	834	741	834	741
– Securities sold under agreements to repurchase	21,030	23,688	21,030	23,688
– Policyholders' deposits	2,330	2,226	2,330	2,226
– Bonds payable	23,112	16,297	23,986	19,065
– Other liabilities	28,874	22,758	28,874	22,758
Total financial liabilities	92,623	74,851	93,497	77,619

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

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

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 financial liabilities not measured at fair value

The carrying amounts of the Group's financial assets and financial liabilities not measured at fair value approximate their fair values as at 31 December 2016 and 31 December 2015 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

31 December 2016	Fair value hierarchy Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets				
– Held-to-maturity investments	407	44,058	–	44,465
– Investments classified as loans and receivables	–	67,086	–	67,086
Financial liabilities				
– Bonds payable	–	23,986	–	23,986

31 December 2015	Fair value hierarchy 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				
– Bonds payable	–	19,065	–	19,065

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.

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

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

(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).

Financial assets/financial liabilities	Fair value as at 31 December 2016 *RMB million*	Fair value as at 31 December 2015 *RMB million*	Fair value hierarchy	Valuation technique(s) and key input(s)
Trading debt securities	131	–	Level 1	Quoted bid prices in an active market.
Trading debt securities	3,120	445	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	10,543	14,576	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	7,576	8,437	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	58,167	56,264	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	45,388	28,707	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	5,322	5,454	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	3,064	17,529	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	1,021	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	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	3	8	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and 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 of financial instruments *(continued)*

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

31 December 2016	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Derivative financial assets				
– Interest rate swaps	–	3	–	3
Financial assets held for trading				
– Equity securities and mutual funds	10,543	–	–	10,543
– Debt securities	131	3,120	–	3,251
Available-for-sale financial assets				
– Equity securities and mutual funds	45,388	5,322	5,785	56,495
– Debt securities	7,576	58,167	–	65,743
	63,638	66,612	5,785	136,035

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

For the year ended 31 December 2016, available-for-sale debt securities with a carrying amount of RMB960 million (2015: RMB2,155 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 a carrying amount of RMB1,565 million (2015: RMB1,978 million) were transferred from Level 2 to Level 1 because quoted prices in active markets were available as at 31 December 2016.

There were no transfers into Level 3 in 2016 and 2015.

The investment in Industrial Bank Co., Ltd. ("IBC") shares classified as available-for-sale financial assets was 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. Therefore, the available-for-sale investment in respect of IBC shares was classified as Level 3 fair value hierarchy. On 7 January 2016, the lock-up period of IBC shares has expired, and consequently the Group transferred the IBC shares with a carrying amount of RMB15,851 million from Level 3 to Level 1 because the fair value can be determined based on unadjusted quoted prices in active markets.

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

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

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

The Company used the historical volatility of share prices as the significant unobservable input in the fair value measurement of the non-marketability discount. The historical volatilities used in measuring the fair value of IBC shares as at 31 December 2015 were 37.70%.

No sensitivity analysis for Level 3 unlisted equity investments is presented as the fair value of these unlisted equity investments was not significantly sensitive to reasonable possible changes in unobservable inputs used in the sensitivity analysis.

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale financial assets 2016 RMB million	2015 RMB million
At 1 January	19,977	13,851
Addition	827	2,619
Reclassification from cost to fair value	–	1,202
Transfer out *(Note)*	(15,851)	–
Unrealised gains recognised in other comprehensive income	832	2,305
At 31 December	5,785	19,977

Note: On 7 January 2016, the lock-up period of IBC shares has expired, and consequently the Group transferred the IBC shares with a carrying amount of RMB15,851 million from Level 3 to Level 1.

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 comprehensive and core solvency margin ratios of the Company are listed below:

(in RMB million)	31 December 2016
Actual capital	140,793
Core capital	113,864
Minimum capital	49,071
Comprehensive solvency margin ratio (%)	287%
Core solvency margin ratio (%)	232%

(in RMB million)	31 December 2015
Regulatory capital held	85,356
Minimum regulatory capital	37,831
Solvency margin ratio (%)	226%

42. CAPITAL MANAGEMENT *(continued)*

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the CIRC. These capital requirements are generally known as solvency requirements in the insurance industry. Prior to 2016, the minimum regulatory capital requirement is calculated by reference to premiums written or claims paid, while the regulatory capital held is an adjusted net asset. Solvency margin ratio is the result of regulatory capital held divided by minimum regulatory capital. An insurance company was non-compliant with the solvency requirement if its ratio was less than 100%; if it was between 100% and 150%, CIRC could order the insurance companies in question to submit and implement appropriate plans to prevent any further deterioration of the ratio.

For the current year, China Risk Oriented Solvency System ("C-ROSS") requires insurance companies to comply with both the core capital and actual capital (sum of core and supplementary capital). Under the C-ROSS, the minimum capital is calculated by formula prescribed by the CIRC. The minimum capital requirements is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For the Company, core capital is principally net assets, while supplementary capital is mainly subordinated debts and capital supplementary bonds issued by the Company.

CIRC can take a number of regulatory measures against any insurance company non-compliant with the solvency requirements. These regulatory measures include restriction on business scope, dividend distributions, investment strategy; order to transfer business or place reinsurance; removal of senior executives of the insurance company.

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 SARs.

Under the SARs scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, department managers of the Company, general managers 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 SARs.

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

Under the SARs scheme, all SARs 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 SARs exercised may not, in aggregate, exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SARs granted to such person. Thereafter, SARs 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 SARs initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SARs 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 SARs, the person will receive cash payment, subject to any applicable withholding tax, equal to the sum of the number of units of SARs 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 SARs 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

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

– Catastrophe 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:

	2016		2015	
	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	141,930	126,894	127,679	112,798
Western China	66,927	60,695	61,342	55,399
Northern China	40,178	36,928	37,656	34,914
Central China	42,620	39,119	36,733	33,260
North-eastern China	19,505	17,138	18,288	15,758
Total	311,160	280,774	281,698	252,129

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 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 method
- 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 3.6%-4.0% and 4.1%-4.4% for 2016 and 2015, 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)*

Assumptions and sensitivities (continued)

Reproduced below is an analysis that shows the development of claims over a period of time on a gross basis:

	Accident year – gross					
	2012 *RMB million*	2013 *RMB million*	2014 *RMB million*	2015 *RMB million*	2016 *RMB million*	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	113,488	138,282	150,767	168,697	191,668	762,902
One year later	113,351	138,263	149,790	167,879		569,283
Two years later	113,468	139,879	148,778			402,125
Three years later	113,537	139,842				253,379
Four years later	113,686					113,686
Estimated cumulative claims	113,686	139,842	148,778	167,879	191,668	761,853
Cumulative claims paid	(110,935)	(135,852)	(139,709)	(148,509)	(119,558)	(654,563)
Sub-total						107,290
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						20,528
Unpaid claim expenses						127,818

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

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities *(continued)*

Assumptions and sensitivities (continued)

Reproduced below is an analysis that shows the development of claims over a period of time on a net basis:

	Accident year – net					
	2012	2013	2014	2015	2016	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Estimated cumulative claims paid as of:						
End of current year	94,925	120,084	131,379	150,312	170,712	667,412
One year later	94,929	119,921	130,993	149,618		495,461
Two years later	94,882	119,959	130,218			345,059
Three years later	95,209	119,775				214,984
Four years later	95,315					95,315
Estimated cumulative claims	95,315	119,775	130,218	149,618	170,712	665,638
Cumulative claims paid	(93,091)	(116,988)	(122,709)	(133,723)	(110,182)	(576,693)
Sub-total						88,945
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						18,320
Unpaid claim expenses						107,265

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.

(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 catastrophe 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 RMB14,217 million (2015: RMB13,699 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

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

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will 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.

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 2016, the top three reinsurance companies owed an aggregate amount of RMB7,870 million (31 December 2015: RMB4,331 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 2016 *RMB million*	31 December 2015 *RMB million*
Cash and cash equivalents	25,144	22,828
Term deposits	68,286	98,663
Derivative financial assets	3	8
Debt securities	110,645	107,404
Insurance receivables, net	30,479	19,317
Reinsurance assets	30,707	26,426
Investments classified as loans and receivables	63,855	30,052
Other financial assets	13,769	14,556
Total credit risk exposure	342,888	319,254

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 2016	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	25,144	–	–	–	–	–	25,144
Term deposits	68,286	–	–	–	–	–	68,286
Derivative financial assets	3	–	–	–	–	–	3
Debt securities	110,645	–	–	–	–	–	110,645
Insurance receivables	18,996	1,418	3,305	3,962	8,685	6,016	33,697
Reinsurance assets	30,707	–	–	–	–	–	30,707
Investments classified as loans and receivables	63,855	–	–	–	–	–	63,855
Other financial assets	10,159	1,350	478	1,782	3,610	558	14,327
Total	327,795	2,768	3,783	5,744	12,295	6,574	346,664
Less: Impairment provision	–	–	–	–	–	(3,776)	(3,776)
Net	327,795	2,768	3,783	5,744	12,295	2,798	342,888

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

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 2016, 100% (31 December 2015: 100%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2016, 98.59% (31 December 2015: 99.22%) 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 2016 and 2015.

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.

(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.

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk *(continued)*

As at 31 December 2016, the Group maintained demand deposits and term deposits with original maturity of no more than three months at 4% of total assets (31 December 2015: 3%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

The table below summarises maturity profiles of financial/insurance assets and financial/ insurance liabilities of the Group.

Maturity profiles of financial assets and liabilities are prepared using the contractual collection or repayment dates.

For reinsurance assets and insurance contract liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims. These expected timing is made on various assumptions, including settlement speed of claims. Therefore, actual timing can deviate from the analysis presented below.

All amounts are based on undiscounted contractual cash flows.

31 December 2016	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	18,598	6,549	–	–	–	–	25,147
Term deposits	–	7,967	7,663	51,904	12,009	–	79,543
Derivative financial assets	–	–	1	1	–	–	2
Debt securities							
– Available-for-sale	–	4,132	16,813	36,908	17,730	–	75,583
– Held-for-trading	–	1,480	598	964	332	–	3,374
– Held-to-maturity	–	125	1,264	10,801	57,999	–	70,189
Equity securities and mutual funds	–	–	–	–	–	67,038	67,038
Insurance receivables, net	11,840	10,394	5,120	3,037	88	–	30,479
Reinsurance assets	–	5,800	14,523	7,658	3,021	–	31,002
Investments classified as loans and receivables	–	11,535	22,224	21,205	22,595	–	77,559
Other financial assets	1,574	4,407	4,303	3,666	307	–	14,257
Liabilities:							
Securities sold under agreements to repurchase	–	21,046	–	–	–	–	21,046
Payables to reinsurers	9,028	6,332	700	363	20	–	16,443
Insurance contract liabilities	–	41,040	143,708	20,009	38,005	–	242,762
Policyholders' deposits	1,766	–	–	567	–	–	2,333
Bonds payable	–	–	859	4,350	28,247	–	33,456
Other financial liabilities	2,212	17,264	7,812	2,351	70	–	29,709

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

(b) Financial risks *(continued)*

(2) Liquidity or funding risk *(continued)*

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
Bonds payable	–	–	3,658	3,476	15,849	–	22,983
Other financial liabilities	1,565	13,501	7,152	1,248	33	–	23,499

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 2016			31 December 2015		
	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*
Cash and cash equivalents	25,144	–	25,144	22,828	–	22,828
Term deposits	12,846	55,440	68,286	39,624	59,039	98,663
Derivative financial assets	–	3	3	3	5	8
Debt securities	68,994	41,651	110,645	65,235	42,169	107,404
Equity securities and mutual funds	61,458	5,580	67,038	64,587	4,127	68,714
Insurance receivables, net	27,354	3,125	30,479	16,610	2,707	19,317
Reinsurance assets	20,160	10,547	30,707	17,394	9,032	26,426
Investments classified as loans and receivables	30,570	33,285	63,855	2,400	27,652	30,052
Prepayments and other assets	10,921	4,884	15,805	11,517	4,663	16,180
Investments in associates	–	37,045	37,045	–	8,584	8,584
Investment properties	–	4,902	4,902	–	4,783	4,783
Property, plant and equipment	–	14,977	14,977	–	14,110	14,110
Prepaid land premiums	–	3,185	3,185	–	3,351	3,351
Deferred tax assets	–	3,878	3,878	–	–	–
Total assets	257,447	218,502	475,949	240,198	180,222	420,420
Payables to reinsurers	16,060	383	16,443	8,854	287	9,141
Accrued insurance protection fund	834	–	834	741	–	741
Securities sold under agreements to repurchase	21,030	–	21,030	23,688	–	23,688
Income tax payable	2,680	–	2,680	2,943	–	2,943
Other liabilities and accruals	45,142	2,973	48,115	37,416	1,691	39,107
Insurance contract liabilities	184,429	57,664	242,093	164,669	52,619	217,288
Policyholders' deposits	1,766	564	2,330	1,776	450	2,226
Bonds payable	–	23,112	23,112	3,031	13,266	16,297
Deferred tax liabilities	–	–	–	–	38	38
Total liabilities	271,941	84,696	356,637	243,118	68,351	311,469

* Expected recovery or settlement within 12 months from the end of each reporting period.

(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.

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

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 RMB. 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.

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2016	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	21,652	3,308	178	6	25,144
Term deposits	68,216	70	–	–	68,286
Derivative financial assets	3	–	–	–	3
Debt securities	109,792	853	–	–	110,645
Equity securities and mutual funds	65,388	632	1,018	–	67,038
Insurance receivables, net	25,980	4,406	17	76	30,479
Reinsurance assets	29,547	1,133	5	22	30,707
Investments classified as loans and receivables	63,855	–	–	–	63,855
Other financial assets	13,646	120	2	1	13,769
Total assets	398,079	10,522	1,220	105	409,926
Payables to reinsurers	14,437	1,959	7	40	16,443
Securities sold under agreements to repurchase	21,030	–	–	–	21,030
Insurance contract liabilities	240,211	1,803	22	57	242,093
Policyholders' deposits	2,330	–	–	–	2,330
Bonds payable	23,112	–	–	–	23,112
Other financial liabilities	28,883	801	29	(5)	29,708
Total liabilities	330,003	4,563	58	92	334,716

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

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
Bonds payable	16,297	–	–	–	16,297
Other financial liabilities	22,723	755	9	12	23,499
Total liabilities	287,996	4,024	37	82	292,139

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 2016 Impact on profit *RMB million*	31 December 2016 Impact on equity *RMB million*	31 December 2015 Impact on profit *RMB million*	31 December 2015 Impact on equity *RMB million*
USD	5%	224	298	191	252
USD	(5%)	(224)	(298)	(191)	(252)

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

(b) Financial risks *(continued)*

(3) Market risk *(continued)*

(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.

(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 (2015: 10 trading days) at a confidence level of 99% (2015: 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 2016 *RMB million*	31 December 2015 *RMB million*
Interest rate VaR	557	451
Equity price VaR	1,944	5,378

45. CONTINGENT LIABILITIES

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.

There were certain outstanding litigation matters against the Group as at 31 December 2016. The management of the Company believes such litigation matters will not cause significant losses to 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 (2015: two to twenty years).

Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Within one year	**228**	186
In the second to fifth years, inclusive	**381**	206
After five years	**153**	50
	762	442

(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 2016 *RMB million*	31 December 2015 *RMB million*
Within one year	**294**	356
In the second to fifth years, inclusive	**767**	765
After five years	**349**	245
	1,410	1,366

47. 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 2016 *RMB million*	31 December 2015 *RMB million*
Contracted, but not provided for:		
Property, plant and equipment	2,303	1,782

48. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	2016 *RMB million*	2015 *RMB million*
Transactions with the holding company:			
2015 Final dividend distribution	(i)	3,110	–
2014 Final dividend distribution	(i)	–	2,762
Rental expense and WAN service fees	(ii)	92	98
Transactions with fellow subsidiaries:			
Management fee	(iii)	168	152
Subscription amount of financial products set up and managed by fellow subsidiaries	(iii)	1,054	N/A
Premiums ceded	(iv)	481	466
Reinsurance commission income	(iv)	203	211
Paid losses recoverable from reinsurers	(iv)	274	280
Reinsurance premiums assumed	(iv)	6	6
Commission expenses-reinsurance	(iv)	1	1
Gross claims paid-reinsurance	(iv)	1	2
Brokerage commission expense	(v)	96	140
Transactions with associates:			
Agency services commission received	(vi), (vii)	128	68
Agency services commission paid	(vi), (vii)	258	109
Premiums paid	(viii)	3	49
Interest income	(x)	58	N/A
Transactions with an associate of PICC Group:			
Interest income	(ix)	115	112
Dividend income	(ix)	775	542
Interest expense	(ix)	30	30
Premium income	(ix)	11	143
Claims paid	(ix)	82	13
Commission expense	(ix)	7	3

48. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes:

(i) On 24 June 2016, the shareholders of the Company at a general meeting approved a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million for the year ended 31 December 2015. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB3,110 million to PICC Group.

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.

(ii) 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.

(iii) 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. 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 paid to PICC AMC when the investment performance satisfied certain conditions. On 19 December 2015 and 23 June 2016, the Company and PICC AMC further renewed the asset management agreement for 6 months, effective from 1 January 2016 to 30 June 2016, and for 3 years, effective from 1 July 2016 to 30 June 2019, respectively.

On 24 November 2016, the Company and PICC AMC further entered into a memorandum of understanding ("MOU"), effective from 24 November 2016 to 30 June 2019, regarding the above asset management agreement. Pursuant to the MOU, in respect of the Company's subscription of financial products set up and managed, either solely or jointly, by PICC AMC, PICC Capital Investment Management Company Limited and PICC Investment Holding Company Limited, and when there are connected person(s) of the Company also subscribing for the same financial products, the aggregated annual subscription amount for such financial products should not exceed 5% of the total market capitalisation or the total revenue of the Company (whichever the lower).

(iv) On 27 March 2015, the Company and The People's Insurance Company of China (Hong Kong) Limited ("PICC HK") entered into a renewed Framework Agreement on Reinsurance Business Cooperation for a term of one year, effective from 1 January 2015 to 31 December 2015. Pursuant to the agreement, 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 28 March 2016, the Company and PICC HK further renewed the agreement for one year, effective from 1 January 2016 to 31 December 2016.

(v) On 17 June 2013, the Company and Zhongsheng International Insurance Brokers Co., Ltd. ("ZSIB") entered into an agreement for a term of three years, effective from 17 June 2013 to 16 June 2016. Pursuant to the agreement, 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. On 17 June 2016, the Company and ZSIB further renewed the agreement for three years, effective from 17 June 2016 to 16 June 2019.

48. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes: (continued)

(vi) On 30 August 2013, the Company and PICC Health entered into a renewed mutual insurance agency agreement for a term of three years, effective from 31 August 2013 to 30 August 2016. Pursuant to the mutual insurance agency agreement, 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 2016, the Company and PICC Health further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019.

PICC Health is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Health is included in "associates" and excluded from "fellow subsidiaries".

(vii) On 30 August 2013, the Company and PICC Life entered into a renewed mutual insurance agency agreement for a term of three years, effective from 31 August 2013 to 30 August 2016. Pursuant to the mutual insurance agency agreement, 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 2016, the Company and PICC Life further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019.

PICC Life is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Life is included in "associates" and excluded from "fellow subsidiaries".

(viii) 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.

(ix) These transactions with IBC are related party transactions as IBC is an associate of PICC Group since 19 April 2013.

(x) The transaction with Hua Xia Bank is a related party transaction as Hua Xia Bank is an associate of the Company since 17 November 2016.

Under the Listing Rules, the items (ii), (iii), (iv), (v), (vi), (vii), (viii) above constitute continuing connected transactions.

(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 2016 *RMB million*	31 December 2015 *RMB million*
Cash and cash equivalents:		
An associate	2	N/A
An associate of PICC Group	41	373
Term deposits:		
An associate	8,500	N/A
An associate of PICC Group	10,927	500
Debt securities:		
An associate of PICC Group	1,870	2,070
Equity securities:		
An associate of PICC Group	20,279	21,103
Receivables from reinsurers:		
A fellow subsidiary *(note 21)*	117	100
Loans and receivables:		
An associate of PICC Group	2,900	13
Due from related parties:		
PICC Group *(note 25)*	64	116
Fellow subsidiaries *(note 25)*	11	29
An associate	208	N/A
An associate of PICC Group	107	106
Payables to reinsurers:		
A fellow subsidiary *(note 33)*	131	110
Due to related parties:		
Fellow subsidiaries *(note 36)*	91	43
An associate of PICC Group	5	5
Bonds payable issued to:		
An associate of PICC Group	457	453

PICC Life and PICC Health are both associates of the Company and fellow subsidiaries of the Company. In the above note, PICC Life and PICC Health are included in "associates" and excluded from "fellow subsidiaries".

The balances with 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

	2016 *RMB'000*	2015 (Restated) *RMB'000*
Fees, salaries and allowances	11,362	11,887
Performance related bonuses	–	12,223
Retirement benefits	933	935
Housing fund and other benefits	743	891
	13,038	25,936

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 2016 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 2015 were restated based on the finalised amounts determined during 2016. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses amounting to RMB20 million for key management personnel had been deferred contingent upon the future performance.

49. EVENTS AFTER THE REPORTING PERIOD

On 24 March 2017, the Board of Directors of the Company proposed a final dividend of RMB0.309 per ordinary share for the year ended 31 December 2016 and is subject to the approval of shareholders' general meeting of the Company.

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) The Company's statement of financial position

	Notes	31 December 2016 RMB million	31 December 2015 RMB million
ASSETS			
Cash and cash equivalents		25,032	22,722
Term deposits		68,286	98,663
Derivative financial assets		3	8
Debt securities		110,645	107,404
Equity securities and mutual funds		67,038	68,714
Insurance receivables, net		30,479	19,317
Reinsurance assets		30,707	26,426
Investments classified as loans and receivables		63,855	30,052
Prepayments and other assets		15,805	16,180
Investments in associates		33,417	7,463
Subsidiaries	27	96	96
Investment properties		5,062	4,940
Property, plant and equipment		14,935	14,067
Prepaid land premiums		3,184	3,350
Deferred tax assets		3,850	–
TOTAL ASSETS		472,394	419,402
LIABILITIES			
Payables to reinsurers		16,443	9,141
Accrued insurance protection fund		834	741
Securities sold under agreements to repurchase		21,030	23,688
Income tax payable		2,685	2,943
Other liabilities and accruals		48,114	39,107
Insurance contract liabilities		242,074	217,288
Policyholders' deposits		2,330	2,226
Bonds payable		23,112	16,297
Deferred tax liabilities		–	65
TOTAL LIABILITIES		356,622	311,496
EQUITY			
Issued capital		14,828	14,828
Reserves	50(b)	100,944	93,078
TOTAL EQUITY		115,772	107,906
TOTAL EQUITY AND LIABILITIES		472,394	419,402

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 2016	18,986	2,737	10,174	6	30,804	7,527	1,885	20,959	93,078
Total comprehensive income /(expense) for the year	–	206	(3,151)	(4)	–	–	–	15,323	12,374
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	1,810	1,810	–	(3,620)	–
2015 final dividend	–	–	–	–	–	–	–	(4,508)	(4,508)
At 31 December 2016	18,986	2,943	7,023	2	32,614	9,337	1,885	28,154	100,944

	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/(expense) 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

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 March 2017.

In this annual report, the following expressions shall have the following meanings unless the context otherwise requires:

"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)
"HKD"	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
"Hua Xia Bank"	Hua Xia Bank Co., 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 Capital"	PICC Capital Investment 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 Investment"	PICC Investment Holding Company 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 Measures"	the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Guo Shui Fa〔2015〕No. 60)
"U.S.A."	the United States of America
"Year"	the year ended 31 December 2016
"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

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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