



中國再保險(集團)股份有限公司

CHINA REINSURANCE (GROUP) CORPORATION

(A joint stock limited company incorporated in the People's Republic of China)

Stock Code : 1508

2016 Annual Report



專業 讓保險更保險

EMPOWER YOUR INSURANCE **BY EXPERTISE**

CORPORATE CULTURE OF CHINA RE GROUP

MISSION

Diversifying economic risks
Assisting the robust development of the insurance industry

VISION

Becoming a world-class reinsurance group with outstanding expertise and eminent brand

CORE VALUES

Integrity Expertise Responsibility Aspiration

BASIC AWARENESS

Risk awareness Service awareness
Compliance awareness Collaboration awareness

BUSINESS PHILOSOPHY

Prudence Innovation Openness Mutual-benefit



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FINANCIAL HIGHLIGHTS

Highlights of financial information of the Group for the past five accounting years as at the end of the reporting periods:

Unit: in RMB millions, except for percentages and unless otherwise stated

	2016	2015	Change (%)	2014	2013	2012
Total assets ¹	211,207	328,993	(35.8)	189,675	154,829	148,029
Total liabilities ¹	139,067	258,036	(46.1)	135,040	108,941	103,759
Total equity	72,140	70,957	1.7	54,635	45,888	44,270
Gross written premiums	86,677	80,434	7.8	73,753	67,375	59,299
Net profit	5,233	7,675	(31.8)	5,476	3,396	2,318
Net profit attributable to equity shareholders of the parent company	5,146	7,579	(32.1)	5,404	3,373	2,262
Earnings per share (RMB)	0.12	0.20	(40.1)	0.15	0.09	0.06
Net assets per share attributable to equity shareholders of the parent company (RMB)	1.68	1.65	1.4	1.48	1.24	1.20
Weighted average return on equity (%) ²	7.28	12.99	Decrease of 5.71 percentage points	10.91	7.58	5.40

- Notes: 1. Following the official implementation of C-ROSS in 2016, most of the financial reinsurance business were discontinued due to the change in regulation policies, the financial reinsurance business model under the C-ROSS was different from the past. As a result, total assets and total liabilities of the Group have decreased as compared with the end of 2015.
2. Weighted average return on equity = Net profit attributable to equity shareholders of the parent company/balance of weighted average equity.

HONORS AND AWARDS



China Re Group was granted the “2016 Asian Excellent Reinsurance Company Award”

On 30 November 2016, China Re Group was granted the “2016 Asian Excellent Reinsurance Company Award” at the 11th 21st Century Annual Finance Summit of Asia.

China Re Group was granted the “Listed Company with the Most Investment Value Award”

On 23 November 2016, China Re Group was granted the “Listed Company with the Most Investment Value Award” at the 6th China Securities Golden Bauhinia Award.

China Re Group was granted the “Best Listed Company Award”

In 2016, China Re Group was granted the “Best Listed Company Award” issued by the *China Financial Market* magazine, which was announced on 12 January 2017.

China Re Group maintained “A” rating by A.M.Best and “A+” rating by Standard & Poor’s in 2016

On 20 October 2016, A.M.Best confirmed its ratings of China Re Group and its subsidiaries, China Re P&C, China Re Life and China Continent Insurance, of “A (excellent)” in Financial Strength Rating (FSR) and “a” in Issuer’s Credit Rating (ICR).

HONORS AND AWARDS

On 21 November 2016, Standard & Poor's confirmed that China Re Group and its subsidiaries, China Re P&C and China Re Life, maintained an "A+" rating for their long-term financial strength and issuer's credit, and a long-term "cnAAA" rating in the Greater China region.

China Re P&C was granted the "2016 Innovative Service Award"

On 30 November 2016, China Re P&C was granted the "2016 Innovative Service Award" at the 11th 21st Century Annual Finance Summit of Asia.

China Re Life was granted the "LIMRA China Contribution Award"

On 16 December 2016, China Re Life was granted the "LIMRA China Contribution Award" by Life Insurance Marketing and Research Association ("LIMRA").

China Continent Insurance was granted the "2016 Trustworthy Insurance Company Ark Award"

On 15 July 2016, China Continent Insurance was granted the "2016 Trustworthy Insurance Company Ark Award" in the first election of China Insurance Ark Award held by *Securities Times*.

China Continent Insurance was recognized as a "Top 500 Enterprises with 'China Service' Brand Competitiveness in 2016"

On 30 May 2016, China Continent Insurance was recognized as a "Top 500 Enterprises with 'China Service' Brand Competitiveness in 2016" in the election of Top 500 with "China Service" Brand Competitiveness in 2016.

China Continent Insurance was granted the "2016 Outstanding Brand Image Award"

On 21 July 2016, China Continent Insurance was granted the "2016 Outstanding Brand Image Award" at the 5th China Finance Summit.

China Re AMC was granted the "2016 Insurance Equity Investment Plan Ark Award"

On 15 July 2016, China Re AMC was granted the "2016 Insurance Equity Investment Plan Ark Award" in the first election of China Insurance Ark Award held by *Securities Times*.

STATEMENT FROM THE CHAIRMAN



In 2016, the national economy of China made a great start for the 13th Five-Year Plan, recording a slower but stable performance with good momentum for growth. The insurance industry of China strictly adhered to focusing on the business development for fundamental value, enhanced the capabilities of insurance services by focusing on the supply-side structural reform and poverty alleviation. China Re Group had been profoundly aware of its important mission, proactively responded to national strategies and industrial requirements, adhered to the emphasis on reinsurance as its core business and achieved good operating results in fierce competition. As such we continued to strengthen our leading position in domestic reinsurance market and sought gradual expansion into overseas market, achieving a rapid growth in the primary insurance business and stable investment return.

STATEMENT FROM THE CHAIRMAN

In 2016, China Re Group recorded a steady growth in its overall business operations. The gross written premiums reached RMB86,677 million, representing an increase of 7.8% compared with last year. Written premium income from China Re Life and China Continent Insurance exceeded RMB30,000 million for the first time. Premium income from China Continent Insurance grew at a considerably higher rate compared with its peers. Under the volatile environment in the domestic and overseas capital market, China Re Group recorded a total investment yield of 5.48%. Its net profit attributable to equity shareholders of the parent company amounted to RMB5,146 million, earnings per share was RMB0.12, and the weighted average return on equity was 7.28%. We maintained “A (Excellent)” rating as rated by A.M. Best for seven consecutive years and “A+” rating as rated by Standard & Poor’s for three consecutive years.

In 2016, China Re Group completed the formulation of “13th Five-Year” Development Plan, laying out the “One-Three-Five” Strategy, which specified the major outline of “One Core, Three Breakthroughs and Five Progresses”. We placed emphasis on reinsurance as our core business and our key theme in development. Under the premises of risk control and assured profitability, our deployment of comprehensive business operations was accelerated and new business growth areas were developed. We focused on the implementation of strategies, adhered to the principle of centralised management and control at the Group Company level by focusing on both ends and streamlining the middle, streamlined administration and institute decentralization, which further optimized the management model and organization structure of the Group. We reinforced the market-oriented appraisals, strengthened risk management and control and further improved our fundamental management capacities. Meanwhile, we steadily proceeded to expand in overseas market. Our Singapore branch successfully commenced operation, which put the Group in a better position to serve national strategies and laid a solid foundation in the markets of Asia Pacific region. We effectively achieved breakthroughs in layout of our material business platforms with the opening of China Re Capital Management Company Limited (中再資本管理有限責任公司) being successfully approved. We had established more business relationships, and entered into comprehensive strategic cooperation with China Merchants Group, China Development Bank, as well as Public Meteorological Service Center of China Meteorological Administration. We proactively participated in the construction and innovative practice of the industry mechanisms, taking the lead in assisting Mortality Investigation Office under China Association of Actuaries to construct the third version of Mortality Table and carry out in depth data mining to continue providing more extensive, profound and detailed data analysis service.

In 2016, by adhering to the core values of “Integrity, Expertise, Responsibility, and Aspiration”, China Re Group soundly fulfilled its industry missions and social responsibilities. As the management institution of CARP, we took the lead in setting up the first batch of ten local outlets for poverty alleviation together with other insurance companies in the national poverty counties in Hebei, Inner Mongolia, Hubei, Henan, etc. Through innovation of poverty alleviation products for agriculture insurance, technological supports in disaster prevention and reduction as well as risk management and disaster relief, the Group promoted a positive role of insurance in the course of poverty alleviation. On 14 December 2016, we completed the incorporation of “China Re Group Poverty Alleviation Work Liaison Office”, namely “China Continent Insurance Xunhua Branch”, seeking solutions on poverty alleviation precisely with industrialisation and ecologicalisation. We had won several awards including “2016 Asian Excellent Reinsurance Company Award”, “Listed Company with the Most Investment Value Award” and “Best Listed Company Award”, thereby continuously enhancing our brand reputation and influence.

STATEMENT FROM THE CHAIRMAN

Presently, China's economy has maintained a slow but stable growth rate. As the insurance industry is still in its golden age, there have always been opportunities in its structural development, and there have been vigorous new drivers of growth in the market. 2017 will be a critical year for the implementation of "One-Three-Five" Strategy of China Re Group, as well as a key year for the transformation and upgrading of the Group. Facing the continuous progress of supply-side structural reform as well as the general guideline of seeking progress while working to keep performance stable by the State, the Group as a whole will grasp the overall situation and maintain true to the mission, focus on the emphasis on reinsurance as its core business, and accelerate the integrated deployment. The Group will speed up in serving the national strategies, and make effective progresses in the layout of major business platforms, actively promote major clients strategy and further strengthen the domestic and overseas collaboration, demonstrate the value of the Company, strive for better returns for shareholders, brighter prospects in employees' career and greater contributions to the society.



Yuan Linjiang
Chairman

STATEMENT FROM THE PRESIDENT



In 2016, China Re Group adhered to the “One-Three-Five” Strategy, fully implemented our annual operation plans and made solid progress in our operation. We strived to consolidate our competitive edges in traditional fields and actively explored new business and points of growth to gradually promote the transformation and upgrading of business structures and operating models. The gross written premiums amounted to RMB86,677 million, representing an increase of 7.8% compared with last year; the consolidated net profit amounted to RMB5,233 million; the weighted average return on equity was 7.28%; total investment income was RMB9,048 million; total investment yield was 5.48%. For the P&C reinsurance business segment, gross written premiums amounted to RMB24,457 million and net profit was RMB1,850 million. For the life and health reinsurance segment, gross written premiums amounted to RMB31,366 million and net profit was RMB1,374 million. For the primary P&C insurance business segment, gross written premiums amounted to RMB32,071 million and net profit was RMB1,244 million.

STATEMENT FROM THE PRESIDENT

The P&C reinsurance business segment proactively responded to the development pressure resulting from the adjustment of the business structure, and continued to maintain its leading position in the domestic P&C reinsurance market by adapting to national policies, enhancing business innovation, improving customer services and other measures. We proactively supported the national catastrophe risk management system and continuously strengthened the industry service functions as the management institution of the CNIP and CARP. We met the development requirements of the industry and made significant progress in the underwriting and pricing of general aviation insurance and developing indicators of marine insurance. We focused on the development of business innovation, achieved breakthroughs in construction inherent defects insurance, project performance guarantee insurance, cyber security insurance and other aspects, and successfully developed the first AP1000 generating unit nuclear insurance product in the international nuclear power industry. We reinforced our cooperation with domestic primary insurance companies and put more efforts in business expansion, thereby achieving significant growth in facultative reinsurance business and non-proportional business.

The life and health reinsurance business segment built core competitiveness in respect of data, technologies and services, continuously improved its capability development, and made substantial progress in data analysis, application and commercialisation. We promoted diversity of technology products, and actively involved in the analysis of basic industry data and the formulation of industry standards, making contribution to the customers and industry. We reinforced the upgrading of critical illness and cancer insurance as well as new types of accident insurance, and recorded efficient growth in protection-type business. By following the business cycle and active innovation, we achieved stable growth in overseas savings-type business and significant growth in domestic savings-type business in the complex RMB exchange rate and interest rate at home and abroad. We seized the business opportunities arising from the implementation of the C-ROSS, and developed a new financial reinsurance business model under the C-ROSS to further improve our market share and business profit.

The transformation of primary P&C insurance business segment has achieved significant results, with enhanced capabilities in accurate pricing and product combined sales, improved specialised channel construction, customer service, and market competitiveness of our branches. We saw positive development in all of our product lines, effective increase in motor insurance market share, and rapid growth in personal loan surety insurance business. We steadily pushed forward the industrial chain layout with commencement into operation of Dadi E-Business Company Ltd. (「大地電子商務有限公司」). The promotion of the “E-mall” (「大地商城」) and the E-repair mall namely “YXCat” (「易修貓」), obtained positive results. The primary P&C insurance business segment experienced rapid growth with a growth rate in primary premium income in 2016 higher than that of the industry by 10.2 percentage points, ranking as the first among the top ten P&C insurance companies. We achieved positive underwriting profit in the primary P&C insurance business segment. The market share increased by 0.29 percentage point compared with last year, amounting to 3.45%.

The asset management segment actively responded to the domestic and overseas market changes as well as the “difficulties in allocation” resulting from the downward trend of interest rates, followed the principle of solid operation, strengthened risk management and refined operation through selective investment and actively explored the domestic and international market investment opportunities, thereby achieving stable investment results.

STATEMENT FROM THE PRESIDENT

The insurance brokerage segment continued to integrate internal business resources, expanded internal and external collaboration and cooperation to continuously strengthen our competitiveness in the fields of rail transportation and travel delay insurance. We made greater effort in the exploration of new business fields, and achieved breakthrough in the government public services business. We won the biddings of accident insurance project for the elderly in Qingdao City and insurance brokerage service project in North region of Maritime Safety Administration.

In 2017, under the implementation of supply-side structural reform measures including “maintain stable growth, promote reform, make structural adjustments, improve living standards and guard against risks”, China’s economy is expected to achieve progress while maintaining stability. China’s insurance industry is still in the golden opportunity stage. The structural opportunities of development of each segment in the insurance industry still exist. Policy-supported insurance lines supported by the “Belt and Road Initiative”, ensuring people’s wellbeing, and the “New Ten Guidelines”, including catastrophe insurance and agricultural insurance, as well as innovative businesses such as construction inherent defects insurance, cyber security insurance and innovative motor insurance still have large room for development. The life insurance industry will maintain a rapid growth. Technology innovation and cross-sectoral integration will lead to future industrial reform.

China Re Group will adhere to the emphasis on reinsurance as its core business and further implement its “One-Three-Five” Strategy. We will maintain our leading position in domestic reinsurance market, serve the industry development and tie in with the strategies of the country. We will continue to advance transformation and upgrading of our business and create commanding points of innovation and technology. We will maintain our risk prevention and control to achieve full coordination for sustainable development. We will create the new landscape for business development of China Re Group, and reward the trust and support from our shareholders and the society with strong performance.



He Chunlei
Executive Vice President¹

Note: 1. Mr. He Chunlei was appointed as the Executive Vice President of the Company, assuming the role of President on 13 March 2017.

STATEMENT FROM THE CHAIRMAN OF THE BOARD OF SUPERVISORS



In 2016, China Re Group formulated the “One-Three-Five” Strategy, determined the strategic position, strategic vision and development goals during the “13th Five-Year” period highlighted the core position of reinsurance in the Group’s development, strengthened the leading position in the domestic reinsurance industry, promoted international strategic development, established collaborative development of domestic and international markets, to enhance the involvement and influence in the global reinsurance market. The Group facilitated the development and reform of the insurance industry, brought into play the leading role of risk management, enhanced collaborative development of primary insurance industry and reinsurance industry, gave play to the innovative leading role of reinsurance in the insurance market and assisted the transformation and upgrade of insurance industry.

STATEMENT FROM THE CHAIRMAN OF THE BOARD OF SUPERVISORS

In 2016, the Board of Supervisors improved the rules and regulations of the Board of Supervisors, ensured the effective and lawful exercise of supervisory functions, actively performed supervisory functions, firmly and effectively launched performance supervision and financial supervision, focused on the Company's capabilities in operation development and risk management and control to improve the Company's operation management level and shareholders' value.

In 2017, the Board of Supervisors will further enhance its capability development in performance supervision and financial supervision, strengthen internal inspection on the Company's development strategy, operation plan and major operation management, innovate working mechanisms and methods, enhance specific communication, fully realize the supervisory and guiding role of the Board of Supervisors, promote the Company's operation management level, strengthen its capabilities in risk management and control and efficient communication, positive interaction and effective balances with Directors and senior management to boost the Company's harmonious and healthy development.



Zhang Hong
Chairman of the Board of Supervisors¹

Note: 1. Mr. Zhang Hong was appointed as the chairman of the Board of Supervisors on 23 February 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is primarily engaged in P&C reinsurance, life and health reinsurance, primary P&C insurance and asset management business. We operate our domestic P&C reinsurance business primarily through our wholly-owned subsidiary China Re P&C, our domestic and overseas life and health reinsurance business primarily through our wholly-owned subsidiary China Re Life, and our primary P&C insurance business through China Continent Insurance, in which the Group Company holds approximately 93.18% equity interest. We manage our insurance funds in a centralised and professional manner primarily through China Re AMC, which is jointly wholly-owned by the Group Company, China Re P&C, China Re Life and China Continent Insurance for 100% equity interest. In addition, the Group Company operates international P&C reinsurance business, domestic and international legacy P&C reinsurance business and CNIP business through China Re P&C and operates the domestic legacy life and health reinsurance business through China Re Life. We also conduct our Lloyd's business through China Re Syndicate 2088, a syndicate at Lloyd's. As a new platform for international P&C reinsurance business, our Singapore Branch was authorized by the Monetary Authority of Singapore on 3 June 2016 and officially opened on 25 July 2016.

Key Operating Data

The following table sets forth the key operating data of China Re Group for the reporting periods indicated:

Unit: in RMB millions, except for percentages

	For the Year Ended 31 December	
	2016	2015
Gross written premiums	86,677	80,434
Gross written premiums by business segment:		
P&C reinsurance ¹	24,457	31,924
Life and health reinsurance ¹	31,366	22,978
Primary P&C insurance ¹	32,071	26,685
Total investment yield (%)	5.48	8.48

Note: 1. Gross written premiums of each business segment do not consider inter-segment eliminations.

MANAGEMENT DISCUSSION AND ANALYSIS

	As at 31 December 2016		As at 31 December 2015 (unaudited)	
	Core solvency adequacy ratio (%)	Aggregated solvency adequacy ratio (%)	Core solvency adequacy ratio (%)	Aggregated solvency adequacy ratio (%)
China Re Group (%)	258	258	329	329
Group Company (%)	804	804	1,001	1,001
China Re P&C (%)	209	209	220	220
China Re Life (%)	258	258	313	313
China Continent Insurance (%)	289	289	216	216

Note: Core solvency adequacy ratio and aggregated solvency adequacy ratio are calculated based on the requirements under C-ROSS.

	<i>Unit: in RMB millions</i>	
	As at 31 December 2016	As at 31 December 2015
Embedded value of life and health reinsurance business	18,200	18,049
Value of one year's new business of life and health reinsurance business	1,220	1,100

Note: The calculation of the embedded value and value of one year's new business follows the embedded value standards under C-ROSS issued by China Association of Actuaries in November 2016.

In 2016, the Group was committed to the promotion of transformation and upgrading of business structure and operation model and achieved a satisfactory underwriting performance with stable business growth. Impacted by the soft and fluctuated capital market, our investment income decreased as compared with 2015. In 2016, gross written premiums of the Group increased by 7.8%, from RMB80,434 million in 2015 to RMB86,677 million, of which gross written premiums from P&C reinsurance, life and health reinsurance and primary P&C insurance (before inter-segment eliminations) were RMB24,457 million, RMB31,366 million and RMB32,071 million, respectively. Our core reinsurance business maintained its steady market position, and we continued to have the leading market share in terms of premiums ceded in the PRC P&C reinsurance market and life and health reinsurance market. In terms of primary premium incomes, we accounted for 3.45% market share, ranking No. 6 of all P&C insurance companies in the PRC market. Our total investment yield on a consolidated basis was 5.48%. During the Reporting Period, we maintained a rating of "A (Excellent)" by A.M. Best and "A+" by Standard & Poor's.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial Indicators

The following table sets forth key financial indicators of China Re Group for the reporting periods indicated:

Unit: in RMB millions, except for percentages and unless otherwise stated

	For the year ended 31 December	
	2016	2015
Gross written premiums	86,677	80,434
Profit before tax	6,402	9,889
Net profit	5,233	7,675
Net profit attributable to equity shareholders of the parent company	5,146	7,579
Earnings per share (RMB)	0.12	0.20
Weighted average return on equity (%) ¹	7.28	12.99

Note: 1. Weighted average return on equity = Net profit attributable to equity shareholders of the parent company/balance of weighted average net assets.

Unit: in RMB millions, unless otherwise stated

	As at 31 December	As at 31 December
	2016	2015
Total assets	211,207	328,993
Total liabilities	139,067	258,036
Total equity	72,140	70,957
Net assets per share attributable to equity shareholders of the parent company (RMB)	1.68	1.65

Following the official implementation of C-ROSS in 2016, most of the financial reinsurance business were discontinued due to the change in regulation policies, the financial reinsurance business model under the C-ROSS was different from the past. As a result, total assets and total liabilities of the Group have decreased compared with the end of 2015. Impacted by a year-on-year decrease in investment income, net profit of the Group decreased by 31.8% from RMB7,675 million in 2015 to RMB5,233 million in 2016. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

MANAGEMENT DISCUSSION AND ANALYSIS

P&C REINSURANCE

Our businesses of the P&C reinsurance segment mainly include domestic P&C reinsurance business, international P&C reinsurance business, Lloyd's business, CNIP business and legacy P&C reinsurance business. In 2016, reinsurance premium income from our P&C reinsurance segment amounted to RMB24,457 million, decreased 23.4% as compared with 2015, accounting for 27.8% of gross written premiums of the Group for the same period (before inter-segment eliminations). In 2016, net profit of our P&C reinsurance segment was RMB1,850 million, weighted average return on equity was 9.60%. The combined ratio was 99.2%, of which expense ratio was 37.2% and loss ratio was 62.0%.

Business Analysis

Domestic P&C Reinsurance Business

Overview

Domestic P&C reinsurance business mentioned in this section refers to domestic P&C reinsurance business operated by China Re P&C. In 2016, we adhered to our operation strategy of “Steady Operation, Innovation and Transformation, Strict Risk Control and Quality and Efficiency Improvement” by thoroughly studying industry trends and cyclical changes. Through actively planning strategic transformation, enhancing customer relationship, deepening the underwriting management reform and other initiatives, we proactively dealt with the pressure from the changes of reinsurance modes and business structure of reinsurance market. In 2016, reinsurance premium income from our domestic P&C reinsurance business amounted to RMB21,792 million, representing a year-on-year decrease of 26.5%. The combined ratio was 100.6%, of which expense ratio was 38.2% and loss ratio was 62.4%.

In terms of types of reinsurance arrangement and forms of cession, our domestic P&C reinsurance business primarily consisted of treaty reinsurance and proportional reinsurance. Meanwhile, as a result of our efforts in strengthening facultative business and non-proportional business, our facultative reinsurance business grew by RMB159 million and non-proportional reinsurance business grew by RMB47 million, accounting for a larger proportion compared with 2015. In terms of business channels, by virtue of our good cooperation with domestic clients, the majority of our domestic P&C reinsurance business was on direct basis, which remained stable as compared with that of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the reinsurance premium income from our domestic P&C reinsurance business by type of reinsurance arrangement for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Type of reinsurance arrangement	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Treaty reinsurance	21,266	97.6%	29,265	98.8%
Facultative reinsurance	526	2.4%	367	1.2%
Total	21,792	100.0%	29,632	100.0%

The following table sets forth the reinsurance premium income from our domestic P&C reinsurance business by form of cession for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Form of cession	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Proportional reinsurance	21,413	98.3%	29,300	98.9%
Non-proportional reinsurance	379	1.7%	332	1.1%
Total	21,792	100.0%	29,632	100.0%

The following table sets forth the reinsurance premium income from our domestic P&C reinsurance business by business channel for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Business channel	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Direct	20,988	96.3%	28,852	97.4%
Via Broker	804	3.7%	780	2.6%
Total	21,792	100.0%	29,632	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Line of business

As the largest domestic specialised P&C reinsurance company in the PRC, we offer a wide variety of P&C reinsurance coverage against the characteristics of the PRC market. Our lines of business cover a wide range of P&C insurance types in the PRC, including motor, commercial and household property, agriculture, liability and engineering insurance.

The following table sets forth the reinsurance premium income from our domestic P&C reinsurance business by line of business for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Line of business	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Motor	9,427	43.3%	18,151	61.3%
Commercial and household property	4,214	19.3%	4,007	13.5%
Agriculture	3,715	17.0%	3,227	10.9%
Liability	1,750	8.0%	1,571	5.3%
Engineering	989	4.5%	1,067	3.6%
Others ¹	1,697	7.9%	1,609	5.4%
Total	21,792	100.0%	29,632	100.0%

Note: 1. Others include, among others, cargo, marine hull, specialty, credit and accident reinsurance.

Motor reinsurance. In 2016, due to the implementation of the C-ROSS and affected by adjustment of ceding structures and the decreasing ceding proportion for motor insurance by certain major primary insurance companies, the reinsurance premium income from motor insurance amounted to RMB9,427 million, representing a year-on-year decrease of 48.1%.

Commercial and household property reinsurance. In 2016, we enhanced the development of commercial and household property reinsurance business and recorded reinsurance premium income of RMB4,214 million, representing a year-on-year increase of 5.2%.

Agriculture reinsurance. In 2016, we seized the development opportunities of agriculture reinsurance business and expanded the business development, and recorded reinsurance premium income of RMB3,715 million, representing a year-on-year increase of 15.1%.

Liability reinsurance. In 2016, as a result of robust development of liability reinsurance business and rapid growth of primary insurance market, we recorded reinsurance premium income of RMB1,750 million, representing a year-on-year increase of 11.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

Engineering reinsurance. In 2016, due to the changes of business structure of primary insurance market, the reinsurance premium income from engineering insurance amounted to RMB989 million, representing a year-on-year decrease of 7.3%.

Clients and client services

In 2016, we continued to maintain good client relationship, covering 91% of primary P&C insurance companies in the PRC. We have established long-term stable cooperative relationship with major primary P&C insurance companies in the PRC, and strengthened our relationship through business cooperation, exchange of technical know-how and client services.

International P&C Reinsurance Business

International P&C reinsurance business mentioned in this section refers to overseas P&C reinsurance business operated by the Group Company and the Singapore Branch. In 2016, we adhered to the principle of “Maintaining Profitability while keeping risks under control, as well as Rational Operation and Prudent Growth”. Under the soft global reinsurance market environment, we endeavored to maintain and increase our participation in the existing profitable business, cut underperforming business, and seek new business with stable profit margin and lower catastrophe exposure. The international P&C reinsurance premium income in 2016 amounted to RMB1,856 million, representing a year-on-year increase of 15.7%. The combined ratio was 82.7%, of which expense ratio and loss ratio were 30.0% and 52.7%.

In terms of types of reinsurance arrangement, our international P&C reinsurance business consisted primarily of treaty reinsurance business.

The following table sets forth the reinsurance premium income from our international P&C reinsurance business by type of reinsurance arrangement for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Type of reinsurance arrangement	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Treaty reinsurance	1,823	98.2%	1,527	95.2%
Facultative reinsurance	33	1.8%	77	4.8%
Total	1,856	100.0%	1,604	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of geographic areas, Europe, Asia, and North America were the main source regions of our international P&C reinsurance business, representing 43.9%, 39.8% and 13.4% of total international P&C reinsurance premium income, respectively.

The following table sets forth the reinsurance premium income from our international P&C reinsurance business by source region of business for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Source region of business	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Europe	815	43.9%	668	41.7%
Asia	738	39.8%	606	37.8%
North America	248	13.4%	273	17.0%
Latin America	34	1.8%	43	2.7%
Oceania	11	0.6%	4	0.2%
Africa	10	0.5%	10	0.6%
Total	1,856	100.0%	1,604	100.0%

In terms of lines of business, our international P&C reinsurance business primarily provided coverage on non-marine, specialty and motor insurance. Business mix consisted mainly of short tail business.

In terms of business channels, reputable international brokers remained our major sources of international P&C reinsurance business. We also cooperated with small-and-medium-sized brokers to seek quality regional business.

In terms of clients, in addition to keeping our strategic cooperative relationship with international renowned reinsurance companies, we continued to put efforts in establishing long-term and stable business relationship with our key clients targeting at their core and profitable business. Meanwhile, we leveraged on the regional advantage of Singapore Branch and actively developed high quality regional customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Lloyd's Business

Our Lloyd's business is conducted by China Re Syndicate 2088. China Re Syndicate 2088 conducts insurance and reinsurance businesses with its independent brand and position at Lloyd's. In 2016, reinsurance premium income from our Lloyd's business amounted to RMB891 million, representing a year-on-year increase of 18.5%. The combined ratio was 110.9%, of which expense ratio was 42.8% and loss ratio was 68.1%.

CNIP Business

The Group Company, together with China Re P&C and China Continent Insurance, underwrite global nuclear insurance business via CNIP. In 2016, our reinsurance premium income from CNIP amounted to RMB86 million.

CNIP was established in 1999, and since then, the Group Company has been the management institution and chairman company of CNIP. Starting from November 2016, the management institution of CNIP changed from the Group Company to China Re P&C. Members of CNIP include 29 domestic and overseas P&C insurance and reinsurance companies. CNIP's business primarily includes nuclear P&C insurance and nuclear third-party liability insurance. The projects insured by CNIP are widely located in the PRC and overseas countries with nuclear energy. Business risks are well controlled through the wide geographical diversification.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Analysis

The following table sets forth the key financial data of our P&C reinsurance segment for the reporting periods indicated:

Unit: in RMB millions, except for percentages

	For the year ended 31 December		Change
	2016	2015	
Gross written premiums	24,457	31,924	(23.4%)
Less: premiums ceded to retrocessionaires	(558)	(590)	(5.4%)
Net written premiums	23,899	31,334	(23.7%)
Change in unearned premium reserves	1,744	270	545.9%
Net premiums earned	25,643	31,604	(18.9%)
Reinsurance commission income	82	50	64.0%
Investment income	2,081	3,705	(43.8%)
Exchange gains/(losses), net	(119)	95	(225.3%)
Other income	11	20	(45.0%)
Total income	27,698	35,474	(21.9%)
Claims and policyholders' benefits	(15,897)	(19,295)	(17.6%)
Handling charges and commissions	(9,327)	(11,723)	(20.4%)
Finance costs	(2)	(25)	(92.0%)
Other operating and administrative expenses	(407)	(510)	(20.2%)
Total benefits, claims and expenses	(25,633)	(31,553)	(18.8%)
Share of profits of associates	10	7	42.9%
Profit before tax	2,075	3,928	(47.2%)
Income tax	(225)	(847)	(73.4%)
Net profit	1,850	3,081	(40.0%)

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Written Premiums

Gross written premiums for our P&C reinsurance segment decreased by 23.4% from RMB31,924 million in 2015 to RMB24,457 million in 2016, mainly due to the decline in reinsurance premium income from domestic motor insurance. Meanwhile, the growth in reinsurance premium income from domestic commercial and household property insurance, agricultural insurance, liability insurance and international P&C reinsurance partly offset the impact of the decline in reinsurance premium income from domestic motor insurance.

Premiums Ceded to Retrocessionaires

Premiums ceded to retrocessionaires for our P&C reinsurance segment decreased by 5.4% from RMB590 million in 2015 to RMB558 million in 2016, mainly due to the decrease in ceded proportion to certain retrocessionaires for our domestic P&C reinsurance business.

Investment Income

Investment income for our P&C reinsurance segment decreased by 43.8% from RMB3,705 million in 2015 to RMB2,081 million in 2016, mainly due to the significantly fluctuated and generally soft capital market in 2016. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our P&C reinsurance segment decreased by 17.6% from RMB19,295 million in 2015 to RMB15,897 million in 2016, which was in line with the decrease in reinsurance premium income.

Handling Charges and Commissions

Handling charges and commissions for our P&C reinsurance segment decreased by 20.4% from RMB11,723 million in 2015 to RMB9,327 million in 2016, which was in line with the decrease in reinsurance premium income.

Share of Profits of Associates

Share of profits of associates for our P&C reinsurance segment increased by 42.9% from RMB7 million in 2015 to RMB10 million in 2016, mainly due to the increase in net profit of associates.

Net Profit

As a result of the foregoing reasons, net profit for our P&C reinsurance segment decreased by 40.0% from RMB3,081 million in 2015 to RMB1,850 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LIFE AND HEALTH REINSURANCE

Life and health reinsurance business segment comprises the life and health reinsurance business operated by China Re Life, and the legacy life and health reinsurance business operated by Group Company through China Re Life. In 2016, we used data analysis as the key driver of the innovation and development of domestic protection-type business, thus achieving notable structural optimization as well as further enhanced sustainable profitability. We pioneered business model innovation in respect of financial reinsurance solution under C-ROSS and achieved growth in scale and profitability. Under the complicated environment of RMB exchange rate and interest rates, we continued to maintain our market leading position in cross-border RMB reinsurance business, actively developed overseas foreign-currency savings-type business and achieved stable development in overseas savings-type business and significant growth in domestic savings-type business.

In 2016, reinsurance premium income from our life and health reinsurance business segment amounted to RMB31,366 million, increased 36.5% as compared with 2015, accounting for 35.7% of gross written premiums of the Group (before inter-segment eliminations). In 2016, net profit of our life and health reinsurance segment was RMB1,374 million, weighted average return on equity was 9.15%. In particular, the total written premiums (“TWP”) of China Re Life amounted to RMB34,532 million (including TWPs of RMB3,281 million for savings-type business that could not pass the significant insurance risk test, mainly are savings-type universal life reinsurance), increased 31.8% compared with 2015, while the reinsurance premium income amounted to RMB31,251 million.

Given the business significance and operational independence of China Re Life and that the reinsurance premium income of China Re Life accounted for more than 99.5% of segment income, unless otherwise stated, references to our life and health reinsurance business in the business analysis of this section shall be the business of China Re Life.

Business Analysis

In terms of business lines, our life and health reinsurance business is featured by concurrent development of protection-type reinsurance, savings-type reinsurance and financial reinsurance in domestic and overseas markets.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the reinsurance premium income from our life and health reinsurance business by business line for the reporting periods indicated:

Unit: in RMB millions, except for percentages

For the year ended 31 December

Business lines	2016		2015	
	Amount	Percentage	Amount	Percentage
Domestic protection-type reinsurance	5,237	16.8%	3,642	15.9%
Domestic savings-type reinsurance	2,980	9.5%	531	2.3%
Domestic financial reinsurance	17,257	55.2%	14,809	64.8%
Domestic in total	25,474	81.5%	18,982	83.0%
Overseas savings-type reinsurance	5,027	16.1%	3,361	14.7%
Other overseas business	750	2.4%	518	2.3%
Overseas in total	5,777	18.5%	3,879	17.0%
Total	31,251	100.0%	22,861	100.0%

In addition, we also actively developed other savings-type business. The following table sets forth the TWP for the savings-type business that could not pass the significant insurance risk test, mainly are savings-type universal life reinsurance for the reporting periods indicated:

Unit: in RMB millions, except for percentages

For the year ended 31 December

Other savings-type business lines	2016		2015	
	Amount	Percentage	Amount	Percentage
Domestic savings-type universal life reinsurance	1,950	59.4%	409	12.3%
Overseas savings-type universal life reinsurance	931	28.4%	2,922	87.7%
Other savings-type business	400	12.2%	–	–
Total	3,281	100.0%	3,331	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Domestic Life and Health Reinsurance

In 2016, our domestic business recorded TWPs of RMB27,824 million, representing a year-on-year increase of 43.5%, of which reinsurance premium income amounted to RMB25,474 million, representing a year-on-year increase of 34.2%.

In respect of protection-type reinsurance business, we reinforced the upgrade of critical illness and cancer insurance as well as new types of accident insurance through data analysis, continuously seized business opportunities with key clients, and focused on risk control and promptly adjusted conditions of reinsurance contracts. We overcame the adverse impact due to the termination of yearly renewable term (“YRT”) financial reinsurance business. Our protection-type business achieved substantial growth and notable business structural optimisation, leading to effective growth in both the business volume and value. In 2016, our reinsurance premium income from protection-type reinsurance business amounted to RMB5,237 million, representing a year-on-year increase of 43.8%.

In respect of savings-type business, we selected suitable opportunities. We explored business opportunities with effective support from asset allocation, and continued to advance the development in universal business. In 2016, the TWPs of our domestic savings-type business amounted to RMB5,330 million, representing a year-on-year increase of 467.0%.

In respect of financial reinsurance business, we grasped the business opportunities emerging from the implementation of C-ROSS, put more efforts into innovation, and developed a new business model for financial reinsurance business under C-ROSS, which further increased the market share and profits. In 2016, our reinsurance premium income from financial reinsurance business amounted to RMB17,257 million, representing a year-on-year increase of 16.5%.

Overseas Life and Health Reinsurance

In 2016, our overseas business developed steadily and recorded TWPs of RMB6,708 million, representing a year-on-year decrease of 1.4%, of which reinsurance premium income amounted to RMB5,777 million, representing a year-on-year increase of 48.9%.

In respect of overseas savings-type reinsurance business, we adapted to the changes in the business environment by creating innovative ways for business development. With insurance policy conversion and exploration of in-force business, we achieved development in RMB cross-border reinsurance business in the adverse environment. We seized the opportunities coming from the foreign exchange fluctuations, and adopted the “assets driving liabilities” model under controllable costs, in order to actively develop foreign currency business as the complement of our cross-border RMB reinsurance business. In 2016, TWPs amounted to RMB5,958 million.

In respect of other overseas business, we continued to strengthen overseas business cooperation and communication. In 2016, the reinsurance premium income amounted to RMB750 million.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of type of reinsurance arrangement and form of cession, our life and health reinsurance business still primarily consisted of treaty reinsurance and proportional reinsurance.

The following table sets forth the reinsurance premium income from our life and health reinsurance business by type of reinsurance arrangement for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Type of reinsurance arrangement	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Treaty reinsurance	30,979	99.1%	22,650	99.1%
Facultative reinsurance	272	0.9%	211	0.9%
Total	31,251	100.0%	22,861	100.0%

The following table sets forth the reinsurance premium income from our life and health reinsurance business by form of cession for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Form of cession	For the year ended 31 December			
	2016		2015	
	Amount	Percentage	Amount	Percentage
Proportional reinsurance	31,201	99.8%	22,816	99.8%
Non-proportional reinsurance	50	0.2%	45	0.2%
Total	31,251	100.0%	22,861	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of insurance product types covered, our life and health reinsurance business was primarily comprised of life insurance. The business structure remained generally stable.

The following table sets forth the reinsurance premium income from our life and health reinsurance business by insurance product type for the reporting periods indicated:

Unit: in RMB millions, except for percentages

For the year ended 31 December

Insurance product type	2016		2015	
	Amount	Percentage	Amount	Percentage
Life	25,294	81.0%	17,804	77.9%
Health	3,732	11.9%	3,255	14.2%
Accident	2,225	7.1%	1,802	7.9%
Total	31,251	100.0%	22,861	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Analysis

The following table sets forth the key financial data of our life and health reinsurance for the reporting periods indicated:

Unit: in RMB millions, except for percentages

	For the year ended		Change
	31 December		
	2016	2015	
Gross written premiums	31,366	22,978	36.5%
Less: premiums ceded to retrocessionaires	(1,806)	(4,202)	(57.0%)
Net written premiums	29,560	18,776	57.4%
Change in unearned premium reserves	(762)	(186)	309.7%
Net premiums earned	28,798	18,590	54.9%
Reinsurance commission income	412	433	(4.8%)
Investment income	3,355	4,765	(29.6%)
Exchange gains/(losses), net	149	15	893.3%
Other income	310	127	144.1%
Total income	33,024	23,930	38.0%
Claims and policyholders' benefits	(30,519)	(18,102)	68.6%
Handling charges and commissions	(766)	(2,450)	(68.7%)
Finance costs	(99)	(84)	17.9%
Other operating and administrative expenses	(801)	(787)	1.8%
Total benefits, claims and expenses	(32,185)	(21,423)	50.2%
Share of profits of associates	791	722	9.6%
Profit before tax	1,630	3,229	(49.5%)
Income tax	(256)	(698)	(63.3%)
Net profit	1,374	2,531	(45.7%)

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Written Premiums

Gross written premiums for our life and health reinsurance segment increased by 36.5% from RMB22,978 million in 2015 to RMB31,366 million in 2016, mainly due to the impact of growth in domestic savings-type reinsurance and domestic financial reinsurance business.

Premiums Ceded to Retrocessionaires

Premiums ceded to retrocessionaires for our life and health reinsurance segment decreased by 57.0% from RMB4,202 million in 2015 to RMB1,806 million in 2016, mainly due to the reduction of retrocession arrangements for savings-type reinsurance in 2016.

Investment Income

Investment income for our life and health reinsurance segment decreased by 29.6% from RMB4,765 million in 2015 to RMB3,355 million in 2016, mainly due to the significantly fluctuated and generally soft capital market in 2016. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Other Income

Other income for our life and health reinsurance segment increased by 144.1% from RMB127 million in 2015 to RMB310 million in 2016, mainly due to the impact of changes in financial reinsurance business.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our life and health reinsurance segment increased by 68.6% from RMB18,102 million in 2015 to RMB30,519 million in 2016, mainly due to the increase in surrender payment resulting from the termination of some business in 2016.

Handling Charges and Commissions

Handling charges and commissions for our life and health reinsurance segment decreased by 68.7% from RMB2,450 million in 2015 to RMB766 million in 2016, mainly due to the impact of changes in financial reinsurance business.

Share of Profits of Associates

Share of profits of associates for our life and health reinsurance segment increased by 9.6% from RMB722 million in 2015 to RMB791 million in 2016, mainly due to the impact of increase in investment in associates in 2016.

Net Profit

As a result of the foregoing reasons, net profit for our life and health reinsurance segment decreased by 45.7% from RMB2,531 million in 2015 to RMB1,374 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

PRIMARY P&C INSURANCE

Primary P&C insurance business refers to the property and casualty insurance business operated by China Continent Insurance. In 2016, we continued to promote business transformation, improve the scales capability and productivity and accelerate the channel specialization to enhance the market competitiveness. We had made great efforts in promoting profitable business. On one hand, we improved quality in motor insurance by implementing the “identifying, controlling and introducing” strategy, and on the other hand, we utilized “motor + PA” combined sales strategy, promoted sales of innovative businesses such as personal loan surety insurance and litigation property preservation liability, and established profitable market segment. We accelerated the development of telesales and online sales business, optimized organizational structure, and improved operational efficiency. We strengthened the synergies between online and offline channels, and continued to improve the quality of offline services. We accelerated our development in key regions, facilitated branch and channel development, and gradual outcomes were shown. We continued to enhance claims management and control, and further improved cost control through implementation of cost review centralization.

In 2016, premium income from our primary P&C insurance business segment recorded steady growth. Gross written premiums amounted to RMB32,071 million, increased 20.2% as compared with 2015, representing 36.5% of gross written premiums of the Group for the same period (before inter-segment eliminations), of which the primary premium income amounted to RMB31,958 million, increased 20.2% as compared with 2015. In 2016, net profit of our primary P&C insurance segment was RMB1,244 million, weighted average return on equity was 10.22%. The combined ratio was 99.8%, of which expense ratio was 47.3% and loss ratio was 52.5%. In terms of primary premium income from P&C insurance companies in 2016 as published by CIRC, the market share of our primary P&C insurance business segment reached 3.45%, representing a year-on-year increase of 0.29 percentage point.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Analysis

Analysis by Line of Business

The following table sets forth primary premium income from our primary P&C insurance segment by line of business for the reporting periods indicated:

Unit: in RMB millions, except for percentages

For the year ended 31 December

Line of business	2016		2015	
	Amount	Percentage	Amount	Percentage
Motor	25,168	78.8%	21,508	80.9%
Accident and short-term health	2,459	7.7%	2,016	7.6%
Surety	1,181	3.7%	124	0.5%
Liability	1,042	3.3%	824	3.1%
Commercial property	880	2.8%	896	3.4%
Engineering	335	1.0%	292	1.1%
Others ¹	893	2.7%	929	3.4%
Total	31,958	100.0%	26,589	100.0%

Note: 1. Others include, among others, credit insurance, marine hull insurance, cargo insurance, specialty insurance, household insurance, and agriculture insurance.

Motor Insurance

In 2016, primary premium incomes from our motor insurance amounted to RMB25,168 million, representing a year-on-year increase of 17.0%. We continued to push forward the strategy of “identifying, controlling and introducing”, while focused on “identifying” and “introducing”, enhanced accuracy of resource allocation to optimize business structure and speed up business development. In 2016, growth rate of our motor insurance exceeded the market growth rate by 6.77 percentage points, moving up one position from previous year to rank the fifth in market share. The combined ratio of our motor insurance was at the lowest level for the corresponding period over the recent four years with continuous improvement in business quality and profitability.

Accident and Short-term Health Insurance

In 2016, our primary premium incomes from accident and short-term health insurance amounted to RMB2,459 million, representing a year-on-year increase of 22.0%, of which primary premium incomes from accident insurance amounted to RMB1,434 million, representing a year-on-year increase of 27.2%; primary premium incomes from short-term health insurance (excluding critical illness insurance) amounted to RMB790 million, representing a year-on-year increase of 15.3%; primary premium incomes from critical illness insurance amounted to RMB235 million, representing a year-on-year increase of 15.2%.

MANAGEMENT DISCUSSION AND ANALYSIS

We strengthened team building for the accident and short-term health insurance business, and made progress in innovative business lines. We achieved breakthrough in the “motor + PA” business and student accident insurance. We seized the development opportunities of health insurance brought by policy implementation, and the result was notable. Meanwhile, we enhanced claims management and control to improve operating performance.

Surety Insurance

In 2016, our primary premium incomes from surety insurance amounted to RMB1,181 million, representing a year-on-year increase of 852.4%. We have put great effort to expand personal loan surety insurance business. Under strict risk control, we quickly recruited personnel, established branches, developed products, set up database, established connection to external credit reference center to acquire credit information, and developed our own risk management model. We have opened 75 stores in 24 provinces, and the gross written premiums achieved a significant increase.

Liability Insurance

In 2016, our primary premium incomes from liability insurance amounted to RMB1,042 million, representing a year-on-year increase of 26.5%. We seized the development opportunities brought by “New Ten Guidelines”, and pushed forward the development of new types of business such as litigation property preservation liability insurance, first pilot equipment scheme comprehensive insurance and credit card insurance, achieving rapid growth in liability insurance.

Commercial Property Insurance

In 2016, our primary premium incomes from commercial property insurance amounted to RMB880 million, representing a year-on-year decrease of 1.8%. Impacted by the Chinese macro-economic situation, intensified competition and notably deteriorating rates in the commercial property insurance market were seen. On one hand, we ceased the businesses that recorded losses and enhanced risk management and control. On the other hand, we took measures to improve renewal rate of existing business and actively explored insurance brokers channel to achieve efficient and steady growth in commercial property insurance business.

Engineering Insurance

In 2016, primary premium incomes from our engineering insurance amounted to RMB335 million, representing a year-on-year increase of 14.7%. To respond to the “Belt and Road Initiatives”, we established a tracking mechanism for major engineering projects, made early preparations, and maintained a high participation and winning rate. Our engineering insurance business achieved good development.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis by Distribution Channel

The following table sets forth primary premium income from our primary P&C insurance segment by distribution channel for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Distribution Channel	2016		2015	
	Amount	Percentage	Amount	Percentage
Insurance agents	17,179	53.8%	13,525	50.9%
Of which: individual insurance agents	9,567	29.9%	6,346	23.9%
ancillary insurance agencies	4,844	15.2%	4,907	18.5%
professional insurance agencies	2,768	8.7%	2,272	8.5%
Direct sales	13,114	41.0%	11,625	43.7%
Insurance brokers	1,665	5.2%	1,439	5.4%
Total	31,958	100.0%	26,589	100.0%

In 2016, we continued to accelerate the development of telesales and online sales business. The e-commerce division optimised business structure and enhanced management of and control over the process to improve operational efficiency through strengthening its capability development. During the year, the size of sales team further increased and construction of branches steadily proceeded. Primary premium income from telesales and online channel for the year amounted to RMB8,785 million, representing a year-on-year increase of 12.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis by Region

The following table sets forth primary premium income from our primary P&C insurance segment by region for the reporting periods indicated:

Unit: in RMB millions, except for percentages

For the year ended 31 December

Region	2016		2015	
	Amount	Percentage	Amount	Percentage
Shanghai	2,943	9.2%	1,676	6.3%
Shandong	2,780	8.7%	2,411	9.1%
Zhejiang	2,564	8.0%	2,290	8.6%
Yunnan	2,458	7.7%	2,153	8.1%
Guangdong	1,690	5.3%	1,479	5.6%
Inner Mongolia	1,478	4.6%	1,347	5.1%
Jiangsu	1,373	4.3%	1,074	4.0%
Sichuan	1,240	3.9%	1,141	4.3%
Anhui	1,152	3.6%	943	3.5%
Jiangxi	1,097	3.4%	946	3.6%
Others	13,183	41.3%	11,129	41.8%
Total	31,958	100.0%	26,589	100.0%

Combined Ratio

The following table sets forth the loss ratio, expense ratio and combined ratio of our primary P&C insurance segment for the reporting periods indicated:

	For the year ended 31 December	
	2016 (%)	2015 (%)
Loss ratio	52.5	55.4
Expense ratio	47.3	45.9
Combined ratio	99.8	101.3

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Analysis

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

Unit: in RMB millions, except for percentages

	For the year ended		Change
	31 December	31 December	
	2016	2015	
Gross written premiums	32,071	26,685	20.2%
Less: premiums ceded	(2,391)	(2,113)	13.2%
Net written premiums	29,680	24,572	20.8%
Change in unearned premium reserves	(1,417)	(1,659)	(14.6%)
Net premiums earned	28,263	22,913	23.3%
Reinsurance commission income	680	581	17.0%
Investment income	1,330	2,363	(43.7%)
Exchange gains/(losses), net	102	34	200.0%
Other income	127	107	18.7%
Total income	30,502	25,998	17.3%
Claims and policyholders' benefits	(14,822)	(12,689)	16.8%
Handling charges and commissions	(4,114)	(2,617)	57.2%
Finance costs	(6)	(16)	(62.5%)
Other operating and administrative expenses	(9,996)	(8,905)	12.3%
Total benefits, claims and expenses	(28,938)	(24,227)	19.4%
Share of profits of associates	5	0.2	2,400.0%
Profit before tax	1,569	1,771	(11.4%)
Income tax	(325)	(419)	(22.4%)
Net profit	1,244	1,352	(8.0%)

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Written Premiums

Gross written premiums for our primary P&C insurance segment increased by 20.2% from RMB26,685 million in 2015 to RMB32,071 million in 2016, mainly due to the rapid growth in motor insurance, accident and short-term health insurance, liability insurance, surety insurance, as more efforts were put in distribution channel expansion, sales team building and product development.

Premiums Ceded

Premiums ceded for our primary P&C insurance segment increased by 13.2% from RMB2,113 million in 2015 to RMB2,391 million in 2016, mainly due to the increase in premiums ceded as a result of continuous growth in business scale.

Reinsurance Commission Income

Reinsurance commission income for our primary P&C insurance segment increased by 17.0% from RMB581 million in 2015 to RMB680 million in 2016, mainly due to continuous increase in premiums ceded, and improvement in claims settlement in reinsurance contracts in 2016 as compared with 2015.

Investment Income

Investment income for our primary P&C insurance segment decreased by 43.7% from RMB2,363 million in 2015 to RMB1,330 million in 2016, mainly due to the significantly fluctuated and generally soft capital market in 2016. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our primary P&C insurance segment increased by 16.8% from RMB12,689 million in 2015 to RMB14,822 million in 2016, mainly due to the increase in claims along with continuous growth in business scale.

Handling Charges and Commissions

Handling charges and commissions for our primary P&C insurance segment increased by 57.2% from RMB2,617 million in 2015 to RMB4,114 million in 2016, mainly due to continuous growth in business scale, more resources input for quality business and major distribution channel, and acceleration in the channel development of individual insurance agents.

Net Profit

As a result of the foregoing reasons, net profit for our primary P&C insurance segment decreased by 8.0%, from RMB1,352 million in 2015 to RMB1,244 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

ASSET MANAGEMENT

The Group principally commissions China Re AMC to manage its investment assets. In 2016, in face of unfavourable condition under the significantly fluctuated and generally soft capital market, we prudently responded to the situation, optimized and adjusted the asset allocation structure, increased the allocation of stable products such as financial products and long-term equity investments. We promoted the establishment of professional investment platforms, participated in setting up China Re Capital Management Company Limited (中再資本管理有限責任公司), established a wealth management centre. We strengthened risk management and control, and positive results were achieved.

As at 31 December 2016, the total investment assets balance of the Group was RMB167,363 million, including RMB157,537 million under the management of China Re AMC. In addition, China Re AMC also managed third party assets under commissions of RMB59,782 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment Portfolio

The following table sets forth the portfolio of China Re Group's total investment assets as at the dates indicated:

Unit: in RMB millions, except for percentages

Investment assets	As at 31 December 2016		As at 31 December 2015	
	Amount	Percentage	Amount	Percentage
Cash and short-term time deposits	16,833	10.1%	20,448	12.5%
Fixed-income investments	107,603	64.3%	106,542	65.3%
Time deposits	13,505	8.1%	27,890	17.0%
Bonds	48,868	29.2%	48,586	29.8%
Government bonds	143	0.1%	183	0.1%
Financial bonds	11,299	6.7%	7,311	4.5%
Enterprise (corporate) bonds	28,881	17.3%	32,649	20.0%
Subordinated bonds	8,545	5.1%	8,443	5.2%
Investments classified as loans and receivables	25,894	15.5%	13,810	8.5%
Other fixed-income investments ¹	19,336	11.5%	16,256	10.0%
Equity and investment funds	30,092	17.9%	30,610	18.8%
Investment funds ²	14,526	8.7%	18,504	11.4%
Stocks	12,776	7.6%	10,627	6.5%
Derivatives	38	0.0%	—	—
Unlisted equity shares ³	2,752	1.6%	1,479	0.9%
Investment properties	3,122	1.9%	3,192	2.0%
Investments in associates	12,451	7.4%	8,817	5.4%
Less: securities sold under agreements to repurchase	(2,738)	(1.6%)	(6,471)	(4.0%)
Total investment assets	167,363	100.0%	163,138	100.0%

- Notes: 1. Primarily including financial assets held under resale agreements, statutory deposits and reinsurers' share of policy loans.
 2. Including monetary funds and the senior tranche of structured index funds.
 3. Including assets management products, unlisted equity investments and equity investment schemes.

In 2016, faced with the pressure arising from maturity of large amount of existing assets, while effectively controlling market fluctuation risk, we optimized and adjusted the allocation structure, with a notable increase in allocation to assets with higher long-term returns and immune to the fluctuation of secondary market. Firstly, we increased allocation of around RMB10 billion to quality fixed income financial products with higher returns during the year, projects including the Bairong World Trade Center Real Estate Debt Investment Scheme, to replace deposit-type assets to a certain extent, and optimized the asset structure. The proportion of investment classified as loans and receivables increased by 7.0 percentage points. Secondly, we actively made long-term equity investments. The proportion of investments in associates increased by 2.0 percentage points.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment Performance

The following table sets forth the information on investment income of China Re Group for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Investment income	For the year ended 31 December	
	2016	2015
Cash and fixed-income investments	5,879	5,751
Interest income	5,703	5,711
Realised gains, net	191	21
Unrealised gains/(losses), net	(15)	19
Impairment loss	–	–
Equity and investment funds	1,004	5,824
Dividend income	1,286	705
Realised gains, net	389	5,236
Unrealised gains/(losses), net	126	(48)
Impairment loss	(797)	(69)
Rental income from investment properties	43	44
Investment income from investment in associates	2,259	1,333
Less: interest expenses related to securities sold under agreements to repurchase	(137)	(141)
Total investment income	9,048	12,811
Total investment yield (%) ¹	5.48	8.48
Net investment income	8,479	7,716
Net investment yield (%) ²	5.13	5.11

- Notes: 1. Ratio of total investment income to the average of investment assets as at the beginning and end of the period:
Total investment income equals the sum of investment income and share of profit of associates, net of interest expenses on securities sold under agreements to repurchase;
Investment assets equals the sum of cash and short-term time deposits, financial assets at fair value through profit or loss, financial assets held under resale agreements, time deposits, available-for-sale financial assets, held-to-maturity investments, investments classified as loans and receivables, reinsurers' share of policy loans, investments in associates, statutory deposits and investment property, net of securities sold under agreements to repurchase.
2. Ratio of net investment income to the average of investment assets as at the beginning and end of the period. Net investment income equals to the sum of interest, dividends, rental income and share of profit of associates.

In 2016, our total investment income amounted to RMB9,048 million, representing a year-on-year decrease of 29.4%, mainly attributable to the significant year-on-year decline in investment income from equity and fund investments due to the significantly fluctuated and generally soft capital market in 2016. Among the other items in total investment income, despite the decline in proportion of cash and fixed income investments, the increase in proportion of loans and receivables-type investments with higher returns was larger, thus the cash and fixed income investment income recorded a year-on-year growth. Total income from investments in associates increased notably due to the increase in proportion of investments in associates.

MANAGEMENT DISCUSSION AND ANALYSIS

Currently our significant investments held mainly include Bairong World Trade Center Real Estate Debt Investment Scheme and investments in an associate company, China Everbright Bank Co., Ltd. (“China Everbright Bank”).

On 23 June 2016, China Re P&C, China Re Life and China Continent Insurance entered into a Trust Contract respectively with China Re AMC, to subscribe to the real estate debt investment scheme of Bairong World Trade Center with a term of 11 years. The subscription amount by China Re P&C, China Re Life and China Continent Insurance was RMB8,000 million. In 2016, the underlying assets of this scheme, Towers A, B and C of Bairong World Trade Center, recorded normal rental operation, while income such as rents slightly increased as compared with 2015. The repayment entity maintained a good financial condition with sufficient cash flows and had no significant adverse changes. The repayment party had a clear operation strategy with improving operation performance. Bairong World Trade Center Real Estate Debt Investment Scheme is expected to continue to contribute stable and high investment income in the future. For details, please refer to the announcement of the Company dated 24 June 2016.

In 2016, China Everbright Bank’s revenue from principal activities continued to increase, the income structure continued to optimise and the profitability was relatively stable. As at the end of 2016, China Re Group held approximately 4.91% of China Everbright Bank’s equity share in aggregate. China Everbright Bank is expected to bring us long-term and stable investment returns in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

INSURANCE INTERMEDIARY

Insurance intermediary business refers to the insurance intermediary business operated by Huatai Insurance Agency and its wholly-owned subsidiary, Huatai Surveyors & Adjusters Company Limited. In 2016, under the increasingly competitive market of insurance intermediary business, our insurance intermediary business adhered to the marketing strategy of “going global”. We strived to enlarge the market share in businesses such as rail transit insurance and flight delay insurance, achieved stable growth in traditional business, and explored new business with internal and external collaboration. We achieved an improved performance in overall development and market position.

In 2016, revenue from our insurance intermediary business amounted to RMB227 million, representing a year-on-year increase of 20.7%, and profit before tax amounted to RMB7.563 million, representing a year-on-year increase of 7.1%.

MANAGEMENT DISCUSSION AND ANALYSIS

SOLVENCY

Effective in January 2016, CIRC officially implemented The Solvency Regulatory Rules (No. 1–17) for Insurance Companies (《保險公司償付能力監管規則(1–17號)》). The Group calculates and discloses core capital, available capital, minimum capital, core solvency adequacy ratio and aggregated solvency adequacy ratio in accordance with The Solvency Regulatory Rules for Insurance Companies under C-ROSS. The following table sets forth the relevant data of the Group, the Group Company and each of the reinsurance and insurance subsidiaries of the Group as at the dates indicated:

	As at 31 December 2016	As at 31 December 2015 (unaudited)	Change
<i>Unit: in RMB millions, except for percentages</i>			
China Re Group			
Core capital	61,396	72,689	(15.5%)
Available capital	61,396	72,689	(15.5%)
Minimum capital	23,822	22,080	7.9%
Core solvency adequacy ratio	258%	329%	Decrease of 71 percentage points
Aggregated solvency adequacy ratio	258%	329%	Decrease of 71 percentage points
Group Company			
Core capital	60,089	70,863	(15.2%)
Available capital	60,089	70,863	(15.2%)
Minimum capital	7,470	7,082	5.5%
Core solvency adequacy ratio	804%	1,001%	Decrease of 197 percentage points
Aggregated solvency adequacy ratio	804%	1,001%	Decrease of 197 percentage points
China Re P&C			
Core capital	17,789	16,502	7.8%
Available capital	17,789	16,502	7.8%
Minimum capital	8,503	7,504	13.3%
Core solvency adequacy ratio	209%	220%	Decrease of 11 percentage points
Aggregated solvency adequacy ratio	209%	220%	Decrease of 11 percentage points
China Re Life			
Core capital	15,745	15,652	0.6%
Available capital	15,745	15,652	0.6%
Minimum capital	6,109	5,001	22.2%
Core solvency adequacy ratio	258%	313%	Decrease of 55 percentage points
Aggregated solvency adequacy ratio	258%	313%	Decrease of 55 percentage points
China Continent Insurance			
Core capital	12,986	10,328	25.7%
Available capital	12,986	10,328	25.7%
Minimum capital	4,488	4,789	(6.3%)
Core solvency adequacy ratio	289%	216%	Increase of 73 percentage points
Aggregated solvency adequacy ratio	289%	216%	Increase of 73 percentage points

Notes: 1. Core solvency adequacy ratio = core capital/minimum capital; aggregated solvency adequacy ratio = available capital/minimum capital.

2. Due to rounding adjustments, figures shown may not be arithmetic aggregation of the figures preceding them.

MANAGEMENT DISCUSSION AND ANALYSIS

Compared with the end of 2015, the solvency adequacy ratios of the Group Company decreased mainly because the Group Company received large-sum business ceded from China Re Life in order to enhance the overall capacity of the Group, which led to the decrease of available capital and increase of minimum capital. The solvency adequacy ratios of China Re P&C and China Re Life both decreased mainly because of the increase of minimum capital resulting from organic business development. The solvency adequacy ratios of China Continent Insurance increased mainly because the claim of the explosion accident that took place in Tianjin in 2015 has been settled in 2016, leading to a significant drop in the reinsurance debtors and reinsurance reserve receivables, which resulted in the decrease in minimum capital and a significant increase in the solvency adequacy ratio. As a result of foregoing reasons, the solvency adequacy ratios of the China Re Group decreased as compared with the end of 2015.

According to the requirements of The Solvency Regulatory Rules (No.1-17) for Insurance Companies (《保險公司償付能力監管規則(1-17號)》) issued by the CIRC, the “Summary of Solvency Reports” for the fourth quarter of 2016 of the Company and its subsidiaries, namely China Re P&C, China Re Life and China Continent Insurance, have been disclosed on their respective official websites and the website of Insurance Association of China when the 2016 annual results of the Company are disclosed. Shareholders and investors are advised by the Board to pay attention to the following key operation indicators extracted from the Summary of Solvency Report as of the end of the fourth quarter of 2016:

Unit: in RMB millions

Indicators	Entities			
	Group Company	China Re P&C	China Re Life	China Continent Insurance
As at 31 December 2016				
Net assets	55,861	17,810	12,869	13,542
For the year ended 31 December 2016				
Insurance income	8,848	21,792	31,251	32,071
Net profit	3,910	1,186	1,220	1,244

For viewing of the Summary of Solvency Report for the fourth quarter, shareholders and potential investors can visit the official websites of the Company at <http://www.chinare.com.cn>, China Re P&C at <http://www.cpcr.com.cn>, China Re Life at <http://www.chinalifere.cn> and China Continent Insurance at <http://www.ccic-net.com.cn>, or the website of Insurance Association of China at <http://www.iachina.cn> for enquires.

MANAGEMENT DISCUSSION AND ANALYSIS

EXCHANGE RATE FLUCTUATION RISK

Substantial amount of assets and liabilities of the Group are denominated in Renminbi, but certain assets and liabilities are denominated in Hong Kong dollars, US dollars and other foreign currencies. The fluctuations of the value of Renminbi against such currencies expose us to foreign exchange risks. We manage the adverse impacts of the fluctuations of foreign exchange rates through enhancing the assets and liabilities matching in different currencies and keeping foreign exchange positions under control.

DETAILS OF ASSETS CHARGED

As at 31 December 2016, the market value of RMB10,335 million bonds (31 December 2015: RMB12,967 million) are deposited in the collateral pool. Securities sold under agreements to repurchase are generally repurchased within three months from the date the securities are sold.

CONTINGENCIES

As at 31 December 2016, the Group has issued the following guarantees:

As at 31 December 2016, the Group provided maritime guarantee of RMB2,258 million (As at 31 December 2015, the Group provided maritime guarantee of RMB1,894 million) for domestic and overseas ship mutual insurance associations or overseas insurance institutions which provided 100% of counter guarantee for the aforesaid maritime guarantee.

China Re UK, a subsidiary of the Company, became a member of Lloyd's and established China Re Syndicate 2088 since 2011. As at 31 December 2016, the Group provided letter of credit to Lloyd's to support China Re Syndicate 2088's underwriting business of GBP90 million (As at 31 December 2015, the Group provided letter of credit to Lloyd's of GBP80 million).

MAJOR EVENTS

Material Litigation and Arbitration

During the Reporting Period, the Group was not involved in any material litigation or arbitration.

Material Connected Transactions

During the Reporting Period, the Group did not conduct any connected transaction that is subject to the reporting, announcement or independent shareholder's approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In addition, the related-party transactions set out in Note 50 to the financial statements do not constitute the connected transactions under the Hong Kong Listing Rules. Therefore, they do not need to comply with the requirements of reporting, announcement or independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Undertakings of the Company and Controlling Shareholder which are either Given or Effective during the Reporting Period

During the Reporting Period, the Company and Central Huijin, the controlling shareholder, have complied with the undertakings made by them as set out in the Prospectus. For details of the relevant undertakings, please refer to the sections headed “Substantial Shareholders” and “Share Capital” in the Prospectus.

Other Major Events

- (1) On 3 June 2016, the Singapore Branch of the Company was licensed as a reinsurer to carry on P&C reinsurance business in Singapore as governed by the applicable insurance laws of Singapore by Monetary Authority of Singapore, and officially opened on 25 July 2016. The establishment of our Singapore Branch will benefit the Group to further expand its overseas market of P&C reinsurance business.
- (2) The proposal regarding dividend policy of the Company was approved at the fifteenth meeting of the third session of the Board held on 21 July 2016. The Company formulated the profit distribution plan of the Company in accordance with the statutory and regulatory requirements for insurance companies in the PRC (including the statutory solvency requirements of the CIRC and statutory and regulatory restrictions on payment of dividends of the Company), interests and desires of the shareholders of the Company, the financial position (including operating results and cash flows) of the Group, the business development needs and future development plans of the Group and other factors that the Company deems relevant. In consideration of the above factors and subject to the laws, regulations and regulatory requirements in effect at that time, the Company shall distribute dividends once a year and the profits distributed in form of cash shall be no less than 30% of the consolidated net profit attributable to the equity shareholders of the parent company realized for the year.
- (3) In 2016, the Board approved the capital increase plan for its subsidiaries. The Company made actual additional capital contribution of RMB1,450 million, RMB1,450 million, RMB2,330 million and RMB700 million to China Re P&C, China Re Life, China Continent Insurance and China Re AMC, respectively. Each of other shareholders of China Re AMC, namely China Re P&C, China Re Life and China Continent Insurance, made additional capital contribution of RMB100 million to China Re AMC. As at the Latest Practicable Date, China Re P&C, China Re Life, China Continent Insurance and China Re AMC had obtained the approval of regulatory authorities and completed commercial registration of changes.
- (4) China Reinsurance Finance Corporation Limited (the “Issuer”) was established by China Re AMC HK, a wholly-owned subsidiary of China Re AMC, the Company’s subsidiary on 3 February 2017. On 2 March 2017, the Issuer and the Company entered into a subscription agreement in relation to issuance of notes with joint lead managers. On 9 March 2017, the Issuer successfully issued notes with an aggregate principal amount of US\$800,000,000 (the “Notes”). The Notes were neither offered to the public in Hong Kong nor be placed to any connected persons of the Company. The Notes were offered to professional investors in Hong Kong and the Notes were offered only outside the United States in compliance with the Regulation S under the United States Securities Act of 1993 (as amended). The Notes were issued by the Issuer and supported by the Keepwell Deed executed by the Company, the Issuer and the trustee. The proceeds from the issue of the Notes will be used for general corporate purposes and investments in offshore projects. The interest rate was 3.375% per annum payable semi-annually in arrears on 9 March and 9 September of each year with the issue price of 99.381% of the principal amount. The maturity date is 9 March 2022, unless earlier redeemed in accordance with the terms thereof. For further details, please refer to the announcements of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 27 February 2017, 3 March 2017 and 9 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Market Environment

Looking forward to 2017, the China's macro-economy will maintain its trend of a slower but stable performance with good momentum for growth and the economic growth still has many supportive drivers. Under the new normal in economic development, the aggregate social wealth will continue to grow and drivers of supporting development of the insurance industry will still be strong, hence the insurance industry will remain in its golden development stage. Technology innovation and multi-sectional integration will become the new drivers for the reform of the insurance industry, forming challenges to the existing competitive landscape and business models of the insurance industry.

For the primary P&C insurance market, it is expected that the industry growth rate will slow down in 2017 but new opportunities will emerge. On one hand, due to the macro-economic slowdown and intensified motor insurance rates market-oriented reform, premium growth of the industry will continue to slow down. The concentration of the industry will further increase and underwriting results of the market entities will further differentiate. With increasingly intensified market competition, the competition model will shift from homogeneous competition to differentiated competition. On the other hand, policy-supported businesses such as liability insurance, surety insurance, agricultural insurance, health insurance and innovative insurance products will experience a rapid growth, and the market has a great potential to further expand.

For the primary life and health insurance market, it is expected that transformation and continuous growth in industry will be observed in 2017. The risk protection function of life insurance products will be strengthened. New accident health insurance and survival protection products will be further enriched and developed. The preferential tax policy on health insurance and tax deferring policy on pension insurance will have a direct leveraging effect on health insurance and annuity insurance. The medium-and-short-duration life and health insurance products will face adjustment. Long-term wealth management functions of life insurance will be highlighted under the low-interest rate environment; savings-type products will have bright development prospects.

For the P&C reinsurance, it is expected that the domestic market will undergo a critical period of business transformation in 2017. The proportion of non-motor business will further increase. Reinsurance business from agricultural insurance, catastrophe insurance, liability insurance and accident and health insurance are expected to maintain rapid growth; innovative business such as construction inherent defects insurance and cyber security reinsurance are expected to experience an accelerated growth. Meanwhile, with the establishment of emerging reinsurers, the market competition will be further intensified. For the international market, large international reinsurers have undergone transformation and upgrading through global mergers and acquisitions and integration, deepening the fields of subdivision and entering into emerging markets. Oversupply of capital is expected to sustain. The market will remain soft but the downward trend is expected to be eased.

MANAGEMENT DISCUSSION AND ANALYSIS

For the life and health reinsurance, it is expected that the opportunities and challenges coexist in the domestic market in 2017. Price competition in life and traditional accident reinsurance will intensify, therefore profit margins will narrow. The ceding demand of health and new accident business will be relatively strong. Product development and service innovation basing on data and technology implementation will become important ways to obtain protection-type new business. Market opportunities for savings-type business will still exist. The demand for financial reinsurance under the implementation of C-ROSS will remain. For the overseas market, it is expected that the demand for policies denominated in RMB will remain relatively low and the demand for policies denominated in foreign currencies will increase. The non-traditional business will continue to be actively developing.

As for the capital market, it is expected that the market will enter the new norm of low interest rate and high fluctuation. Uncertainty will be intensified and credit risk will be gradually revealed. World economic growth remains sluggish. China is at a crucial stage in its development endeavours and there are many salient challenges and problems in the economy. It is expected that the investment channels for using insurance funds to support the real economy will be expanded in 2017, and potential investment opportunities in relation to high quality financial products including the long-term equity investments, infrastructures and real estate investments will arise.

Outlook of China Re Group

In 2017, the Group will speed up its development and expand its scale on the basis of strict risk control and stable business profitability. We will adhere to the “One-Three-Five” Strategy, accelerate optimisation of business layout, actively nurture new growth opportunities, continue to expand the scopes of serving economic and social development and ensuring people’s well-being, as well as create more value for customers and our shareholders.

For the reinsurance segment, we will continue to support innovation and transformation upgrade in the insurance industry, consolidate our position as a leading domestic reinsurance provider and establish new development landscape of international business. Firstly, we will strengthen core competency, seek connection to and serve national strategies, provide continuous and stable underwriting capacity to the insurance industry, and deliver product technology and service innovation capabilities. Secondly, we will accelerate establishment of international business platforms, proactively promote stable development of international business, and promote the collaboration and complementation of domestic and international business.

Our primary P&C insurance segment will maintain rapid growth and continue to enhance its market position and influence. Firstly, through strategic layout in respect of industry chains, the “Internet Plus” initiative and new business, we will build a comprehensive operating system and enlarge our development potentials. Secondly, we will strive to achieve breakthroughs in the implementation of “customer-oriented” strategies, business development, and building of digital capabilities and risk management capabilities. Thirdly, we will drive our business development with innovation-driven strategy, strengthen channel specialization, improve claim management, and further enhance our competitiveness.

For asset management segment, we will adhere to the steady and prudent investment philosophy and improve the investment risk management and control mechanism under C-ROSS. To achieve improvement while maintaining performance stability, we will optimise our structure of investment assets portfolio, implement product innovation reform, push forward transformation in investment patterns and promote the establishment of professional platform.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Name	Month and Year of Birth	Position	Date of appointment	Duties
Yuan Linjiang	December 1963	Executive Director and Chairman	May 2016	Responsible for overall management of the Company, overseeing the strategic development department, the human resources department (party organisation department)
Wang Pingsheng	June 1957	Executive Director and Vice Chairman	August 2012	Responsible for overseeing the general office (party committee office)
He Chunlei	April 1965	Executive Director	February 2017	Presiding over the management of the Company's business, responsible for the operation and planning management department, information technology department, the strategic customer department (planning), and assisting in overseeing the strategic development department
Ren Xiaobing	July 1967	Executive Director	August 2012	Responsible for overseeing the risk management department, internal control compliance of legal affairs department and the party committee affairs
Lu Xiuli	May 1964	Non-executive Director	December 2014	Responsible for overseeing the overall strategic planning of the Company
Shen Shuhai	March 1959	Non-executive Director	December 2014	Responsible for overseeing the overall strategic planning of the Company
Wang Jun	June 1972	Independent Non-executive Director	June 2011	Responsible for overseeing and providing independent judgment to the Board of Directors
Hao Yansu	July 1958	Independent Non-executive Director	December 2014	Responsible for overseeing and providing independent judgment to the Board of Directors

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Month and Year of Birth	Position	Date of appointment	Duties
Li Sanxi	March 1964	Independent Non-executive Director	December 2014	Responsible for overseeing and providing independent judgment to the Board of Directors
Mok Kam Sheung	December 1959	Independent Non-executive Director	August 2015	Responsible for overseeing and providing independent judgment to the Board of Directors

- Notes:
1. On 10 March 2016, Mr. Li Peiyu resigned as the executive Director, the Chairman and other positions of the Company.
 2. On 20 January 2017, the shareholders' general meeting of the Company approved Mr. Zhang Hong's ceasing to be the executive Director of the Company.
 3. On 20 January 2017, Mr. He Chunlei was elected at the shareholders' general meeting as an executive Director of the third session of the Board, with effect from his qualification as a Director being approved by the CIRC on 28 February 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Supervisors

Name	Month and Year of Birth	Position	Date of appointment	Duties
Zhang Hong	September 1964	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	February 2017	Responsible for overall management of the Board of Supervisors, overseeing party-masses work department, labour union, audit department/office of the Board of Supervisors, assisting in overseeing of the human resources department (party organisation department)
Wei Shiping	November 1972	Shareholder Representative Supervisor	June 2011	Responsible for supervising finance affairs and the performance of duties
Zhu Yong	June 1969	Shareholder Representative Supervisor	December 2014	Responsible for supervising finance affairs and the performance of duties
Cao Shunming	August 1974	Employee Representative Supervisor	December 2014	Responsible for supervising finance affairs and the performance of duties
Tian Bo	March 1971	Employee Representative Supervisor	July 2016	Responsible for supervising finance affairs and the performance of duties

- Notes:
1. On 28 December 2016, the Board of Supervisors approved Mr. Wang Yonggang's ceasing to be the Supervisor and the chairman of the Board of Supervisors, and the shareholders' general meeting approved Mr. Wang Yonggang's ceasing to be the Supervisor on 20 January 2017, with effect from 23 February 2017.
 2. On 20 January 2017, Mr. Zhang Hong was elected at the shareholders' general meeting as a Supervisor of the third session of the Board of Supervisors, with effect from his qualification as a Supervisor being approved by the CIRC on 23 February 2017.
 3. On 6 May 2016, Mr. Lin Wei resigned as the employee representative Supervisor of the Board of Supervisors and the member of Financial Supervision and Inspection Committee under the Board of Supervisors. On the same day, Mr. Tian Bo was elected at the meeting of the employee representative of the Company and appointed by the Board of Supervisors as an employee representative Supervisor of the Board of Supervisors and a member of Financial Supervision and Inspection Committee under the Board of Supervisors. The above changes took effect from Mr. Tian Bo's qualification as a Supervisor being approved by the CIRC on 11 July 2016.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Senior Management

Name	Month and Year of Birth	Position	Date of appointment	Duties
He Chunlei	April 1965	Executive Vice President, assuming the role of President	Vice President since September 2015, assumed the role of President since December 2016, Executive Vice President since March 2017 assuming the role of President	Presiding over the management of the Company's business, responsible for overseeing the operation and planning management department, information technology department, the strategic customer department (planning), and assisting in overseeing the strategic development department
Ren Xiaobing	July 1967	Vice President, Compliance Controller, Chief Risk Officer	Vice President since August 2012, Compliance Controller since June 2015, Chief Risk Officer since January 2017	Responsible for overseeing the risk management department, internal control compliance of legal affairs department and the party committee affairs
Yu Qing	January 1964	Vice President, Board Secretary	March 2009	Responsible for overseeing the management of the office of Board of Directors, financial management department and asset management department
Liu Tianyang	February 1961	Audit Controller	May 2013	Responsible for overseeing the management of the disciplinary inspection department (inspection office), the audit affairs of the audit department/office of the Board of Supervisors
Zhao Wei	October 1971	Assistant to the President	September 2015	Responsible for assisting in overseeing the strategic customer department (planning)
Zhang Xiaohong	September 1967	Assistant to the President	September 2015	Responsible for assisting in overseeing the operation and planning management department and the party-masses work department
Tian Meipan	October 1974	Chief Actuary	November 2012	Responsible for performing the relevant duties of the Company's chief actuary

- Notes: 1. On 28 December 2016, the Board approved Mr. Zhang Hong's ceasing to be the President of the Company, with effect from 28 December 2016. On the same day, Mr. He Chunlei was appointed by the Board as the Executive Vice President to assume the role of President, with effect from his qualification as the general manager being approved by the CIRC on 13 March 2017. From 28 December 2016 to the commencement of the term of office of Mr. He Chunlei as the Executive Vice President, Mr. He Chunlei acted as the President.
2. On 29 November 2016, Mr. Kou Riming resigned as the Vice President and Chief Financial Officer of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

Directors

Executive Directors

Mr. Yuan Linjiang (袁臨江), born in December 1963, is an executive Director and the Chairman of the Company. He is an economist. From July 1986 to August 1987, Mr. Yuan served in the Bureau of Complete Machinery under the Ministry of Machinery Industry of People's Republic of China. From August 1987 to July 1988, he served as the league branch secretary of the central group of tutors to Henan Province. From July 1988 to June 1994, he served as the cadre of deputy-divisional level of Ministry of Materials. Mr. Yuan had served as the assistant to general manager of the credit leasing department, the general manager of asset management department of Beijing administration department, the deputy general manager of credit management department, the deputy general manager (in charge of daily operation) of risk management department, the vice president and chief risk officer of Beijing Branch, and the president of Chongqing Branch of China Everbright Bank Company Limited from June 1994 to January 2009; the non-executive director of Agricultural Bank of China Limited (a listed company on Shanghai Stock Exchange, stock code: 601288; and a listed company on the Main Board of Hong Kong Stock Exchange, stock code: 1288) from January 2009 to March 2011; the deputy director of general department (in charge of daily operation), the director of integrated management department and second banking institution management department of Central Huijin from March 2011 to December 2014. From December 2014 to March 2016, he served as the general manager and senior managing director of CIC International (Hong Kong) Co., Ltd. Mr. Yuan joined the Company in March 2016. He has been the Chairman of the Company since May 2016 and is a proposed director and chairman of the board of directors of China Continent Insurance, with qualification pending approval of the CIRC. Mr. Yuan did not hold any directorship in any other listed companies during past three years. Mr. Yuan obtained a bachelor's degree in business economics from business economics department of Jiangxi Institute of Finance and Economics (currently known as Jiangxi Finance and Economics University) in China in July 1986 and a degree of Executive Master of Business Administration from Renmin University of China in January 2009. Mr. Yuan was accredited as an economist by the Ministry of Materials of the PRC in November 1992.

Mr. Wang Pingsheng (王平生), born in June 1957, is an executive Director and the Vice Chairman of the Company. He is a senior economist. From September 1986 to August 1996, he worked at Shenyang Branch (which was later restructured as Shenyang Branch of PICC Property and Casualty Company Limited) and Shenyang Tiexi Sub-branch of People's Insurance Company of China. From August 1996 to August 1997, he served as deputy general manager of the Shenyang Branch of PICC Property and Casualty Company Limited. From August 1997 to September 1998, he served as president of Shenyang Urban Cooperative Bank. From September 1998 to August 2000, he served as chairman of the board of directors and president of Shenyang Commercial Bank. From August 2000 to February 2008, he served as deputy director (in charge of daily operations), director and head of the Jinan office of the CIRC (which was later restructured as Shandong Supervision Bureau of the CIRC) successively. Mr. Wang joined the Company in February 2008. From May 2008 to August 2012, he served as vice President of the Company. From August 2009 to May 2015, he was the compliance controller of the Company. From August 2012 to March 2017, he served as director of the labour union committee of the Company. Since August 2012, he has been an executive Director and the Vice Chairman of the Company. From February 2009 to April 2013, Mr. Wang served as director of Huatai Insurance Agency. From September 2010 to March 2014, Mr. Wang served as chairman of the supervisory committee of China Continent

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Insurance. Since November 2012, Mr. Wang has been chairman of the board of directors of China Life Reinsurance Corporation (which was later restructured as China Re Life) and from November 2012 to October 2014, he served as shareholder representative supervisor of China Everbright Bank Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 6818; and listed on the Shanghai Stock Exchange, stock code: 601818). Mr. Wang did not hold any directorship in any other listed companies during the past three years. Mr. Wang obtained a bachelor's degree in industrial automation from the automatic control department of Northeastern Engineering School (currently known as Northeastern University) in China in January 1982 and obtained a master's degree in international finance from Liaoning University in China in June 1999. Mr. Wang was accredited by People's Insurance Company (Group) of China as a senior economist in August 1997.

Mr. He Chunlei (和春雷), born in April 1965, is an executive Director and an Executive Vice President assuming the role of President. Mr. He served as a cadre of the Economic Research Institute of the Academy of Social Sciences of Shaanxi Province from July 1987 to September 1991. From July 1997 to August 1999, he was a post-doctorate researcher of the economics post-doctorate mobile station of the Chinese Academy of Social Sciences. From August 1999 to October 2003, he served at the Company as staff and divisional director of the general division of the compulsory reinsurance business department, deputy general manager of the property insurance department, deputy general manager and general manager of the business management department, and deputy general manager of the Shanghai Branch. From October 2003 to February 2011, he served as deputy general manager of China Continent Insurance. Since August 2011, he has been a director of China Re AMC. From December 2011 to March 2014, he served as vice chairman and general manager of China Property & Casualty Reinsurance Corporation (which was later restructured as China Re P&C). Meanwhile, Mr. He also served as the chief executive officer of the international P&C reinsurance business of the Company from July 2012 to May 2013. From May 2014 to January 2017, he served as the chairman of China Continent Insurance. Mr. He has been Vice President of the Company since September 2015. Mr. He assumed the role of President from December 2016 to 13 March 2017, and he has been the executive Director of the Company since February 2017. The general manager's qualification of Mr. He was approved on 13 March 2017 by the CIRC. Mr. He became the Executive Vice President of the Company to assume the role of President; and he was a proposed director and chairman of China Re P&C, with qualification pending for approval by the CIRC. Mr. He did not hold any directorship in any other listed companies during the past three years. Mr. He graduated from the Northwest College of Political Science and Law of China (currently known as Northwest University of Political Science and Law) in July 1987 with a bachelor's degree in political economics, obtained a master's degree in political economics from the Northwest University in China in July 1994, and obtained a doctoral degree in economics from the graduate school of the Chinese Academy of Social Sciences in China in July 1997.

Mr. Ren Xiaobing (任小兵), born in July 1967, is an executive Director, Vice President, compliance controller and Chief Risk Officer of the Company. Mr. Ren served in the financial administration department, the non-banking department and the insurance department of the People's Bank of China and the intermediary management department of the CIRC successively. From April 2001 to June 2007, he served as vice president and chief underwriter of Sinosafe General Insurance Co., Ltd. From June 2007 to August 2012, he served as director of the Company appointed by Central Huijin. Meanwhile, from July 2011 to February 2012, he also served as director of the insurance equity management division of the non-banking department of Central Huijin. From February 2012 to July 2012, he also served as deputy director of the insurance institutions management department of Central Huijin. Since August 2012, Mr. Ren has been an executive Director and Vice President of the Company, and has been the compliance controller of the Company since June 2015. Mr. Ren also became the Chief Risk Officer of the Company since January 2017. Since

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February 2013, he has also been chairman of the supervisory committee of China Re AMC. Mr. Ren did not hold any directorship in any other listed companies during the past three years. Mr. Ren graduated from Nankai University in China with a bachelor's degree of economics in insurance in July 1989 and obtained a post-graduate certificate in finance (insurance) from the same university in November 1999.

Non-executive Directors

Ms. Lu Xiuli (路秀麗), born in May 1964, is a non-executive Director of the Company. She is a senior auditor and a certified public accountant (non-practising member) in the PRC. From August 1987 to January 2015, Ms. Lu worked at the department of finance audit of the NAO, where she served as deputy divisional director, divisional director and deputy-departmental level auditor. Since December 2014, Ms. Lu has been a non-executive Director of the Company. Ms. Lu did not hold any directorship in any other listed companies during the past three years. Ms. Lu graduated from Renmin University of China in China with a bachelor's degree in finance in July 1987 and obtained a master's degree in international finance from the same university in January 1996. Ms. Lu was accredited by the NAO as a senior auditor in September 2003 and accredited by the Chinese Institute of Certified Public Accountants as a certified public accountant (non-practising member) in the PRC in July 1997.

Mr. Shen Shuhai (申書海), born in March 1959, is a non-executive Director of the Company. From August 1983 to September 1985 and from July 1988 to April 1989, he was a lecturer at the finance department of Shaanxi Institute of Finance and Economics in China. From April 1989 to September 1991, he served as a cadre and principal staff member of the agriculture and culture department of the State-owned Assets Administration Bureau. From September 1991 to September 1994, he served as principal staff member and deputy divisional director of the asset and capital verification office of the State Council. From September 1994 to December 1994, he served as divisional director of the general affairs division of the asset and capital verification office of the Ministry of Finance. From December 1994 to July 1998, he served as divisional director of the general affairs division and deputy director of the statistics and assessment department of State-owned Assets Administration Bureau. From July 1998 to January 2015, he worked at the Ministry of Finance as secretary (division level) and deputy director of the stated-owned capital statistics & assessment department, deputy director of the statistics & assessment department and deputy director and inspector of the customs department. Since December 2014, Mr. Shen has been a non-executive Director of the Company. Mr. Shen did not hold any directorship in any other listed companies during the past three years. Mr. Shen graduated from Shaanxi Institute of Finance and Economics in China with a bachelor's degree in finance in July 1983 and obtained a master's degree in finance from the same institute in July 1988. He also graduated from Xi'an Jiaotong University in China with a doctoral degree in applied economics in November 2006.

Independent Non-executive Directors

Ms. Wang Jun (王璿), born in June 1972, is an independent non-executive Director of the Company. Ms. Wang joined the School of Economics and Management of Tsinghua University in China in September 1998 and served as a teaching assistant and then as a lecturer, and she currently serves as an associate professor of the same school. Since June 2011, Ms. Wang has been appointed as an independent non-executive Director of the Company. Ms. Wang did not hold any directorship in any other listed companies during the past three years. Ms. Wang graduated from Northern Jiaotong University (currently known as Beijing Jiaotong University) in China in July 1995 with a bachelor of engineering degree in computer and applications, graduated from Peking University in China in July 1998 with a master's degree in political economics, and graduated from Tsinghua University in China in January 2008 with a doctoral degree in quantitative economics.

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Mr. Hao Yansu (郝演蘇), born in July 1958, is an independent non-executive Director of the Company. He is a professor. Mr. Hao served as a teaching assistant and lecturer of insurance at Liaoning University in China from September 1983 to July 1986. He was dean of Insurance Department at Liaoning University from September 1987 to May 1993. Mr. Hao served as deputy dean and dean of the insurance department of the Central Institute of Finance and Economics from June 1993 to May 1997, managing director of Hong Kong Zhongqing Insurance and Risk Management Consulting Company (香港中青保險與風險管理顧問公司) from June 1997 to April 2000, dean of the insurance department of the Central University of Finance and Economics from May 2000 to July 2006 and dean of Central University of Finance and Economics, School of Insurance from July 2006 to November 2015. Since December 2015, he has served as director of the PRC insurance market research centre of the Central University of Finance and Economics. Mr. Hao has served as an independent director of An Hua Agricultural Property Insurance Company Ltd. since September 2013 and has served as an independent director of Dinghe Property Insurance Co., Ltd. since July 2014. Since December 2014, Mr. Hao has been an independent non-executive Director of the Company. Mr. Hao did not hold any directorship in any other listed companies during the past three years. Mr. Hao graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) in China in July 1983 with a bachelor of economics degree in finance.

Mr. Li Sanxi (李三喜), born in March 1964, is an independent non-executive Director of the Company. He is a senior auditor. Mr. Li served at the administrative affairs department and audit research institute of the NAO from July 1988 to December 1999. Mr. Li was the general manager of Beijing Zhong Tian Heng Certified Public Accountants from December 1999 to June 2007. Since July 2007, Mr. Li has been the chairman of Beijing Zhong Tian Heng Management Consulting Co., Ltd., general manager of Beijing Zhong Tian Heng Certified Public Accountants and general manager of Beijing Zhong Tian Heng Da Engineering Consulting Company. Since December 2014, Mr. Li has been an independent non-executive Director of the Company. Mr. Li did not hold any directorship in any other listed companies during the past three years. Mr. Li graduated from Lanzhou Commercial College in China in July 1988 with a bachelor of economics degree in accounting. Mr. Li was accredited by the NAO as a senior auditor in November 1998.

Ms. Mok Kam Sheung (莫錦嫦), born in December 1959, is an independent non-executive Director of the Company. Ms. Mok joined Kwok & Yih in February 1997 and worked as a solicitor at Kwok & Yih from March 1997 to June 2001. She worked as a solicitor at So Keung Yip & Sin from July 2001 to September 2005. Ms. Mok served as a solicitor and senior solicitor at DLA Piper from October 2005 to August 2008. Ms. Mok was group general counsel of Enviro Energy International Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1102) from August 2008 to July 2014 and company secretary of that company from August 2008 to June 2014. She served as a consultant at Simon Reid-Kay & Associates, Solicitors from August 2012 to April 2015. Ms. Mok served at CFN Lawyers as a senior consultant from April 2015 to September 2015 and as a partner since then. Since August 2015, Ms. Mok has been appointed as an independent non-executive Director of the Company. Ms. Mok did not hold any directorship in any other listed companies during the past three years. Ms. Mok graduated from the University of Plymouth in the UK with a bachelor of arts (honours) degree in July 1991. She graduated from the University of the West of England in the UK in July 1992 with a Common Professional Examination diploma in laws. She was also granted a certificate by the Law Society of England and Wales evidencing the passing of the Solicitors' Final Examination in April 1994. Ms. Mok was granted the qualification to practise as a solicitor in Hong Kong by the High Court of Hong Kong Special Administrative Region in March 1997 and to act as a solicitor of the Supreme Court of the United Kingdom in September 1998. She was appointed as a China-appointed attesting officer by the Ministry of Justice of the People's Republic of China in July 2012.

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Supervisors

Mr. Zhang Hong (張泓), born in September 1964, is an economist, a Supervisor, Chairman of the Board of Supervisors, director of labour union committee of the Company. From September 1987 to May 1991, Mr. Zhang was a cadre of the inward reinsurance division of the reinsurance department of People's Insurance Company of China. From May 1991 to May 1995, he served as a cadre of China Insurance (UK) Co., Ltd. From May 1995 to January 1996, he served as a cadre of the inward reinsurance division of the reinsurance department of People's Insurance Company of China. Mr. Zhang joined the Company in January 1996 and he served as deputy divisional director of the overseas business division of the inward reinsurance business department, deputy divisional director of the general division of the general office, divisional director of the general office secretariat division, deputy general manager and general manager of the P&C insurance department, general manager of the Shenzhen Branch, general manager of the operations department, assistant to general manager, deputy general manager and Vice President of the Company successively. From August 2012 to December 2016, Mr. Zhang served as the President of the Company. From August 2012 to January 2017, Mr. Zhang served as the executive Director of the Company. Since February 2017 he has been a Supervisor and the Chairman of the Board of Supervisors of the Company. Since March 2017, he has been the director of union labour committee of the Company. From January 2006 to June 2009, Mr. Zhang also served as chairman of the board of directors of China Life Reinsurance Corporation (which was later restructured as China Re Life). From September 2009 to December 2009, he also served as general manager of China Property & Casualty Reinsurance Corporation (which was later restructured as China Re P&C). From November 2009 to April 2012, he also served as director of China Continent Insurance. From December 2009 to November 2012, he also served as director of China Re AMC. From December 2003 to January 2017, he also served as the chairman of the board of China Property & Casualty Reinsurance Corporation (which was later restructured as China Re P&C). Since May 2016, he has been the non-executive director of Shanghai Insurance Exchange Company Limited (上海保險交易所股份有限公司). Mr. Zhang did not hold any directorship in any other listed companies during the past three years. Mr. Zhang graduated from University of International Relations in China with a bachelor of arts in English in July 1987. Mr. Zhang was accredited by People's Insurance Company of China as an economist in August 1993.

Mr. Wei Shiping (魏世平), born in November 1972, is a shareholder representative Supervisor of the Company. Mr. Wei worked in China Cinda Trust Investment Company from July 1997 to May 1999, and he served as the senior manager of China Cinda Asset Management Co., Ltd. from May 1999 to May 2008. Since May 2008, Mr. Wei has been serving as senior deputy manager and senior manager of the financial department of China Investment Corporation. Since June 2011, Mr. Wei has been a shareholder representative Supervisor of the Company. Mr. Wei did not hold any directorship in any other listed companies during the past three years. Mr. Wei graduated from the Northern Jiaotong University (currently known as Beijing Jiaotong University) in China in July 1997 with a master's degree in accounting. Mr. Wei was accredited as a certified public accountant (non-practising member) by the Chinese Institute of Certified Public Accountants in June 1996, accredited as a chartered certified accountant by The Association of Chartered Certified Accountants (ACCA) in April 2003, and accredited as a chartered financial analyst (CFA) by the CFA Institute in September 2005.

Mr. Zhu Yong (朱永), born in June 1969, is a shareholder representative Supervisor of the Company. He is a senior auditor. Mr. Zhu worked for the department of monetary audit of the NAO as principal staff member and the deputy divisional director from July 2000 to December 2007. Mr. Zhu served as the general manager of the legal and audit department and general manager of the human resources department of Tianjin Binhai Rural Commercial Bank from December 2007 to July 2008. From September 2008 to June 2009, he worked as the divisional director of China Export

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& Credit Insurance Corporation. Since June 2009, Mr. Zhu has been serving as senior deputy manager and senior manager of the office of the board of supervisors/internal audit department of China Investment Corporation. He has served as the leader of the working group of the board of supervisors of that company since July 2014. Since December 2014, Mr. Zhu has been appointed as a shareholder representative Supervisor of the Company. Mr. Zhu did not hold any directorship in any other listed companies during the past three years. Mr. Zhu graduated from Peking University in China in July 2000, with a doctoral degree in history of economics philosophy. Mr. Zhu was accredited by the NAO as a senior auditor in December 2007.

Mr. Cao Shunming (曹順明), born in August 1974, is an employee representative Supervisor of the Company. He is an associate researcher. From July 2002 to August 2006, Mr. Cao worked as head of the fund management department of People's Insurance Company of China, head of legal department of PICC Asset Management Company Limited, and head of the legal department and assistant to the divisional director of PICC P&C (a company listed on the Main Board of Hong Kong Stock Exchange, stock code: 2838). Mr. Cao joined the Company in September 2006 and he served as senior manager of the legal affairs division in the development and reform department, and deputy general manager of the risk management, legal & compliance department, as well as the divisional director of the compliance management division and deputy general manager (in charge of daily operations) of the department. Since March 2013, Mr. Cao has been the general manager of the internal control, compliance & legal affairs department of the Company. Since November 2011, Mr. Cao has also been a supervisor of China Life Reinsurance Corporation (which was later restructured as China Re Life). Since November 2011, he has also been the director of Huatai Insurance Agency. Since December 2014, Mr. Cao has been an employee representative Supervisor of the Company. Mr. Cao did not hold any directorship in any other listed companies during the past three years. Mr. Cao graduated from China University of Political Science and Law in China in July 1996 with a bachelor's degree in law, from the Graduate School of that university in July 1999 with a master's degree in law, and from the Graduate School of Chinese Academy of Social Sciences in China in July 2002 with a doctoral degree in law. Mr. Cao was granted a lawyer certification by the lawyer qualification review committee of the Ministry of Justice in June 1997.

Mr. Tian Bo (田波), born in March 1971, is an employee representative Supervisor of the Company. He is a senior economist. Mr. Tian Bo served as a cadre of the general management division and agency supervision division of the insurance department under the People's Bank of China from July 1996 to November 1998. He also served as a cadre of the system division under the agency supervision department of the CIRC from November 1998 to December 1999. He successively served as a cadre, assistant to the divisional director, deputy divisional director of the general division under the office and deputy divisional director and divisional director of the statistical research division of the CIRC (Beijing Bureau) from December 1999 to April 2006. Mr. Tian successively served as the deputy minister of organisation department of the party committee, the deputy general manager of the human resources department of the Company, an audit supervisor and deputy general manager of risk management and compliance department of China Life Reinsurance Corporation (which was later restructured as China Re Life), a deputy director of the Office of the Board of Supervisors, the deputy general manager of the corporate culture and brand department (party committee office, work department of the Party) of the Company from April 2006 to August 2016. Since August 2016, Mr. Tian has been the deputy general manager of the party-masses work department of the Company. Since July 2016, Mr. Tian was appointed as the employee

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representative Supervisor of the Company. Mr. Tian did not hold any directorship in any other listed companies during the past three years. Mr. Tian graduated from Wuhan University in China with a bachelor's degree in economics in July 1995; and graduated from Tianjin University of Finance and Economics with a master's degree in economics in December 1999. Mr. Tian was granted the qualification certificate of senior economist by the Company in April 2008.

Senior Management

For the biography of **Mr. He Chunlei**, please refer to the paragraphs headed "Executive Directors" above.

For the biography of **Mr. Ren Xiaobing**, please refer to the paragraphs headed "Executive Directors" above.

Ms. Yu Qing (余青), born in January 1964, is Vice President and Board Secretary of the Company. From February 1989 to February 2009, Ms. Yu served in the Ministry of Finance as a staff member, deputy principal staff member, principal staff member, deputy divisional director and divisional director of the foreign debt division of the national debt management department, divisional director of the No. 4 finance division, divisional director of the No. 1 finance division, divisional director of the general division and cadre of deputy-departmental level of the finance department. Ms. Yu joined the Company in February 2009, since March 2009 has been Vice President and Board Secretary, and from May 2010 to September 2016 has been the chairman of asset-liability management committee. Since August 2011, Ms. Yu has also served as chairman of China Re AMC. Ms. Yu did not hold any directorship in any other listed companies during the past three years. Ms. Yu graduated from Nankai University in China in July 1986 with a bachelor's degree in international economics and graduated from School of Economics of Peking University in China in January 1989 with a master's degree in history of foreign economics philosophy.

Ms. Liu Tianyang (劉天洋), born in February 1961, is the secretary of the commission for discipline inspection and audit controller of the Company. Ms. Liu served as deputy director of China Foreign Economy and Trade Trust Co., Ltd. and chairman of China Foreign Economy and Trade Trust Co., Ltd. (Hainan Branch) from December 1992 to August 1995, deputy general manager of the enterprise department of China National Chemicals Import and Export Corporation from August 1995 to March 1999, and general manager of the industry department of Chinese Commercial Enterprise Group from March 1999 to May 1999. She also served as the general manager of the guarantee business department and vice chairman of the labour union of China Export & Credit Insurance Corporation from May 1999 to August 2008, and was vice president of Dagong Global Credit Rating Co., Ltd. from August 2008 to September 2009. Ms. Liu joined the Company in September 2009 and has since then served as the secretary of the commission for discipline inspection. She has been the audit controller since May 2013. Ms. Liu has also served as chairman of the board of supervisors of China Property and Casualty Reinsurance Corporation (which was later restructured as China Re P&C) since December 2011. Ms. Liu did not hold any directorship in any other listed companies during the past three years. Ms. Liu graduated from Renmin University of China in China in July 1996 with a master's degree in international finance and graduated from Huazhong University of Science and Technology in China in March 2002 with a doctoral degree in management science and engineering.

Mr. Zhao Wei (趙威), born in October 1971, is an assistant to the President of the Company. From March 2003 to June 2004, Mr. Zhao was deputy general manager of the fund operation centre of China Life Insurance (Group) Company. From June 2004 to April 2006, he served as director of the account management centre of China Life Asset Management Company Limited. From April 2006 to February 2010, he served as general manager of China Life Hong Kong Asset Management Company and president of China Life Franklin Asset Management Company Limited. From

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February 2010 to September 2011, he served as vice president of New China Asset Management Corporation Limited. Since April 2012, he has been the vice chairman and general manager of China Re AMC and he has been the director and the chairman of the board of directors of China Re Capital Management Company Limited since February 2017. Meanwhile, Mr. Zhao has been a non-executive director of China Everbright Bank Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 6818; and listed on the Shanghai Stock Exchange, stock code: 601818) since February 2015 and has also been chairman of China Re AMC HK since April 2015. Mr. Zhao has been an assistant to the President of the Company since September 2015. Since December 2016, Mr. Zhao has been the non-executive director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0579). Mr. Zhao did not hold any directorship in any other listed companies in the last three years. Mr. Zhao graduated from Jilin University in China in May 1998 with a master's degree in national economic planning and management, and he graduated from the Fiscal Science Research Institute of the Ministry of Finance in China in July 2005 with a doctoral degree in finance.

Ms. Zhang Xiaohong (張曉紅), born in September 1967, is an assistant to the President of the Company. Ms. Zhang was a staff in the reinsurance department of the People's Insurance Company of China from July 1992 to January 1996. From January 1996 to August 1998, she served at the Company as principal staff member of the ceding business department of the Company, deputy divisional director of non-marine insurance division of the domestic business department and then deputy divisional director of special insurance division of the compulsory reinsurance business department. From August 2000 to December 2005, she served as divisional director, of special insurance division of the compulsory reinsurance business department, deputy general manager and then general manager of the Company. From January 2006 to September 2015, she served as director and general manager of China Life Reinsurance Corporation (which was later restructured as China Re Life). Meanwhile, Ms. Zhang served as the compliance controller of China Life Reinsurance Corporation (which was later restructured as China Re Life) from November 2008 to June 2011 and vice chairman of the same company from August 2009 to February 2015. Meanwhile, Ms. Zhang has also been director of China Re AMC since December 2009. Since September 2015, Ms. Zhang was appointed as an assistant to the President of the Company. Ms. Zhang did not hold any directorship in any other listed companies in the last three years. Ms. Zhang graduated from the Beijing Normal University in China in June 1989 with a bachelor's degree in English, and obtained a master's degree in English language and literature from the same university in July 1992. From 1999 to 2000, Ms. Zhang was a scholar of the Hubert H. Humphrey School of Public Affairs of University of Minnesota in the United States and obtained a master's degree in public affairs from that school in May 2001. Ms. Zhang was accredited by the Chartered Insurance Institute as an associate of that institute in May 1998.

Mr. Tian Meipan (田美攀), born in October 1974, is the chief actuary of the Company. Mr. Tian served as a lecturer at the insurance department of Nankai University from July 1999 to December 2001. From December 2001 to December 2003, Mr. Tian served at the commercial business division of life insurance business department of the Company. From December 2003 to September 2015, Mr. Tian served as divisional director of the actuarial division, deputy general manager, deputy general manager (in charge of daily operations), controller of risk management department, deputy chief actuary, actuarial controller, deputy general manager and then chief actuary of China Life Reinsurance Corporation (which was later restructured as China Re Life) and has served as the director and general manager of that company since September 2015. Mr. Tian has served as the chief actuary of the Company since November 2012. Mr. Tian did not hold any directorship in any other listed companies in the last three years. Mr. Tian graduated from Nankai University in China in June 1996 with a bachelor's degree in international finance and graduated from the same university in July 1999 with a master's degree in finance. Mr. Tian obtained North America actuary certificate granted by Society of Actuaries in May 2002, and also obtained actuary certificate in the PRC issued by the CIRC in March 2007.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Joint Company Secretaries¹

For the biography of Ms. Yu Qing, please refer to the paragraphs headed “Senior Management” above.

Ms. Mok Ming Wai (莫明慧), was appointed as a joint company secretary of the Company since 30 March 2016. Ms. Mok is a director and head of listed company service department of KCS Hong Kong Limited, responsible for providing listed company customers with company secretarial and compliance services. Ms. Mok has over 20 years of experience in the company secretarial field. Ms. Mok holds a degree of master of science in applied accounting and finance and is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THEIR INFORMATION

Changes of Directors and Their Information

On 10 March 2016, Mr. Li Peiyu resigned as the Chairman, an executive Director, the chairman and member of the Strategy and Investment Committee and the chairman and member of the Risk Management Committee of the Board due to his work commitment.

On 14 March 2016, the Board nominated Mr. Yuan Linjiang as an executive Director candidate of the Company and announced that the executive Director and vice Chairman, Mr. Wang Pingsheng, served as the acting Chairman of the Board since the effective date of Mr. Li Peiyu's resignation report until the commencement of the term of office of the new Chairman of the Board.

On 6 May 2016, at the second extraordinary general meeting of 2016 of the Company and the 14th meeting (interim) of the third session of the Board, Mr. Yuan Linjiang was elected as an executive Director, the Chairman of the third session of the Board, member of the Strategy and Investment Committee, and chairman and member of the Risk Management Committee. According to the Working Rules of the Strategy and Investment Committee of the Board, the chairman of the Strategy and Investment Committee of the Board shall also be Mr. Yuan Linjiang, the Chairman of the Company. The term of office of Mr. Yuan Linjiang as the above positions became effective from his qualification of Chairman of the Board being approved by the CIRC on 20 May 2016.

For details of Mr. Li Peiyu's resignation and Mr. Yuan Linjiang's appointment, please refer to the announcements of the Company dated 10 March 2016, 14 March 2016, 6 May 2016 and 26 May 2016.

In May 2016, Mr. Zhang Hong, the then executive Director and President of the Company, has been the non-executive director of Shanghai Insurance Exchange Company Limited (上海保險交易所股份有限公司).

Note: 1. On 30 March 2016, Ms. Yung Mei Yee resigned as a joint company secretary of the Company, and the Company appointed Ms. Mok Ming Wai, director and head of listed company service department of KCS Hong Kong Limited, as a joint company secretary of the Company with effect from 30 March 2016.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

On 28 December 2016, due to work adjustment, the Board approved Mr. Zhang Hong's ceasing to be the executive Director of the Company, the member of the Strategy and Investment Committee and the member of Risk Management Committee of the Board. On 20 January 2017, the shareholders' general meeting approved Mr. Zhang Hong's ceasing to be the executive Director of the Company.

On 28 December 2016, Mr. He Chunlei was nominated by the Board as the candidate of executive Director of the third session of the Board. On 20 January 2017, he was elected at the shareholders' general meeting as an executive Director of the third session of the Board and was elected by the Board as the member of the Strategy and Investment Committee and the member of Risk Management Committee of the third session of the Board. The above appointments were effective from Mr. He Chunlei's qualification as the Director being approved by the CIRC on 28 February 2017.

For details of Mr. Zhang Hong's retirement and Mr. He Chunlei's appointment, please refer to the announcements of the Company dated 28 December 2016, 20 January 2017 and 7 March 2017.

Save as the above, during the Reporting Period, there was no other change of the Directors or their information required to be disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules.

Changes of Supervisors and Their Information

In March 2016, Mr. Lin Wei resigned as the general manager of the audit department of the Company due to work commitment.

On 6 May 2016, Mr. Lin Wei resigned as the employee representative Supervisor of the Board of Supervisors and the member of Financial Supervision and Inspection Committee under the Board of Supervisors, with effect from 11 July 2016 when the new employee representative Supervisor officially took up the office.

On 6 May 2016, being elected at the meeting of the employee representative of the Company and appointed by the Board of Supervisors, Mr. Tian Bo was appointed as an employee representative Supervisor of the Board of Supervisors and a member of Financial Supervision and Inspection Committee under the Board of Supervisors, with effect from his qualification being approved by the CIRC on 11 July 2016.

For details of Mr. Lin Wei's resignation and Mr. Tian Bo's appointment, please refer to the announcements of the Company dated 9 May 2016 and 20 July 2016.

On 28 December 2016, as he attained the statutory retirement age, Mr. Wang Yonggang's ceasing to be the Chairman of the Board of Supervisors and the Supervisor of the Company was approved by the Board of Supervisors. On 20 January 2017, his retirement as Supervisor was approved by the shareholders' general meeting of the Company. The above retirement was effective on 23 February 2017.

On 28 December 2016, Mr. Zhang Hong was nominated as the Supervisor candidate of the third session of the Board of Supervisors, and was elected at the shareholders' general meeting as a Supervisor of the third session of the Board of Supervisors and elected by the Board of Supervisors as the Chairman of the third session of the Board of Supervisors on 20 January 2017, with effect from his qualification as a Supervisor being approved by the CIRC on 23 February 2017.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

For details of Mr. Wang Yonggang's retirement and Mr. Zhang Hong's appointment, please refer to the announcements of the Company dated 28 December 2016, 20 January 2017 and 8 March 2017.

Save as the above, during the Reporting Period, there was no other change of the Supervisors or their information required to be disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules.

Changes of Senior Management and Their Information

On 29 November 2016, Mr. Kou Riming resigned as the Vice President and Chief Financial Officer of the Company.

On 28 December 2016, due to work adjustment, Mr. Zhang Hong's resignation as the President of the Company was approved by the Board, with effect from 28 December 2016.

On 28 December 2016, Mr. He Chunlei was appointed by the Board as the Executive Vice President of the Company to assume the role of President, with effect from his qualification being approved by the CIRC on 13 March 2017. From 28 December 2016 to the commencement of the term of office of Mr. He Chunlei as the Executive Vice President, Mr. He Chunlei acted as the President.

For details of Mr. Zhang Hong's retirement and Mr. He Chunlei's appointment, please refer to the announcements of the Company dated 28 December 2016 and 17 March 2017.

On 20 January 2017, Mr. Ren Xiaobing was appointed as the Chief Risk Officer of the Company.

EMPLOYEES

As at 31 December 2016, China Re Group had a total of 50,286 employees. The Group's staff remuneration comprises three components, namely basic salary, performance bonus and various benefits and subsidies. We always uphold the concept of "highlighting value creation and strengthening motivation and restraints", follow the principle of "remuneration based on position and performance", and have established a market-based remuneration management system of "fairness within the Company, competitiveness compared to external competitors, flexibility and efficiency". We provide employees with competitive remuneration packages with reference to market benchmarks and have established an annuity plan to provide employees with more comprehensive benefits.

The Group is devoted to realising a win-win situation between corporate development and employee growth, enhancing its resources invested in talent cultivation, paving the career development path for employees, constructing an "H type" career development plan for employees, providing them with guidance and suggestions on career development by reinforcing the implementation of career development action plan, and promoting the all-rounded development of employees through rotations and secondment.

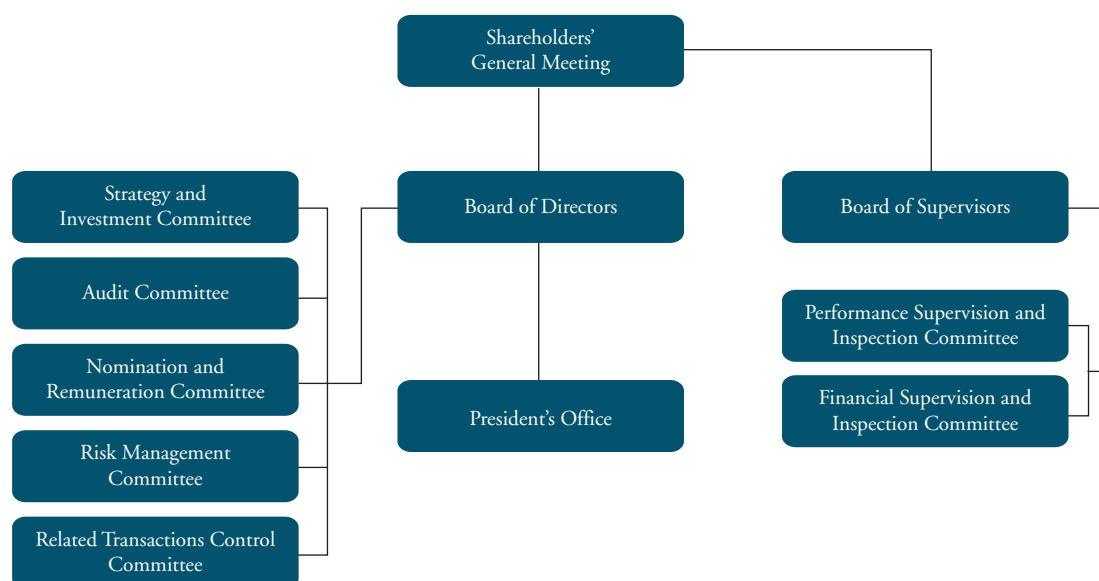
CORPORATE GOVERNANCE REPORT

OVERVIEW

The Company has always been in compliance with relevant laws such as the PRC Company Law, the PRC Insurance Law, earnestly performed the requirements of the Hong Kong Listing Rules, the Guided Opinion on Regulating the Corporate Governance Structure of Insurance Companies (Provisional) and the Articles of Association, adhered to the principles of good corporate governance, continuously strived for enhancing the corporate governance standard to ensure the stable development of the Company and to enhance shareholders' value. The Company has adopted the Corporate Governance Code as its corporate governance code.

The H shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 26 October 2015. The Corporate Governance Code has been applicable to the Company since the Listing Date. During the Reporting Period, the Company has been in compliance with the code provisions stipulated in the Corporate Governance Code and adopted recommended best practices under appropriate circumstances.

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



CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' GENERAL MEETING

Shareholders' general meeting is the organ of authority of the Company and shall exercise the following functions and powers in accordance with laws: (1) to decide on operational policies and investment plans of the Company; (2) to elect or replace the Directors and Supervisors who are not representatives of the employees, and to decide on matters relevant to remuneration of Directors and Supervisors; (3) to consider and approve the reports of the Board of Directors; (4) to consider and approve the reports of the Board of Supervisors; (5) to consider and approve annual financial budgets and final accounts of the Company; (6) to consider and approve proposals for profit distribution and recovery of losses of the Company; (7) to decide on increase and reduction of the registered capital of the Company; (8) to decide on the issuance of bonds, shares, warrants or other marketable securities and listing of the Company; (9) to decide on merger, division, dissolution and liquidation of the Company and changes in the form of the Company; (10) to amend the Articles of Association and to formulate and amend the procedural rules of the shareholders' general meetings, the Board of Directors and the Board of Supervisors; (11) to decide on the acquisition of shares of the Company; (12) to decide on the appointment, dismissal or non-reappointment of accounting firms which provide regular statutory audit for financial statements of the Company; (13) to consider and approve matters related to the Company's establishment of legal entities, significant investment, major acquisition of assets, major disposal and write-off of assets, major external donation and major external guarantee (other than those authorised to be determined by the Board); (14) to consider and approve related-party transactions required to be approved by the shareholders' general meetings under laws, administrative regulations, regulatory requirements and the securities regulatory authorities or stock exchange at the place where the Company's shares are listed; (15) to consider and approve matters related to the change of use of the raised fund; (16) to consider and approve share incentive scheme; (17) to consider and approve any proposal raised by shareholders, individually or in aggregate, holding 3% or more of the issued shares of the Company with voting rights (the "proposing shareholders"); (18) to consider and approve plan on authorisation to the Board granted by the shareholders' general meetings; and (19) to consider other matters that are to be determined at the shareholders' general meeting as required by the PRC laws, administrative regulations, regulatory requirements and the Articles of Association.

During the Reporting Period, the Company convened three shareholders' general meetings and the resolutions considered and approved at the meetings included:

- Resolution on the re-appointment of KPMG Huazhen LLP as the domestic auditors of the Company for the year 2015 and the appointment of KPMG as the international auditors of the Company for the year 2015;
- Resolution on the election of Mr. Yuan Linjiang as an executive Director of the third session of the Board of the Company;
- Resolution in relation to the report of the Board of Directors for the year 2015;
- Resolution in relation to the report of the Board of Supervisors for the year 2015;
- Resolution in relation to the remuneration standard and payment of relevant Directors and Supervisors for the year 2014;
- Resolution in relation to the final financial accounts report for the year 2015;
- Resolution in relation to the profit distribution plan for the year 2015;
- Resolution in relation to the investment budget for fixed assets for the year 2016;
- Resolution in relation to the engagement of auditors for the year 2016.

CORPORATE GOVERNANCE REPORT

Methods of Convening Extraordinary General Meetings and Proposing Resolutions by Shareholders

According to the Articles of Association, any shareholder(s), whether individually or in aggregate, holding 10% or more of the outstanding shares of the Company with voting rights may request in writing to convene an extraordinary general meeting and such shareholder(s) shall submit the subject(s) of the meeting and the full proposal(s) in writing to the Board. If the Board holds the view that the proposal(s) complies with the requirements under the national laws, administrative regulations, regulatory requirements and the Articles of Association, it shall issue a notice of shareholders' general meeting within five days after the resolution of the Board.

For details of the procedures for nominating candidates of Directors by shareholders, please refer to the website of the Company. Specific enquiries and suggestions by shareholders can be sent in writing to the Board at the Company's registered address or by e-mail to the Company. In addition, if the shareholders have any enquiries about the shareholdings and entitlement to dividend, they can contact Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, the contact details of which are set out in the section headed "Corporate Information" of this annual report.

When shareholders' general meetings are held by the Company, shareholders individually or in aggregate holding 3% or more of the outstanding shares of the Company with voting rights have the right to make proposals in writing. The proposing shareholders may raise interim proposals and submit the same to the convenor of the shareholders' general meeting 10 days prior to the date of the meeting, and matters in the interim proposals within the scope of functions and powers of the shareholders' general meeting shall be included in such meeting's agenda. The convenor of the shareholders' general meeting shall within two days upon receiving such interim proposals give supplemental notice to the shareholders. The content of such interim proposals shall be within the scope of functions and powers of the shareholders' general meetings, and shall contain specific subjects and concrete matters for approval.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board shall be responsible for the shareholders' general meetings. It shall hold at least four regular meetings every year, and hold extraordinary meetings as required. Notice of regular meetings shall be given to all Directors and Supervisors at least 15 days before the date of the meeting (excluding the date of the meeting). Notice of extraordinary meetings shall be given to all Directors and Supervisors at least seven days before the date of the meeting (excluding the date of the meeting). In the event of an emergency matter, the convening of an extraordinary meeting is not subject to the aforementioned time limit of notification for the meeting, but reasonable notice shall be given.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders during their terms of office.

Composition

During the Reporting Period, the Board comprised 10 Directors, consisting of four executive Directors, two non-executive Directors and four independent non-executive Directors. Directors serve a term of three years and may serve consecutive terms if re-elected. Details are as follows:

Name	Position	Date of appointment
Yuan Linjiang	Chairman, Executive Director	May 2016
Wang Pingsheng	Vice Chairman, Executive Director	August 2012
Zhang Hong	Executive Director	August 2012
Ren Xiaobing	Executive Director	August 2012
Lu Xiuli	Non-executive Director	December 2014
Shen Shuhai	Non-executive Director	December 2014
Wang Jun	Independent non-executive Director	June 2011
Hao Yansu	Independent non-executive Director	December 2014
Li Sanxi	Independent non-executive Director	December 2014
Mok Kam Sheung	Independent non-executive Director	August 2015

- Notes:
1. On 10 March 2016, Mr. Li Peiyu resigned as the executive Director, the Chairman of the Board of the Company and other positions.
 2. On 20 January 2017, Mr. Zhang Hong's ceasing to be the executive Director of the Company was approved at the shareholder's general meeting.
 3. For details for the changes of Directors and their information, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" in this annual report.

During the Reporting Period, the Board has been at all times in compliance with Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules which stipulate that at least three independent non-executive directors and at least one of the independent non-executive directors shall have appropriate professional qualifications or accounting or related financial management expertise, and with Rule 3.10A of the Hong Kong Listing Rules which specifies that an issuer must appoint independent non-executive directors representing at least one-third of the board.

CORPORATE GOVERNANCE REPORT

All Directors (including independent non-executive Directors) have brought a variety of valuable working experiences and expertise to the Board to enable the Board to effectively perform its functions. All Directors have agreed to disclose to the Company in a timely manner the number, nature, position, duration of office at other listed companies or institutions and other major appointments in accordance with the requirements of the Corporate Governance Code.

Corporate Governance Functions

The Company is committed to maintaining the highest level of corporate governance and the Board plays an important role to maintain sound corporate governance. The corporate governance functions of the Board and its specialised committees include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Duties and Responsibilities

The Board shall be responsible for the shareholders' general meeting, and its main responsibilities include, but are not limited to:

(1) convening shareholders' general meetings and reporting its work to the shareholders' general meeting; (2) implementing the resolutions of the shareholders' general meetings; (3) determining the operation plans and investment plans of the Company; (4) formulating the development strategies of the Company; (5) formulating the annual financial budget and final accounts of the Company; (6) formulating the profit distribution plan and loss recovery plan of the Company; (7) formulating proposals for increase or reduction of the registered capital or proposals for the issue of bonds, shares, warrants or other securities or the listing of the Company; (8) formulating plans for the acquisition of shares of the Company or merger, division, dissolution and changes of the form of the Company; (9) formulating proposals for any amendment to the Articles of Association; (10) formulating the procedural rules of the shareholders' general meetings and the Board and the working rules for specialised committees under the Board; (11) formulating the basic management system of the Company; (12) deciding on the establishment of internal management departments, branches and subsidiaries of the Company and deciding on the establishment of legal entities within the scope of the authorisation of the shareholders' general meeting; (13) regularly evaluating and improving the corporate governance of the Company; (14) appointing or removing senior management of the Company, and implementing reviews as well as determining remuneration and relevant rewards and punishment arrangements with respect to such personnel; appointing or removing members of each specialised committee under the Board; (15) reviewing and deciding on evaluation plans for the results of operation of our major subsidiaries; (16) reviewing annual financial reports and major disclosure of information of the Company; (17) proposing to the shareholders' general meeting on the appointment or removal of accounting firms which provide regular statutory audit on the financial statements of the Company; (18) considering and approving, or authorising the Related Transactions Control Committee under the Board to approve related-party transactions, except for those which shall be considered and approved by the shareholders' general meeting as required by laws; (19) considering and approving the Company's matters such as the investment, acquisition of assets, disposal and write-off of assets, external guarantees and external donations within the scope of the authorisation of the shareholders' general meeting; and (20) exercising such other functions and powers as granted by the PRC laws, administrative regulations, regulatory requirements or the Articles of Association and as empowered by the shareholders' general meeting.

CORPORATE GOVERNANCE REPORT

Summary of Work Undertaken

During the Reporting Period, the Directors' attendance records of the shareholders' general meeting were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person
Yuan Linjiang	1/1	100%
Wang Pingsheng	3/3	100%
Zhang Hong	3/3	100%
Ren Xiaobing	3/3	100%
Lu Xiuli	3/3	100%
Shen Shuhai	3/3	100%
Wang Jun	2/3	67%
Hao Yansu	2/3	67%
Li Sanxi	2/3	67%
Mok Kam Sheung	3/3	100%
Li Peiyu	1/1	100%

During the Reporting Period, the Directors' attendance records of Board meetings were as follows:

Name	Attended in person/eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Yuan Linjiang	6/6	100%	0/6	0
Wang Pingsheng	8/11	73%	3/11	27%
Zhang Hong	10/11	91%	1/11	9%
Ren Xiaobing	9/11	82%	2/11	18%
Lu Xiuli	11/11	100%	0/11	0
Shen Shuhai	11/11	100%	0/11	0
Wang Jun	10/11	91%	1/11	9%
Hao Yansu	11/11	100%	0/11	0
Li Sanxi	10/11	91%	1/11	9%
Mok Kam Sheung	10/11	91%	1/11	9%
Li Peiyu	1/1	100%	0/1	0

During the Reporting Period, the third session of the Board held a total of 11 meetings, at which 76 resolutions were considered and approved and 13 reports were received. The Board has constantly kept the reform and development of the Company in mind, proactively promoted the formulation of the "One-Three-Five" Strategy, attached great importance to improving strategic decision-making, further optimised the Group's organisation structure, further improved its fundamental management, strictly controlled operational risk, and continued to optimise its resource allocation, with new progress and breakthroughs made in many areas.

CORPORATE GOVERNANCE REPORT

Directors

Responsibility with Respect to Financial Statements

The management of the Company has provided to the Board necessary explanations and information enabling all Directors to consider the Company's consolidated financial statements, which are submitted to the Board for approval. The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall reflect a true and fair view of the business operations of the Company by implementing proper accounting policies in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and implementing the accounting regulations issued by the Ministry of Finance and CIRC subject to compliance with the International Financial Reporting Standards.

The Board has confirmed that it is responsible for the preparation of the financial statements of the Company for the year ended 31 December 2016. The Company is not subject to any material uncertainties or circumstances which might cast significant doubt on the Company's ability to continue as a going concern.

Securities Transactions

During the Reporting Period, in respect of dealings in securities by Directors and Supervisors, the Company has adopted the Model Code for Securities Transactions. Upon enquiries by the Company, all the Directors and Supervisors confirmed that they had complied with the standards set out in the Model Code for Securities Transactions during the Reporting Period.

Training of Directors

During the Reporting Period, all Directors (Mr. Yuan Linjiang, Mr. Wang Pingsheng, Mr. Zhang Hong, Mr. Ren Xiaobing, Ms. Lu Xiuli, Mr. Shen Shuhai, Ms. Wang Jun, Mr. Hao Yansu, Mr. Li Sanxi and Ms. Mok Kam Sheung) were actively involved in continuous improvement in professional development, and participated in various kinds of training activities relating to corporate governance and the Hong Kong Listing Rules which were organised by the shareholders, regulatory authorities, industrial organisations and the Company, so as to develop and update their knowledge and skills and improve their performance ability, with an aim of making positive contributions to the Board with comprehensive information under appropriate circumstances.

Chairman/Vice Chairman/President

During the Reporting Period, the Chairman and the President of the Company were performed by different persons. As at the Latest Practicable Date, the Chairman of the Company was Mr. Yuan Linjiang. Mr. He Chunlei was the Executive Vice President, assuming the role of the President.

The Chairman is responsible for providing leadership to the Board, ensuring that the Company has good corporate governance practices and procedures, and maintaining the effective operation of the functions of Board. The Vice Chairman will perform the duties of the Chairman if the Chairman cannot or does not perform his duties.

The President is responsible for leading the operational management of the Company, organising the implementation of Board resolutions, annual operation plans and investment proposals, formulating the internal management organisation plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of the Vice President of the Company and other senior management (other than the Board Secretary). Details of the duties and responsibilities of the Chairman, Vice Chairman and President are set out in the Articles of Association.

CORPORATE GOVERNANCE REPORT

Term of Office of Non-executive Directors

The term of office of non-executive Directors (including independent non-executive Directors) is three years.

Independence of Independent Non-Executive Directors

All independent non-executive Directors have complied with the independence guidance requirements set out in Rule 3.13 of the Hong Kong Listing Rules and have submitted their letters of confirmation regarding their independence to the Company. As such, the Company considers that all independent non-executive Directors are still independent.

Nomination of Directors

The Nomination and Remuneration Committee of the Board first reviews the candidates of Directors in accordance with laws, regulations, regulatory documents, regulatory requirements and the Articles of Association and then makes recommendations to the Board.

Remuneration of Directors

The Board has established the Nomination and Remuneration Committee with written terms of reference. The Nomination and Remuneration Committee comprises two non-executive Directors, being Mr. Shen Shuhai (vice chairman), Ms. Lu Xiuli, and three independent non-executive Directors, being Ms. Wang Jun (chairman), Mr. Li Sanxi and Ms. Mok Kam Sheung.

The Articles of Association provide that the remuneration of Directors shall be determined by the shareholders' general meetings from time to time. The remuneration of independent non-executive Directors shall be proposed by the Board and approved by the shareholders' general meetings. The Articles of Association provide that the Company shall enter into written contracts with the Directors in respect of remuneration matters with prior approval by the shareholders' general meetings. In 2016, except independent non-executive Directors who received Directors' fees from the Company, all other Directors did not receive any remuneration from the Company in the capacity of Directors. Executive Directors received remuneration in the capacity of senior management from the Company. The remuneration packages of independent non-executive Directors are determined based on the Company's own situations with reference to market benchmarks.

CORPORATE GOVERNANCE REPORT

Specialised Committees of the Board

There are five specialised committees under the Board, namely the Strategy and Investment Committee, the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Related Transactions Control Committee. Each committee provides advice and suggestions to the Board with respect to matters within the scope of its responsibilities. The duties and operation process of each specialised committee are explicitly stipulated in their respective terms of reference.

Strategy and Investment Committee

Composition

As at the end of the Reporting Period, the Strategy and Investment Committee comprised five Directors, including three executive Directors and two non-executive Directors.

Chairman: Yuan Linjiang (executive Director)

Members: Wang Pingsheng (executive Director), Zhang Hong (executive Director)¹, Lu Xiuli (non-executive Director), Shen Shuhai (non-executive Director)

Duties and responsibilities

The Strategy and Investment Committee is primarily responsible for studying the mid- to long-term development strategies and significant investment decisions of the Company and making recommendations.

The primary duties include (but not limited to): (1) reviewing the Company's development strategies; (2) reviewing the Company's operation plans, annual financial budget and final accounts; (3) reviewing the goals of the Company's assets and liabilities management, asset allocation plans, and other investment asset management matters within the scope of authorisation by the Board; (4) reviewing the Company's major investment and fund raising plans, and matters such as investment, asset acquisition, asset disposal and write-off, external guarantee and external donation within the scope of mandates granted by the shareholders' general meeting (except for those performed by the senior management as authorised by the Board); (5) reviewing the basic systems of strategy management and asset management; (6) reviewing the establishment of our internal management departments and branches, and the establishment plan of legal person institution; and (7) other matters as authorised by the Board.

Note: 1. Since 28 December 2016, Mr. Zhang Hong ceased to be the member of the Strategy and Investment Committee. Since 28 February 2017, Mr. He Chunlei has been the member of the Strategy and Investment Committee.

CORPORATE GOVERNANCE REPORT

Summary of work undertaken

During the Reporting Period, the Strategy and Investment Committee under the third session of the Board held a total of nine meetings and considered and approved 20 resolutions.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Yuan Linjiang	5/5	100%	0/5	0
Wang Pingsheng	9/9	100%	0/9	0
Zhang Hong	9/9	100%	0/9	0
Lu Xiuli	9/9	100%	0/9	0
Shen Shuhai	9/9	100%	0/9	0
Li Peiyu	1/1	100%	0/1	0

During the Reporting Period, the Strategy and Investment Committee thoroughly discussed the plan for increasing capital contribution to subsidiaries by the Group, the profit distribution plan and profit distribution policy, the development plan in relation to “13th Five-Year Plan”, budget and funds management system and provided opinions and advice. It has played an important role in facilitating the strategic development, operation management and improvement in capital utilisation rate.

Audit Committee

Composition

As at the end of the Reporting Period, the Audit Committee comprised five Directors including three independent non-executive Directors and two non-executive Directors, with an independent non-executive Director serving as the chairman.

Chairman:	Li Sanxi (independent non-executive Director)
Vice chairman:	Hao Yansu (independent non-executive Director)
Members:	Lu Xiuli (non-executive Director), Shen Shuhai (non-executive Director), Wang Jun (independent non-executive Director)

Duties and responsibilities

The Audit Committee examines the internal audit system of the Company and monitors its implementation, inspects, monitors and evaluates the internal audit and internal control of the Company, and makes recommendations on the appointment or change of external auditors and monitors their work.

CORPORATE GOVERNANCE REPORT

The primary duties include (but not limited to): (1) examining the internal audit system and monitoring its implementation, and inspecting, monitoring and evaluating the internal audit of the Company; (2) monitoring the implementation of the internal control and management system of the Company, inspecting and evaluating the compliance and effectiveness of material operating activities of the Company; reviewing the corporate governance report and compliance report of the Company on a regular basis, and making recommendations to the Board of Directors on matters where action or improvement is needed; (3) examining the Company's financial information and its disclosure, examining the Company's key financial system and its implementation, monitoring the financial status; monitoring the truthfulness of financial reports and the effectiveness of financial reporting procedures implemented by the management; (4) making recommendations on the appointment, re-appointment, replacement or removal of external auditors, monitoring the independence and objectivity, audit process and works of external auditors, coordinating the communication between the internal audit department and external auditors, examining reports issued by external auditors, and ensuring that external auditors' accountability to the Board and the Audit Committee; and (5) other matters as authorised by the Board.

Summary of work undertaken

During the Reporting Period, the Audit Committee under the third session of the Board held a total of seven meetings and considered and approved 12 proposals, and received two reports.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Li Sanxi	7/7	100%	0/7	0
Hao Yansu	7/7	100%	0/7	0
Lu Xiuli	7/7	100%	0/7	0
Shen Shuhai	7/7	100%	0/7	0
Wang Jun	6/7	86%	1/7	14%

During the Reporting Period, the Audit Committee continued to carefully perform its duties, considered and studied the appointment of domestic and overseas annual auditors, the result announcement for the year 2015 and the annual report for the year 2015, the interim result announcement for the year 2016 and the interim report for the year 2016, the corporate governance report and compliance report for the year 2015 and other important matters, and provided the Board and the management with opinions and advice in relation to finance, internal control and operation management in a timely manner, which played an active role in enhancing corporate governance.

CORPORATE GOVERNANCE REPORT

Nomination and Remuneration Committee

Composition

As at the end of the Reporting Period, the Nomination and Remuneration Committee comprised five Directors, including three independent non-executive Directors and two non-executive Directors.

Chairman:	Wang Jun (independent non-executive Director)
Vice chairman:	Shen Shuhai (non-executive Director)
Members:	Lu Xiuli (non-executive Director), Li Sanxi (independent non-executive Director), Mok Kam Sheung (independent non-executive Director)

Duties and responsibilities

The Nomination and Remuneration Committee reports to the Board, reviews the human resources strategy and remuneration strategy of the Company, studies and makes recommendations to the Board on the selection procedures and criteria and remuneration packages for Directors and senior management.

The primary duties include (but not limited to): (1) making recommendations to the Board regarding the selection procedures and criteria for Directors and senior management and the structure and composition of the Board; (2) reviewing the qualifications of Directors and senior management in accordance with the selection procedures and criteria, and making recommendations to the Board; (3) regularly (at least annually) evaluating the reasonableness of the Company's (including but not limited to the Board's) structure, size and composition (including the skills, knowledge and experience), and making recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy; (4) making preliminary review on the candidates of Directors and senior management (including the Board Secretary) of the Company, and making recommendations to the Board; (5) nominating candidates for members of specialised committees (excluding this Committee) of the Board; (6) proposing the remuneration policy and proposals of Directors, Supervisors and senior management, and making recommendations to the Board; (7) considering salaries paid by comparable companies, time commitment and responsibilities required and terms of employment elsewhere in the Group; (8) examining and approving compensation payable to executive Directors and senior management due to their loss or termination of office or appointment; (9) examining and approving compensation arrangements relating to dismissal or removal of Directors due to misconduct; (10) ensuring that no Directors or any of his/her associates are involved in deciding his/her own remuneration; (11) considering the evaluation plans and remuneration packages of senior management, evaluating their performance and work, and submitting to the Board for approval; (12) examining the primary compensation system, the evaluation plans for the results of operation of the Company and major subsidiaries, and making recommendations to the Board; and (13) other matters authorised by the Board.

CORPORATE GOVERNANCE REPORT

Summary of work undertaken

During the Reporting Period, the Nomination and Remuneration Committee under the third session of the Board held a total of eight meetings and considered and approved 20 resolutions.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Wang Jun	8/8	100%	0/8	0
Shen Shuhai	8/8	100%	0/8	0
Lu Xiuli	8/8	100%	0/8	0
Li Sanxi	6/8	75%	2/8	25%
Mok Kam Sheung	8/8	100%	0/8	0

During the Reporting Period, the Nomination and Remuneration Committee focused on the consideration of annual remuneration standards and payment plan for the Company's general manager and relevant Directors and Supervisors, the annual performance appraisal plan, the annual performance bonus plan, renewal plan of liability insurances of Directors, Supervisors and senior management, proposals on nomination of Director candidates and appointment and removal of relevant Directors and senior management, which further pushed forward the incentive system and improved its effectiveness.

Pursuant to the Corporate Governance Code, the Board continued to adopt the Board diversity policy. The Company is committed to maintaining the highest level of corporate governance and a diverse Board is an essential component of good corporate governance. The Company does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factors.

The Board considers that the diversity in opinions and perspectives is beneficial to the Company and can be achieved through the consideration of factors such as a diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Notwithstanding the above, the appointments of the members of the Board will always adhere to the principle of meritocracy, taking into account objective factors and considering the Company's business model and specific needs from time to time as well as the benefits of diversity to the Board. The Nomination and Remuneration Committee is of the opinion that the composition of the Board during the Reporting Period has been in compliance with the Board diversity policy.

CORPORATE GOVERNANCE REPORT

Risk Management Committee

Composition

As at the end of the Reporting Period, the Risk Management Committee comprised five Directors, including three executive Directors, one non-executive Director and one independent non-executive Director.

Chairman:	Yuan Linjiang (executive Director)
Vice chairman:	Lu Xiuli (non-executive Director)
Members:	Zhang Hong (executive Director) ¹ , Ren Xiaobing (executive Director), Hao Yansu (independent non-executive Director)

Duties and responsibilities

The Risk Management Committee is responsible for having a comprehensive understanding of various major risks and their management and supervising the effectiveness of the risk management system.

The primary duties include (but not limited to): (1) reviewing the Company's risk strategies and risk management procedures, and monitoring and evaluating their implementation and effectiveness; (2) reviewing the Company's risk management policies and internal control systems, and monitoring and evaluating their implementation and effectiveness; monitoring and evaluating the subsidiaries' risk management policies and internal control systems and their implementation and effectiveness. The reviewing matters of the Committee include but not limited to: (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risks and the internal control systems; (iii) the extent and frequency of communication of monitoring results to the Board (or the committees under the Board) which enables it to assess control of the Company and the effectiveness of its internal control and risk management; and (iv) significant control failures or weaknesses that have been identified during the period as well as 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; (3) reviewing, monitoring and evaluating the organizational structure, department-setting and duties, working procedures and effectiveness of risk management, and making recommendations as to improving the Company's risk management and control; (4) considering the overall objectives, risk appetite, risk tolerance and risk management policies in respect of the solvency risk management of the Company; (5) addressing major differences or issues regarding risk management system operation or risk management matters; (6) monitoring and evaluating the senior management's efforts on risk control in respect of market and operation; (7) monitoring the effectiveness of the Company's risk management system (including but not limited to ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget in respect of the Company's accounting, internal control and financial reporting); (8) comprehensively understanding various major risks the Company faced and their management, reviewing risk assessment report on a regular basis, considering the risk assessment in respect of material decision-making and the solutions for major risks, assessing the Company's overall risk profile and risk management on a regular basis, and ensuring the Company's disclosure in a statement about how it complies with the code provisions for risk management and internal control in its corporate governance report during the reporting period in accordance with the requirements of the Hong Kong Listing Rules; and (9) other matters as authorised by the Board.

Note: 1. Since 28 December 2016, Mr. Zhang Hong ceased to be the member of the Risk Management Committee of the Board. Since 28 February 2017, Mr. He Chunlei has been the member of the Risk Management Committee of the Board.

CORPORATE GOVERNANCE REPORT

Summary of work undertaken

During the Reporting Period, the Risk Management Committee under the third session of the Board held a total of seven meetings and considered 14 proposals.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Yuan Linjiang	3/3	100%	0/3	0
Lu Xiuli	7/7	100%	0/7	0
Zhang Hong	7/7	100%	0/7	0
Ren Xiaobing	7/7	100%	0/7	0
Hao Yansu	7/7	100%	0/7	0
Li Peiyu	1/1	100%	0/1	0

During the Reporting Period, the Risk Management Committee studied and considered the risk appetite resolution of the Company for the year 2016, the risk-oriented solvency report for each quarter, the report of the non-insurance subsidiaries for the year 2015, the internal control assessment report for the year 2015, the risk assessment report for the year 2015, the consolidated management report for the year 2015, the capital report for the year 2015, the interim measures on enterprise risk management of the Company and other resolutions. It has played an important role in facilitating the Group's risk management work and improving the Group's risk management capabilities.

Related Transactions Control Committee

Composition

As at the end of the Reporting Period, the Related Transactions Control Committee comprised three independent non-executive Directors.

Chairman: Hao Yansu (independent non-executive Director)
Members: Wang Jun (independent non-executive Director), Li Sanxi (independent non-executive Director)

Duties and responsibilities

The primary duties of the Related Transactions Control Committee include: (1) identifying the related parties of the Company and reporting to the Board, and promptly notifying relevant staff of the Company of the related parties identified; (2) performing a preliminary review of related transactions that are to be approved at the shareholders' general meeting and the Board meeting and submitting written opinions to the Board for approval; (3) accepting filings of

CORPORATE GOVERNANCE REPORT

related-party transactions as authorised by the Board; (4) submitting to the Board a special report on the Company's related-party transactions and implementation of policies governing related-party transactions for the year; and (5) other matters as authorised by the Board.

Summary of work undertaken

During the Reporting Period, the Related Transactions Control Committee under the third session of the Board held a total of five meetings and considered eight proposals.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Hao Yansu	5/5	100%	0/5	0
Wang Jun	5/5	100%	0/5	0
Li Sanxi	5/5	100%	0/5	0

During the Reporting Period, the Related Transactions Control Committee reviewed with due care the related-party transactions on the engagement of China Re P&C and China Re Life by the Group Company in appointed retrocession businesses, the report on related-party transactions and the implementation of its management system and the evaluation of internal transaction for the year 2015. The committee effectively monitored the capital increase in subsidiaries, continuous sales and purchase agreement regarding financial products entered into with China Re Assets, which ensured that the related-party transactions of the Company are in compliance with law.

Risk Management and Internal Control

The Company believes that good risk management and internal control plays an important role in the operation of the Company. The Board is ultimately responsible for the risk management, internal control and compliance management of the Company and is committed to the establishment and constant improvement of effective risk management and internal control systems.

Main Features of Risk Management and Internal Control System

The Board is responsible for guidance over the establishment of the overall risk management and internal control management system of the Company, conducting regular research and assessment on the soundness, reasonableness and effectiveness of risk management and internal control, considering and approving the organisational structure of risk management and internal control, basic management systems and material risk treatment of the Company, as well as considering and approving the annual risk assessment report and internal control assessment report of the Company.

The Risk Management Committee is established under the Board to assist the Board in reviewing, monitoring and assessing material risk management matters such as risk strategies and risk management procedures, risk management policies and internal control system, risk management organisation methods and risk control performances. The Audit Committee is established under the Board to monitor the implementation of the Company's internal control and

CORPORATE GOVERNANCE REPORT

management system, and examine and review the compliance and effectiveness of significant operational activities of the Company.

The functional departments, including business, finance and investment departments of the Company are primarily responsible for the risk management and internal control system. The specialised departments, such as risk management and internal control and compliance departments, are responsible for the coordinated planning and implementation of risk management and internal control and compliance before and during the process. Risk assessment and internal control and compliance assessment work were carried out by the specialized departments on an annual basis. The internal audit department is responsible for monitoring and regularly auditing the performance in risk management and internal control and compliance.

Technologies and Implementation of Risk Management

In 2016, the Company implemented the following measures to identify, evaluate and manage material risks: (1) The Company established and managed risk appetite system. With the approval of the Board, the Company has established a risk appetite system, which comprises risk tolerance and risk limits. The risk appetite system has been closely integrated with the business plan to play a role in risk appetite management and guidance to business operations. Through risk appetite monitoring, reporting and dynamic management processes, the continuous functioning of risk appetite is assured. (2) The Company persistently implemented C-ROSS regulatory requirements. The C-ROSS regulatory requirements have been implemented since 2016 and the Company has carried out a number of work to apply such requirements, including but not limited to the followings: (i) Solvency reports have been regularly formulated and analyzed so that specific management measures were accordingly adopted to ensure adequate solvency; (ii) The Company improved its risk management capability through formulating and revising a number of risk management systems, and promoting the implementations of the Company's various systems, to ensure the Company's business development; (iii) The Company strengthened its solvency management through assessing the impact of major business activities over its solvency before conducting such business activities. (3) The Company regularly identifies and analyzes all types of major risks. The company used various risk assessment indicators and used a combination of qualitative and quantitative methods to evaluate risks. Economic scenario generator, catastrophe models, and economic capital models were used together with stress testing and scenario testing to assess risks and analyze risk profile. Immediate reports and special analysis are prepared for major risks occurred or identified. By controlling the retained risks through the risk control plan, the Company managed the risks beyond its risk tolerance through retrocession arrangements for reinsurance and issuances of catastrophe bonds. (4) The Company maintained its rating management system. The Company received ratings from Standard & Poor and A.M. Best, and applied rating requirements in its daily operation. The Company sought to meet the requirements of such ratings while improving its level of operation management and risk management. Before conducting major business activities, the Company also assessed the impact of such activities over its ratings so as to balance its business against its ratings.

Establishment and Sound Operation of Internal Control System

In 2016, the Company implemented the following measures to continuously enhance internal management efficiency: (1) The Company carried out internal control management activities in accordance with the management rules for internal control, internal control matrix and other systems and documents, and performed routine follow-up evaluation in respect of the major changes in regulatory requirements, changes in the Company's rules and regulations and major decisions in operation or management to dynamically identify the changes of risk factors in internal control and take responding measures in a timely manner. (2) For internal control deficiencies identified, the Company formulated rectification plan in a timely manner to specify the rectification measures, responsible departments and prescribed period

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for rectification, followed up and facilitated the deficiencies rectification, and performed evaluation on the effectiveness upon the completion of rectification. (3) We further improved the authorisation system, streamlined and regulated the discussion platform under the management and optimized the important authorisation documents and procedures. We also conducted a thorough and systematic review on relevant rules and regulations and promoted the formulation and amendment of the rules and regulation so as to ensure that the systems are effectively matched with the strategies and organizational structure of the Company. (4) The Company improved the assessment system for its subsidiaries' internal control and compliance, and further strengthened the management of internal control and compliance. (5) The Company promoted the philosophy and knowledge of internal control through various methods such as internal and external trainings, advocacy of rules and daily face-to-face communication which enhanced the awareness of internal control among the employees. (6) The Company organized financial personnel, internal control management personnel and internal audit personnel to receive relevant professional trainings and provided sufficient training budget, so as to continuously improve the professional skills and comprehensive capability of these personnel.

Procedures for Handling and Disclosing Inside Information and Internal Control Measures

The procedures and internal controls for the identifying, handling, and publishing inside information by the Company include: (1) formulating and implementing relevant supporting systems, including the Provisional Measures Governing Information Disclosure, by the Board, and establishing the comprehensive process of reporting, identifying, and disclosing inside information to ensure that the disclosure of inside information is on a timely basis and in compliance; (2) by means of training and instruction, fully informing relevant staffs, including members of the Board, the Board of Supervisors, and the management, of the obligations on information disclosure as stipulated under the Hong Kong Securities and Futures Commission's Guidelines on Disclosure of Inside Information and Hong Kong Listing Rules; and (3) dispatching information to specific personnel on a need-to-know basis, putting emphasis on the prohibition of unauthorized use of confidential or inside information, and conducting the confidential work preceding the disclosure of insider information if necessary.

Evaluation of Effectiveness of Risk Management and Internal Control System

According to the Guidelines on Risk Management of Insurance Companies (Bao Jian Fa [2007] No. 23) and the Guidelines for Supervision on Consolidation of Accounts of Insurance Groups (Bao Jian Fa [2014] No. 96), the Company comprehensively analyzed and evaluated the risk management system in 2016. The Evaluation involved various aspects of the Company in addition to the C-ROSS requirements, particularly the structure of reinsurance contracts and management effectiveness, the risk management of overseas institutions, and the accumulation of catastrophe risks in whole Group. The evaluation found that the general risk level is under control, and the Board and the management team approved of the effectiveness of the risk management system.

In accordance with the Basic Standard for Enterprise Internal Control (Cai Kuai [2008] No. 7) and related guidelines, Basic Rules for the Internal Control of Insurance Companies (Bao Jian Fa [2010] No. 69) and the requirements of the Hong Kong Listing Rules, in light of the actual situations of the Company's internal control system, the Company carried out internal control assessment for 2016, and reviewed the design and operational effectiveness of the internal control systems of the Company and its subsidiaries including financial control, operational control and compliance control. The Company focused on major business matters, high-risk areas and the Company's capabilities in response to changes of internal and external environments through comprehensive use of individual interviews, walk-through tests, material reviews and special seminars, etc.

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The Board and the management have confirmed that control measures are sufficient and effective. Due to the limitations of the internal control and the technical means for internal control assessment, there might still be risks and deficiencies. The Company will continue to optimise its internal control system and strive to assure legal compliance, asset security as well as authenticity and completeness of the financial reports and related information to ensure the fulfilment of its strategic objectives.

BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors adhered to the requirements of the PRC Company Law and the Articles of Association and performed its duties of supervision, enhanced the supervision over significant events, the supervision over the performance of the respective duties by the Directors and senior management, stressed on carrying out special investigation and studies, made proposals with respect to the deepening of implementation of strategies and the prevention of business risks to the Board of Directors and the management in order to protect the interests of the Company, shareholders and employees.

Composition

During the Reporting Period, the Board of Supervisors comprised five members, including:

Chairman: Wang Yonggang¹ (shareholder representative Supervisor)
Supervisors: Wei Shiping (shareholder representative Supervisor), Zhu Yong (shareholder representative Supervisor), Cao Shunming (employee representative Supervisor), Tian Bo (employee representative Supervisor)

Employee representative Supervisors are elected through elections at staff representative assembly, and non-employee representative Supervisors are elected through elections at the shareholders' general meetings. The term of office of Supervisors is three years and Supervisors may serve consecutive terms if re-elected.

Duties and Responsibilities

The Board of Supervisors shall report to the shareholders' general meeting, supervise the Company's financial position and compliance as well as the performance of duties and responsibilities by Directors and senior management.

The primary duties of the Board of Supervisors include (but not limited to): (1) reporting its work to the shareholders' general meeting; (2) monitoring and examining the Company's financials; (3) supervising the conduct of the Directors and senior management in their performance of duties and proposing the removal of Directors and senior management who have contravened any of the PRC laws, administrative regulations, regulatory requirements, the Articles of Association or resolutions of the shareholders' general meeting; (4) demanding rectification from Directors or any senior management when the acts of such persons are harmful to the Company's interest; (5) proposing to convene

Note: 1. On 23 February 2017, the qualification of Mr. Zhang Hong as Supervisor was approved by CIRC and he formally performed duties of Supervisors and Chairman of the Board of Supervisors. At the same time, Mr. Wang Yonggang formally resigned as Supervisor and Chairman of the Board of Supervisors.

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an extraordinary general meeting and convening and presiding over the shareholders' general meeting when the Board fails to perform its duty of convening and presiding over the shareholders' general meeting; (6) proposing resolutions at the shareholders' general meeting; (7) representing the Company in negotiations with a Director and bringing an action against a Director or senior management pursuant to the PRC Company Law and the Articles of Association; (8) formulating the procedural rules of the Board of Supervisors and the working rules of specialized committees under the Board of Supervisors; (9) reviewing financial information such as the financial reports, operation reports and profit distribution plans to be submitted by the Board to the shareholders' general meeting; if there is any doubt, engaging certified public accountants and practicing auditors in the name of the Company to review; and (10) exercising other duties specified under the PRC laws, administrative regulations, regulatory requirements or the Articles of Association and authorised by shareholders' general meetings.

Summary of the Work Undertaken

During the Reporting Period, the Board of Supervisors convened four meetings and reviewed and considered 10 resolutions, and received two reports. The Performance Supervision and Inspection Committee convened three meetings, while the Financial Supervision and Inspection Committee convened two meetings.

Attendance records of the meetings of the Board of Supervisors were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person	Attended by proxy/ eligible to attend	Percentage of attendance by proxy
Wang Yonggang	4/4	100%	0/4	0
Wei Shiping	4/4	100%	0/4	0
Zhu Yong	3/4	75%	1/4	25%
Cao Shunming	4/4	100%	0/4	0
Tian Bo	2/2	100%	0/2	0
Lin Wei	1/2	50%	1/2	50%

Please refer to the section "Report of the Board of Supervisors" in this annual report for the work of the Board of Supervisors for the year 2016.

DUTIES AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

According to the Articles of Association, senior management refers to the Company's President, Vice President, Chief Financial Officer, Board Secretary and other management staffs confirmed by the Board. Senior management is responsible for the Company's operation and management, organisation and implementation of the Board resolutions, implementation of the operation and investment plan approved by the Board, construction of the internal management structure and basic management system as well as formulation of specific rules and regulations.

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The daily management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to entering into any significant transactions by the management. During the Reporting Period, based on the development strategies of the Company, the senior management actively conducted various operation and management work and effectively implemented the operation plan and financial budget approved by the Board, leading to stable and healthy development of all business segments.

JOINT COMPANY SECRETARIES

Ms. Yu Qing, one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. In order to uphold good corporate governance and ensure compliance with the Hong Kong Listing Rules and applicable Hong Kong laws, during the Reporting Period, the Company also engages Ms. Mok Ming Wai, a director and head of listed company service department of KCS Hong Kong Limited (a company secretarial service provider) as a joint company secretary to assist Ms. Yu Qing to perform her duties as a joint company secretary of the Company. Ms. Yu Qing is also the primary contact person of the Company.

During the Reporting Period, Ms. Yu Qing and Ms. Mok Ming Wai have undertaken no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Hong Kong Listing Rules.

Ms. Yung Mei Yee, the former joint company secretary of the Company, resigned as a joint company secretary of the Company on 30 March 2016, and the Company appointed Ms. Mok Ming Wai as a joint company secretary of the Company with effect from 30 March 2016.

AUDITORS' FEES

During the Reporting Period, the shareholders' general meeting approved the appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and overseas auditors of the Group, respectively, for the year 2016 to provide interim financial statements review services and annual financial statements audit services for the year 2016, with fees of RMB7.80 million. In addition, during the Reporting Period, the Group appointed PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch to provide third-party audit services on the solvency pressure test for the year 2016, with fees of RMB0.48 million. During the Reporting Period, the Company did not appoint PricewaterhouseCoopers Zhong Tian LLP or PricewaterhouseCoopers to provide any non-audit services.

ARTICLES OF ASSOCIATION

The Articles of Association have been effective since the date on which the approval from the relevant authorities was obtained. For details, please refer to the announcement published on 9 March 2016 by the Company on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.chinare.com.cn).

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The Company is committed to establishing and maintaining its good relationship with its investors, enhancing communication with domestic and overseas investors, and actively and efficiently providing investors with services to enhance positive interaction and information exchanges between investors and the Company.

During the Reporting Period, the Company has formulated the Interim Measures for Investor Relations Management of China Reinsurance (Group) Corporation (《中國再保險(集團)股份有限公司投資者關係管理暫行辦法》) to further improve investor relations and the process and enhance communication with the capital market. In 2016, the Company held annual and interim results briefings and press conferences in Hong Kong and over 200 investors and analysts and over 30 media representatives attended the conferences. After the conferences, the Company conducted two domestic and overseas results roadshows for one-on-one communication with over 60 large investment institutions. The Company participated in six domestic and overseas investment banking and brokerage investor summits to discuss with over 50 large investment institutions. The Company received nearly 60 visits by domestic and overseas investors and analysts for investigations and research. On 20 October 2016, the Company organized its first capital market open day since its listing, with the theme of “Innovation, Technology, Service — Technologies and Information Strengths in Reinsurance Industry of China Re Group” to conduct face-to-face communications with over 30 investors and analysts. Promotional materials in relation to the results briefings and open day have been published on the website of the Company for reference.

The Company has designated the Office of the Board as the investor relations department with contacts including telephone and email. Please refer to the “Investor Relations” section on the website of the Company for detailed contact information, including telephone number and email address. The “Investor Relations” section on the Company’s website (www.chinare.com.cn) is specially designed to provide regularly updated information of the Company.

COMPLIANCE WITH SANCTIONS RELATED UNDERTAKINGS

We undertook to the Hong Kong Stock Exchange that we would not use the proceeds from the global offering, as well as any other funds raised through the Hong Kong Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any sanctions targets. In addition, we have no present intention to undertake any future business that would cause the Group, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees or the shareholders to violate or become a target of sanctions laws of the United States, the European Union, the United Nations or Hong Kong. If we believe that the transactions the Group entered into in the sanctioned countries would expose the Group or shareholders and investors to risks of being sanctioned, the Company will publish such announcements as appropriate and in accordance with the Hong Kong Listing Rules and the SFO (the “Sanctions Related Undertakings”). During the Reporting Period, we were in strict compliance with its sanctions risk management policy to prohibit the conducting of any business that may cause the Group and relevant stakeholders to be subject to sanctions, and arranged trainings on the sanctions risk management. The Directors of the Company have confirmed that we have complied with the Sanctions Related Undertakings and will continue to do so in future daily operation. In the view that the sanction policies may keep adjusting, we will adjust the scale of business in due course subject to the sanction laws in the United States, the European Union, the United Nations or Hong Kong and the sanction risks of the Group and the stakeholders in order to achieve better returns for the shareholders and investors.

REPORT OF THE BOARD OF DIRECTORS

The Board presents its annual report for the year ended 31 December 2016, together with the audited financial statements of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

Principal Business

We are currently the only domestic reinsurance group in the PRC and mainly conduct P&C reinsurance, life and health reinsurance, primary P&C insurance and asset management business through our subsidiaries.

Business Review and Analysis of Key Financial Indicators

Please refer to the section headed “Management Discussion and Analysis” in this annual report.

Environmental Policies and Performance of the Company

China Re Group advocates the concept of greening and environment protection, attaches great importance to enhancing employees’ awareness of energy-saving and environment-protection, and is committed to providing its employees with a safe and comfortable working environment. By adopting electronic work tools including the Group’s information platform, remarkable results have been achieved in paperless work. Through the management of energy saving and consumption reduction in office areas, the consumption of water, electricity, coal, gas and other energy was reduced. The Group encourages the use of videoconferences and teleconferences and reduces the use of vehicles owned by the Group and business trips in order to lower carbon emission and energy consumption arising from business travels. In addition, the Group has established a safety management system and organised safety supervision, inspection, promotion and training activities to enhance employees’ awareness of safety. We prohibit smoking at all workplaces to create a healthy and safe working environment. The Company is preparing the Environment, Social and Governance Report in accordance with the requirements of Appendix 27 of the Hong Kong Listing Rules and will publish it on websites of Hong Kong Stock Exchange and the Company in due course.

Compliance with Relevant Laws and Regulations

As a joint-stock limited company incorporated in the PRC whose H shares are listed on the Main Board of the Hong Kong Stock Exchange, the Company is subject to the PRC Company Law, the PRC Insurance Law, as well as the Hong Kong Listing Rules, the SFO and other domestic and overseas laws and regulations.

The Company is subject to the following main regulatory requirements:

The CIRC and other government departments in the PRC (including but not limited to the Ministry of Finance, the State Administration of Taxation, the NAO, the State Administration for Industry and Commerce, the People’s Bank of China, the State Administration of Foreign Exchange, the Ministry of Human Resources and Social Security and their branches) may make enquiries and conduct on-site or off-site inspections or investigations on our compliance with the PRC laws and regulations in respect of state-owned asset management, financial condition and business operation, solvency margin, tax, foreign exchange management, labour and social welfare from time to time.

Under the Administrative Regulations for Insurance Companies, the CIRC conducts both on-site and off-site inspections on insurance institutions for supervision and management. The on-site inspections on insurance institutions by the CIRC or its local bureaus may focus on the corporate management, administrative examination and approval filing, reserves, solvency margin, use of funds, business operations and financial condition, transactions with insurance intermediaries, information system construction, appointment of senior management and other matters which the CIRC considers material.

REPORT OF THE BOARD OF DIRECTORS

The Company became listed on the Main Board of the Hong Kong Stock Exchange on 26 October 2015 and is therefore subject to the Hong Kong Listing Rules. The Company shall comply with relevant rules under the SFO, including but not limited to the following obligations: maintaining a register of interests and short positions in shares and a register of interests and short positions in shares held by Directors, Supervisors and chief executive, disclosing inside information, etc.

The Group has implemented internal controls to ensure compliance with such laws and regulations. As at the end of the Reporting Period, as far as we were aware, there was no legal and/or regulatory procedures or dispute which, in the opinion of the Directors, may have a material adverse effect on our business, financial condition, operating results or prospects.

Principal Risks and Uncertainties

Our business involves P&C reinsurance, life and health reinsurance, primary P&C insurance and asset management business. Although we have good risk management and control capability and uphold the concept of sustained and stable operation, there are still a number of risks and uncertainties involved in our business that are beyond our control. We believe the principal risks we may face in future include: insurance risk, market risk, credit risk, operational risk, strategic risk, reputation risk and liquidity risk. The future uncertainties include:

1. As the global economy recovers slowly with complicated international environment, we may face increasing uncertainties in business and investments;
2. The implementation of the C-ROSS in China will affect the reinsurance demands of insurance companies to a certain extent, and increase uncertainties of our operating results;
3. The cyclical nature of the reinsurance and insurance industries may cause fluctuations in our operating results. The increasing market competition in insurance industry, surplus underwriting capacity and occurrence of catastrophe will all have an impact on our underwriting results.

Non-adjusting Post Balance Sheet Date Events

Details are set out in Note 55 to the financial statements.

Future Business Development of the Group

The Group determined its “One-Three-Five” strategy of “One Core, Three Breakthroughs and Five Progresses”. “One Core” refers to taking reinsurance as a core. “Three Breakthroughs” refers to making breakthroughs in aspects of innovation, synergy and fission. And “Five Progresses” refers to making progresses in scale, layout, technology, structure and culture. The Group aims to become a comprehensive reinsurance group with reinsurance as the core in the immediate and medium term, and gradually moves towards a financial insurance group featured in reinsurance in the long run with a commitment to providing long-term and competitive returns to shareholders.

REPORT OF THE BOARD OF DIRECTORS

RESULTS AND PROFIT DISTRIBUTION

The Group's profit for the year ended 31 December 2016 and the financial performance of the Group as at that date are set out in the financial statements on pages 117 to 125.

Final Dividend

The Board recommends the payment of final dividend for the year ended 31 December 2016 of RMB0.048 per share (tax inclusive), totalling approximately RMB2,039,030,788.08 (the "2016 Final Dividend"). The 2016 Final Dividend is subject to the approval of shareholders of the Company at the 2016 annual general meeting, and is expected to be paid to the shareholders of the Company on Thursday, 17 August 2017 to the shareholders whose names appear on the register of members of the Company as at Thursday, 29 June 2017 and will be denominated and declared in Renminbi, while the dividend for H shares will be paid in Hong Kong dollars, which shall be calculated at the average central parity rate of Hong Kong dollars against Renminbi for the last five business days up to and including the date of the 2016 annual general meeting published by China Foreign Exchange Trading System as authorised by the People's Bank of China.

The above profit distribution scheme will not result in a lower indicator of the Company's relevant solvency adequacy ratio than the regulatory requirements.

Withholding and Payment of Income Tax on the Dividends Paid to Shareholders

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation on the Issues Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the Announcement of the State Administration of Taxation in relation to the Administration Measures on Preferential Treatment of Non-residents under Tax Treaties (SAT Announcement 2015 No. 60) (《國家稅務總局關於發布〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) and other relevant laws and regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the 2016 Final Dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between mainland China and Hong Kong (Macau). In this regard, the Company will implement the following arrangements in relation to the withholding and payment of dividend as individual income tax for the individual holders of H shares:

- For individual holders of H shares 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 the individual holders of H shares in the distribution of the dividend.
- For individual holders of H shares 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 the individual holders of H shares in the distribution of the dividend.
- For individual holders of H shares 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 in the distribution of the dividend.

REPORT OF THE BOARD OF DIRECTORS

- For individual holders of H shares 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 the individual holders of H shares in the distribution of the dividend.

If individual holders of H shares consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, please submit to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, on or before Friday, 23 June 2017, a letter of entrustment and all application and relevant proving materials showing that they are residents of a country (region) which has entered into a tax treaty with the PRC. The Company will then submit the above documents to competent tax authorities which will proceed with the subsequent tax related treatments. If individual holders of H shares did not provide the Company with the relevant proving materials before the aforesaid deadline, they could go through the relevant procedures on their own or by attorney in accordance with the relevant provisions stipulated in the tax treaties. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H shares or any disputes over the withholding mechanism or arrangements.

For non-resident enterprise holders of H shares, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding and Payment of the Enterprises 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) (國家稅務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) .

The cash dividends for the investors of H shares of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will be paid in RMB. Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (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 Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (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 dividends received by domestic individual investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the H share companies shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H share companies will not withhold and pay the income tax of dividends received by domestic enterprise investors from investing in the company of H shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and those domestic enterprise investors shall report and pay the relevant tax themselves.

The record date and the date of distribution of cash dividends and other time arrangements for the investors of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will be the same as those for the holders of H shares.

Should the holders of H shares have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for the relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares.

REPORT OF THE BOARD OF DIRECTORS

SHARE CAPITAL

During the Reporting Period, there was no change in the total share capital of the Company. At the end of the Reporting Period, the total number of issued shares of the Company was 42,479,808,085. Details are as follows:

No.	Name of Shareholder	Class of shares	Number of shares	Percentage of total share capital
1	Central Huijin Investment Ltd.	Domestic shares	30,397,852,350	71.56%
2	HKSCC (Nominees) Limited ¹	H shares	6,669,254,600	15.70%
3	Ministry of Finance of the PRC	Domestic shares	5,402,539,035	12.72%
4	Other H shareholders	H shares	10,162,100	0.02%
Total			42,479,808,085	100%

Note: 1. The data disclosed above was based on the information provided on the website of Hong Kong Stock Exchange at www.hkexnews.hk. The shares of the Company held by HKSCC (Nominees) Limited are on behalf of its clients and do not include the shares held by other H shareholders.

PUBLIC FLOAT

The Company applied for and has been granted by the Hong Kong Stock Exchange a waiver at the time of listing regarding the lower percentage of public float. Based on the information that was publicly available to the Company as at the Latest Practicable Date and within the knowledge of the Directors, from the Listing Date to the Latest Practicable Date, the Company's public float was 15.72%, maintaining a sufficient public float as approved by the Hong Kong Stock Exchange and required under the Hong Kong Listing Rules. For details of the above waiver, please refer to the section headed "Waivers from Compliance with the Listing Rules — Public Float" in the Prospectus.

DISTRIBUTABLE RESERVES

As at the end of the Reporting Period, the retained profit of the Company available for distribution to its shareholders determined under IFRS and PRC GAAP was RMB3,129 million. For details, please refer to the section headed "Results and Profit Distribution — Final Dividend" of this chapter.

BUILDINGS, EQUIPMENT AND INVESTMENT PROPERTIES

During the Reporting Period, changes in the buildings, equipment and investment properties of the Group are set out in Note 33 and Note 34 to the financial statements respectively. As at the end of the Reporting Period, the Group did not own any properties for investment purposes or held for development and/or sale where one or more percentage ratios (as defined under Rule 14.04(9) of the Hong Kong Listing Rules) exceed 5%.

REPORT OF THE BOARD OF DIRECTORS

RETIREMENT BENEFITS

The Group provides retirement benefits to employees, including enterprise annuity and defined benefit retirement plan. In 2016, the enterprise annuity contribution amounted to RMB25.695 million and its defined benefit retirement plan contribution was RMB4.287 million.

Total annual enterprise contribution of annuity shall be provided at certain percentage of the total employee salaries of the previous year, and defined benefit retirement plan contribution will be paid from the accrued defined benefit retirement liabilities of the Company. Provided that employees are dismissed or break laws or regulations, unvested annuity contributions will be transferred back to the Company's annuity account to reduce any future contributions by the employees. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

REMUNERATION OF SENIOR MANAGEMENT¹

During the Reporting Period, details of the remuneration of Directors and Supervisors are set out in Note 14 to the financial statements. The scope of remuneration of non-director senior management in the Group is set out as follows:

Scope of remuneration	Number of individual
RMB0–RMB500,000	0
RMB500,001–RMB1,000,000	4
RMB1,000,001–RMB1,500,000	0
RMB1,500,001–RMB2,000,000	1
RMB2,000,001–RMB2,500,000	0
RMB2,500,001–RMB3,000,000	1
RMB3,000,001–RMB3,500,000	0
RMB3,500,001–RMB4,000,000	1

HIGHEST PAID INDIVIDUALS²

Details of the remuneration of five highest paid individuals of the Group during the Reporting Period are set out in Note 15 to the financial statements.

- Notes:
1. The remuneration standards for the Chairman, executive Directors, Chairman of the Board of Supervisors and senior management of the Company are determined in accordance with the relevant requirements of the Ministry of Finance and the Group Company. As of the Latest Practicable Date, the remuneration standards of the above personnel for 2016 have not been finally determined, and such remuneration was estimated figure (including benefit income).
 2. As of the Latest Practicable Date, the Group has not completed the payment of performance bonus for the year 2016 and such remuneration is estimated figure.

REPORT OF THE BOARD OF DIRECTORS

MAJOR CLIENTS

The information on the proportion from major clients of the insurance business of the Group during the Reporting Period is set out below:

	<u>Percentage of insurance income of the Group</u>
Largest insurance client	18.62%
Top five insurance clients in total	40.34%

Since the top five clients of the Group are financial insurance institutions, Ministry of Finance and Central Huijin, shareholders of the Company, hold interests in such institutions. None of the Directors, their close associates or any other shareholder who, as far as the Directors are aware, holds 5% or more share capital of the Company, has any interest in any of above clients.

RELATIONSHIP WITH CLIENTS

The Group is of the view that the benign relationship with clients is very important. During the Reporting Period, there was no material dispute between the Group and clients.

RELATIONSHIP WITH EMPLOYEES

The Group builds comprehensive training system as well as scientific and reasonable remuneration incentive system. The Group sets up multiple channels for employees to develop themselves, attaches great importance to physical and mental health of employees and harmony of their families, so as to improve their happiness index.

MAJOR SUBSIDIARIES

As at the end of the Reporting Period, the Company directly controlled seven major subsidiaries, namely China Re P&C, China Re Life, China Continent Insurance, China Re AMC, Huatai Insurance Agency, China Re UK and China Re Underwriting. Details are set out in Note 30 to the financial statements.

PRE-EMPTIVE RIGHT

During the Reporting Period, the shareholders of the Company had no pre-emptive right pursuant to the relevant laws of PRC and the Articles of Association.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Company or any of its subsidiaries has not purchased, sold or redeemed any listed securities of the Company or its subsidiaries.

REPORT OF THE BOARD OF DIRECTORS

CHARITABLE AND OTHER DONATIONS

During the Reporting Period, the Group had charitable and other donations of approximately RMB7.0739 million in aggregate.

DIRECTORS

As of the Latest Practicable Date, the Directors were as follows:

Executive Directors

Mr. Yuan Linjiang (Chairman)
Mr. Wang Pingsheng (Vice Chairman)
Mr. He Chunlei
Mr. Ren Xiaobing

Non-executive Directors

Ms. Lu Xiuli
Mr. Shen Shuhai

Independent Non-executive Directors

Ms. Wang Jun
Mr. Hao Yansu
Mr. Li Sanxi
Ms. Mok Kam Sheung

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Our Articles of Association provide that the remuneration of relevant Directors and Supervisors shall be determined by the shareholders of the Company at shareholders' general meetings from time to time. The remuneration of independent non-executive Directors shall be proposed by the Board and approved by shareholders' general meetings. Our Articles of Association provide that the Company shall enter into written contracts with the Directors and Supervisors in respect of remuneration with prior approval at shareholders' general meetings. Relevant Directors and Supervisors have entered into service contracts with the Company. The Directors, Supervisors and senior management receive compensation in the form of basic salaries, fees, contribution to pension schemes, performance-based bonuses and income benefits. During the Reporting Period, none of the Directors or Supervisors entered into any service contract with the Company or its subsidiaries which would not be terminated within one year without payment of compensation other than statutory compensation.

For details of the changes in the Directors and Supervisors in 2016, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" in this report.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

During the Reporting Period, none of the Directors, Supervisors or their connected entities had any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance in relation to the Company, to which the Company or any of its subsidiaries was a party.

PERMITTED INDEMNITY

Subject to the relevant statutes, every Director shall be indemnified by the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto. The Company has purchased insurance against the liabilities and costs associated with proceedings which may be against the Directors.

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

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Company had any interest and/or short position in the shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) upon the listing of H shares which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interest and/or short position taken or deemed to be held under the relevant provisions of the SFO), or are required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code for Securities Transactions upon the listing of H shares, or are required to be recorded in the register required to be kept under Section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, none of the Company or its subsidiaries has entered into any arrangements which enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other legal entities.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS

During the Reporting Period, there are no relationships in respect of finance, business, or family among the Directors, Supervisors and senior management of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors had engaged in or had any interest in any business which competes or is likely to compete with the businesses of the Group and which is required to be disclosed pursuant to the Hong Kong Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

SHARE INCENTIVE SCHEME FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Company has not formulated or implemented any share incentive scheme for the Directors, Supervisors or senior management.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES OR UNDERLYING SHARES OF THE COMPANY

As at the end of the Reporting Period, to the best knowledge of the Directors, the following persons (other than the Directors, Supervisors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or directly or indirectly, interested in 5% or more of the nominal value of any class of share capital.

Name of shareholders	Nature of interest and capacity	Class	Number of shares	Approximate percentage of interests of the Company	Approximate percentage of relevant class of shares of the Company
Central Huijin Investment Ltd.	Beneficial owner	Domestic Share	30,397,852,350	71.56%	84.91%
Ministry of Finance of the PRC	Beneficial owner	Domestic Share	5,407,101,067	12.73%	15.10% ⁴
National Council for Social Security Fund of the PRC	Beneficial owner	H Share	576,989,000	1.36%	8.64%
Great Wall Pan Asia International Investment Co., Ltd. ³	Beneficial owner	H Share	431,050,000	1.01%	6.45%

- Notes: 1. The data disclosed above were based on the information provided on the website of Hong Kong Stock Exchange at www.hkexnews.hk. As far as the Company is aware of, after the over-allotment option was partially exercised in November 2015, the Ministry of Finance held 5,402,539,035 shares of the Company, representing approximately 15.09% of relevant class of shares of the Company and 12.72% of the total issued shares of the Company.
2. According to Section 336 of the SFO, shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. When the shareholdings of the shareholders in the Company change, it is not necessary for the shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the shareholders in the Company may be different from the shareholdings filed with the Hong Kong Stock Exchange.
3. Great Wall Pan Asia International Investment Co., Ltd. is the wholly-owned subsidiary of China Great Wall Asset Management Corporation in Hong Kong.
4. As to the approximate percentage of the relevant class shares of the Company held by Ministry of Finance, the denominator is the number of total share capital as at 31 December 2016 and the molecular is the number set out in the form of disclosure of interests. The percentage has been rounded.

REPORT OF THE BOARD OF DIRECTORS

Save as disclosed above, as at the end of the Reporting Period, so far as the Directors were aware, no other person (other than the Directors, Supervisors or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company which are required to be disclosed or recorded in the register to be kept under Section 336 of the SFO.

ADMINISTRATION AND MANAGEMENT CONTRACTS

During the Reporting Period, the Company had not entered into any administration and management contracts with respect to the entire or principal business of the Company.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the audited financial statements of the Group for the year ended 31 December 2016.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out in the “Corporate Governance Report” in this annual report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2016 of the Group were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers.

The 2015 annual general meeting has considered and approved the appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and overseas auditors of the Group for the year 2016, respectively, to replace the former auditors of KPMG Huazhen LLP and KPMG. The Board has confirmed that there are no other matters in respect of the change of auditors that need to be brought to the attention of the shareholders of the Company. For details of the above proposed change of the auditors, please refer to the announcement of the Company dated 22 January 2016, 4 May 2016 and 20 June 2016 on the websites of Hong Kong Stock Exchange and the Company.

By order of the Board
China Reinsurance (Group) Corporation



Yuan Linjiang
Chairman

Beijing, the PRC
30 March 2017

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, all members of the Board of Supervisors have diligently and prudently performed their duties, pragmatically and efficiently carried out the work in accordance with the requirements of the PRC Company Law and the Articles of Association, effectively protected the interests of shareholders of the Company, and played an effective role in constructive supervision.

During the Reporting Period, the Board of Supervisors held four meetings, considered ten proposals and received two reports; the Performance Supervision and Inspection Committee under the Board of Supervisors held three meetings, considered four proposals, and received one report; the Financial Supervision and Inspection Committee under the Board of Supervisors held two meetings, considered three proposals and received one report. All supervisors and members of the specialised committees attended all of the meetings above.

ORGANISING AND CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS

On 30 March 2016, the sixth meeting of the third session of the Board of Supervisors was convened, during which the Proposal for the Report of the Board of Supervisors of China Reinsurance (Group) Corporation for the Year 2015, the Proposal for the Report on the Assessment of Duty Performance by the Board of Supervisors of China Reinsurance (Group) Corporation for the Year 2015, the Proposal for the Work Report on the Supervision on the Remuneration and Business Expenses of the Board of Supervisors of China Reinsurance (Group) Corporation for the Year 2015, the Proposal for the Final Accounting Report of China Reinsurance (Group) Corporation for the Year 2015 and the Proposal for the Profit Distribution Plan of China Reinsurance (Group) Corporation for the Year 2015 were considered and unanimously approved. The Performance Report of the Directors of China Reinsurance (Group) Corporation for the Year 2015 and the Report on the Related-Party Transactions and the Implementation of its Management System and the Evaluation of Internal Transactions of China Reinsurance (Group) Corporation for the Year 2015 were received.

On 6 May 2016, the seventh (extraordinary) meeting of the third session of the Board of Supervisors was convened, during which the Proposal for the Nomination of Members of the Financial Supervision and Inspection Committee under the Board of Supervisors of China Reinsurance (Group) Corporation was considered and unanimously approved.

On 30 August 2016, the eighth meeting of the third session of the Board of Supervisors was convened, during which the Proposal for the Work Report on the Supervision on the Remuneration and Business Expenses of the Board of Supervisors of China Reinsurance (Group) Corporation for the First Half of 2016 and the Proposal for the Working Rules of Collecting the Company's Internal Basic Information by the Board of Supervisors of China Reinsurance (Group) Corporation were considered and unanimously approved.

On 28 December 2016, the ninth (extraordinary) meeting of the third session of the Board of Supervisors was convened, during which the Proposal for Mr. Wang Yonggang's Ceasing to be the Chairman of the Board of Supervisors and the Supervisor of China Reinsurance (Group) Corporation and the Proposal for the Nomination of Mr. Zhang Hong as the Supervisor Candidate of the Third Session of the Board of Supervisors of China Reinsurance (Group) Corporation were considered and unanimously approved.

REPORT OF THE BOARD OF SUPERVISORS

ARRANGEMENT FOR PERFORMANCE MONITORING

Through attending shareholders' general meetings and the meetings of the Board and other specialised committees, members of the Board of Supervisors monitored and analysed the Group's overall operation and management and related results, monitored the performance of duties by Directors and senior management.

In accordance with the requirements of the Articles of Association and in conjunction with the requirements of shareholders, the Board of Supervisors organized the assessment of duty performance for the year of 2015 and issued an assessment opinion report. In accordance with the relevant working system requirements, the Board of Supervisors organized and completed the supervision and inspection on remuneration and business expenses for the year 2015 and the first half of 2016, and issued the related working report.

ARRANGEMENT FOR FINANCIAL MONITORING

In 2016, the Board of Supervisors continued to carry out a daily financial monitoring to conduct active monitoring of the consolidated and segment financial conditions of the Group, paid attention to tendency issues and provided timely warnings and reminders. It organized monitoring work to improve financial information quality, and met with the external auditors twice in respect of annual financial report auditing work, reminding them of key annual financial report audit matters.

IMPROVEMENT IN RULES AND REGULATIONS OF THE BOARD OF SUPERVISORS

To further regulate and clarify the delivery requirements of the Company's internal information, and ensure the effective exercise of the supervisory authority by the Board of Supervisors in accordance with the law, the Working Rules of Collecting the Company's Internal Basic Information by the Board of Supervisors was formulated, playing a significant role in promoting the Board of Supervisors' full and effective access to the Company's internal information to ensure efficient and effective organization of the supervision work.

By order of the Board of Supervisors
China Reinsurance (Group) Corporation



Zhang Hong
Chairman of the Board of Supervisors

Beijing, the PRC
30 March 2017

EMBEDDED VALUE



To the Directors of China Reinsurance (Group) Corporation

Dear Sirs,

Independent Actuarial Consultants' Report on China Reinsurance (Group) Corporation Embedded Value Disclosures

INTRODUCTION

Ernst & Young (China) Advisory Limited (“EY”, “we”) has been engaged by China Reinsurance (Group) Corporation (the “Company”, the “Group Company”) to provide actuarial advisory services and expert opinions for certain matters relating to the Company and its subsidiaries’ (“China Re Group”, the “Group”) life and health reinsurance business, covering the legacy life and health reinsurance business of the Group Company and all business of China Life Reinsurance Company Ltd. (“China Re Life”) (“the Covered Business”).

As one of the core parts of this engagement, we have been asked to quantify and report on embedded value (“EV”) and value of one year’s new business (“1-year VNB”) of the Covered Business. This report has been prepared for inclusion in China Re Group 2016 Annual Report. The report summarises the scope of work carried out by EY, valuation methodology, valuation results as well as valuation assumptions used for the above mentioned work.

China Association of Actuaries (“CAA”) issued the “Actuarial Practice Standards: Life and Health Insurance Embedded Value Reporting Guidelines” (“EV Standards”) in November 2016, which indicated the formal implementation of EV under C-ROSS. Based on those new standards, we performed China Re Group EV and 1-year VNB calculation as at 31 December 2016. We also restated the EV and 1-year VNB as at 31 December 2015 following the new standards.

SCOPE OF WORK

The scope of our work is as follows:

- Quantifying embedded value of China Re Group as at 31 December 2015 under new EV standards based on C-ROSS;
- Quantifying value of one year’s new business underwritten by the Group during the 12 months prior to 31 December 2015 under new EV standards based on C-ROSS;

EMBEDDED VALUE

- Quantifying embedded value of China Re Group as at 31 December 2016 under new EV standards based on C-ROSS;
- Quantifying value of one year's new business underwritten by the Group during the 12 months prior to 31 December 2016 under new EV standards based on C-ROSS;
- Reviewing the assumptions used for value of in-force business ("VIF") and value of one year's new business valuation of China Re Group;
- Performing movement analysis of embedded value; and
- Performing sensitivity tests under alternative assumptions.

VALUATION METHODOLOGY

We prepared EV results and the report based on the new EV standards issued by CAA in November 2016.

In this report, embedded value of China Re Group is defined as the sum of adjusted net worth ("ANW") of the Group and VIF of the Covered Business.

Since the Group does not hold 100% of all companies within it, ANW has excluded minority interests. As China Re Life is 100% owned by the Group, all of its VIF is included in the reported EV valuation results.

The adjusted net worth at the valuation date is defined as the sum of below two items:

- Net asset value of China Re Group on a consolidated basis with allowance for the reserve difference between PRC GAAP and new EV standard basis for the Covered Business;
- The asset value adjustments, which reflect the after-tax difference between market value and book value for certain relevant assets, together with the relevant adjustments to liabilities.

VIF is the present value of the projected after-tax profits arising from the Covered Business less the cost of capital ("CoC") required to support the in-force business. The CoC is the present value of the difference between the investment return implied by the risk discount rate ("RDR") and the after-tax investment return earned on assets backing the required capital.

1-year VNB is defined as the present value, at the inception to be ceded, of the projected after-tax profits arising from the policies ceded during the 12 months prior to the valuation date less CoC required to support the 1-year new business. For short-term ceded business of primary insurance with a policy term of one year or less, the renewal ceded business is not considered as new business.

EMBEDDED VALUE

VALUATION RESULTS

The embedded value and value of one year's new business results as at 31 December 2016 and the corresponding results as at prior valuation date are summarised as below.

Table 1: EV and 1-year VNB as at 31 December 2016 and 31 December 2015 under different EV standards
(in RMB millions)

Valuation Date	31 Dec 2016 "C-ROSS" ¹	31 Dec 2015 "C-ROSS"	31 Dec 2015 "Solvency I" ²
Embedded value			
Adjusted net worth	72,774	71,929	69,957
including: adjusted net worth of life and health reinsurance business	14,443	13,796	12,037
Value of in-force business before CoC	5,365	5,359	5,026
Cost of Capital	(1,608)	(1,106)	(816)
Value of in-force business after CoC	3,757	4,253	4,210
Embedded value	76,531	76,181	74,167
including: embedded value of life and health reinsurance business	18,200	18,049	16,248
Value of new business			
Value of one year's new business before CoC	1,779	1,443	1,125
Cost of Capital	(559)	(343)	(191)
Value of one year's new business after CoC	1,220	1,100	934

- Notes: 1. "C-ROSS" means the EV standards under C-ROSS issued by CAA in November 2016;
2. "Solvency I" means the EV guidelines under old solvency regime developed by CIRC and issued in 2005;
3. Figures may not add up due to rounding.

MOVEMENT ANALYSIS

The table below shows the movement analysis of China Re Group's EV from 31 December 2015 to 31 December 2016.

Table 2: Movement analysis of EV from 31 December 2015 to 31 December 2016
(in RMB millions)

No.	Item	Amount	Details
1	EV of life and health reinsurance business as at 31 December 2015	16,248	EV as at 2015 year end under the old EV standards
2	Model change	96	Model improvement
3	Adjustments to EV at the beginning of the period due to changes of valuation methodology	1,705	Liability calculated under new EV standards and required capital calculated under C-ROSS
4	Modified EV of life and health reinsurance business as at 31 December 2015	18,049	EV as at 2015 year end under the new EV standards
5	Expected return on EV at the beginning of the year	1,293	Expected return on EV of 2015 in the year of 2016
6	Impact of new business	923	Impact of new ceded business in the year of 2016
7	Impact of market value adjustments and other adjustments	(204)	Changes from asset market value adjustments and other adjustments
8	Economic experience variances	(714)	Difference between actual investment income and expected investment income in the year of 2016
9	Operating experience variances	(211)	Difference between actual operational experience and expected operational results in the year of 2016
10	Change in assumptions	(1,361)	Adjustments to assumptions
11	Others	22	
12	Capital injection and dividend payment	402	Capital injection to China Re Life and China Re Life paid dividend to the Group Company
13	EV of life and health reinsurance business as at 31 December 2016	18,200	EV as at 2016 year end under the new EV standards
14	ANW of the Group's other business as at 31 December 2015	58,132	
15	Profit from other business in the year of 2016	2,710	
16	Impact of market value adjustments and other adjustments	(153)	Changes from asset market value adjustments and other adjustments
17	Others	(1)	

EMBEDDED VALUE

No.	Item	Amount	Details
18	Capital injection and shareholder dividend payment	(2,356)	Capital injection to subsidiaries, dividend paid to the Group Company by subsidiaries and dividend paid to shareholders
19	EV of other business of the Group as at 31 December 2016	58,332	
20	EV of the Group as at 31 December 2016	76,531	

Note: Figures may not add up due to rounding.

VALUATION ASSUMPTIONS

The assumptions used in embedded value and value of one year's new business calculation as at the valuation date have been made under a "going concern" basis, assuming continuation of the economic and regulatory environment currently prevailing in China. The calculation followed the new EV standards and C-ROSS. Various operating actuarial assumptions were set mainly based on internal experience analysis results, and with reference to the experience in China insurance market and the outlook of future tendency of the experience assumptions. Therefore, this represents the best estimate of future valuation assumptions based on the available information as at the valuation date.

The assumptions applied in the valuation of EV and 1-year VNB of China Re Group as at 31 December 2016 are summarized as below.

Risk Discount Rate

This report illustrates EV and 1-year VNB results by using risk discount rate of 10.5%.

Investment Return Rates

The following table summarizes the assumptions of investment return rates used for VIF and 1-year VNB valuation as at 31 December 2016:

Table 3: Assumptions of investment return rates used for VIF and 1-year VNB valuation as at 31 December 2016

	2017	2018	2019	2020	2021 –2026	2026+
Non asset-driven business	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Asset-driven business — Domestic	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
Asset-driven business — Overseas	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%

The assumptions shown above are determined with reference to the circumstance of current China capital market, current and expected future asset allocations of the company, and the investment returns of major asset classes.

Asset-driven business refers to the reinsurance business underwritten by China Re Life with relatively high required returns, which is backed by a segregated asset portfolio already in place with higher investment returns.

Policyholder Dividend

Policyholder dividend has been derived in accordance with the dividend policy stipulated in the reinsurance contracts. The surplus of the participating business is the sum of interest surplus and mortality surplus, and 70% of the surplus is assumed to be distributed to policyholders. Moreover, interest surplus is determined either based on the dividend policies stipulated in the reinsurance contracts or the Group's assumptions of investment return rates.

Mortality and Morbidity Rates

The assumptions of mortality and morbidity rates are based on the recent experience of China Re Group and the overall experience of China life and health insurance market. Mortality and morbidity assumptions vary by product categories.

Short-term ceded business

Short-term ceded business refers to the reinsurance business for short-term primary insurance with the policy term of one year or less, and the primary insurance business, upon renewal, will continue to be ceded to China Re Life. 1-year VNB for short-term ceded business is based on the estimated new business premium within one year.

Claim Ratio

The claim ratio assumptions are only relevant to short-term ceded business and YRT reinsurance business, and are determined on contract basis according to the claim experience of recent years.

Discontinuance Rates

The assumptions of discontinuance rates are determined based on the actual experience in recent years, current and future expectations, and the understanding of the overall China life and health insurance market. Discontinuance assumptions vary by product categories and premium payment types.

Expenses

The assumptions of expenses are determined based on recent experience, expense management and the expected future expense level of life and health reinsurance business. For per-policy expense assumptions, the assumed annual inflation rate is 2%.

The commission rates, sliding scale commission rates and profit commission rates for short-term ceded business are determined according to recent experience on contract basis.

Tax

Currently, corporate income tax is assumed to be 25% of taxable profit. And some percentage of investment return is assumed to be tax free based on current experience and future expectation.

EMBEDDED VALUE

SENSITIVITY

We have performed a series of sensitivity tests on alternative assumptions for value of in-force business and value of one year's new business of the life and health reinsurance business of China Re Group as at 31 December 2016. For each test, only the referred assumption is changed, while the other assumptions are kept unchanged. Results of the sensitivity tests are shown as below:

**Table 4: Sensitivity Test Results of VIF and 1-year VNB
of China Re Group as at 31 December 2016**
(in RMB millions)

Scenarios	Value of in-force business after Cost of Capital	Value of one year's new business after Cost of Capital
Base scenario	3,757	1,220
Risk discount rate increased by 100 basis points	3,374	1,105
Risk discount rate decreased by 100 basis points	4,198	1,354
Annual investment return rates increased by 50 basis points	4,728	1,396
Annual investment return rates decreased by 50 basis points	2,781	1,043
Mortality and morbidity rates increased by 10%	3,687	1,220
Mortality and morbidity rates decreased by 10%	3,828	1,220
Discontinuance rates increased by 10%	3,695	1,203
Discontinuance rates decreased by 10%	3,824	1,240
Management expenses increased by 10%	3,700	1,198
Management expenses decreased by 10%	3,814	1,242
Combined ratio of short term reinsurance contract increased by 1% on absolute basis	3,620	1,113
Combined ratio of short term reinsurance contract decreased by 1% on absolute basis	3,921	1,325

RELIANCE AND LIMITATIONS

In performing our work, we have relied on the information provided verbally and in writing by, or on behalf of, China Re Group for periods up to 31 December 2016.

In particular, we have relied on:

- Information regarding the in-force reinsurance contracts and retrocessional reinsurance contracts of the Group Company and China Re Life;
- Policy data covering the in-force long-term ceded business of the Group Company and China Re Life;

EMBEDDED VALUE

- Model points of in-force yearly renewable term reinsurance contracts of the Group Company and China Re Life;
- Information regarding to the accumulated amount of the in-force survival benefit and policy dividend of the Group Company and China Re Life;
- Information regarding to the C-ROSS reserve and accounting reserve of the Group Company and China Re Life;
- Information regarding to gross written premium from short-term ceded business of the Group Company and China Re Life;
- Information regarding to the ceded gross premium for short-term retrocessional business of the Group Company and China Re Life;
- Information relevant to adjusted net worth and historical financial information of the Group Company and China Re Life;
- Information regarding to the experience statistics and experience analysis results of the Group Company and China Re Life in 2014, 2015 and 2016;
- Information regarding to the future investment strategy and tax exempted proportion of investment income of the Group Company and China Re Life; and
- Information regarding to foreign currency policies and foreign exchange rate of the Group Company and China Re Life.

We have reviewed the reasonableness of the limited information obtained and checked its consistency with our understanding of China life and health insurance market and international reinsurance industry. It should be noted that the scope of our work did not include independent verification or audit of the accuracy or completeness of the policy data and other information provided to us. We did not review the adequacy of various reserves in the balance sheet.

Embedded value and value of one year's new business highly depend on the results of financial projection. In performing the projection, numerous assumptions have been made, including but not limited to macroeconomic environment and investment strategy, operational costs, taxation policy, discontinuance rate, mortality rate, morbidity rate and regulations. Changes in the internal or external environment may affect the stability of the parameters used in the projection and could change the projection results materially.

This report is based on the information obtained by EY as at 31 December 2016, any future development and changes of such information after that date will not be accounted for.

EMBEDDED VALUE

DISCLOSURE

EY has been engaged by China Re Group in providing opinions and assistance regarding to actuarial matters of embedded value of life and health reinsurance business of China Re Group. Readers should consider all contents of this report in their entirety, as a section or several sections in isolation may not provide the right context or sufficient information for drawing proper conclusion. EY will take no responsibility for contents other than those contained in this actuarial consultants' report.

On behalf of
Ernst & Young (China) Advisory Limited

Bonny Fu, FSA
Partner, Actuarial and Insurance Advisory Services

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of China Reinsurance (Group) Corporation
(incorporated in the People's Republic of China with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of China Reinsurance (Group) Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 117 to 232, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

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 International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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 identified in our audit are summarised as follows:

- Significant insurance risk test – reinsurance contracts
- Valuation of insurance contract liabilities — long-term life and health reinsurance contract liabilities
- Valuation of insurance contract liabilities — claim reserves
- Valuation of unlisted equity instruments

Key Audit Matter

How our audit addressed the Key Audit Matter

Significant insurance risk test — reinsurance contracts

Refer to notes 2(22), 3(2)(a), 5 and 40 to the consolidated financial statements.

The Group performed significant insurance risk test for its assumed reinsurance contracts to determine the classification of these contracts and the corresponding accounting treatment.

When performing the quantitative test, the Group uses certain actuarial assumptions, such as loss ratio, mortality and morbidity rates, and the mean and standard deviation of the loss distribution. The Group determines such assumptions based on its historical experiences and estimation on future development trends for its insurance products. We focused on this area because the development of assumptions requires the use of significant management judgement.

For the year ended 31 December 2016, the gross written premiums for reinsurance contracts that passed the testing of significant insurance risk was RMB54.70 billion, representing 59.2% of the Group's total income. On the other hand, the contracts that did not pass the testing of significant insurance risk were recognised as investment contract liabilities and were measured at amortised cost of RMB11.53 billion, representing 8.3 % of the Group's total liabilities as at year end.

We, with the assistance of our own actuarial experts, performed the audit procedures listed below.

We obtained an understanding of the Group's policies and procedures of significant insurance risk test by performing inquiries of management and inspection of supporting documentation. We compared the policies and procedures adopted in management's test to the industry practice.

On a sample basis, we checked the appropriateness of the actuarial assumptions, including loss ratio, mortality and morbidity rates, and the mean and standard deviation of the loss distribution, applied by the management by comparing them to the Group's historical data.

We also recalculated the Group's computation of the significant insurance risk test and checked the classification of the selected contracts according to the test result.

Based on our audit procedures performed above, we found no material exception.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of insurance contract liabilities — long-term life and health reinsurance contract liabilities	We, with the assistance of our own actuarial experts, performed the audit procedures listed below.
Refer to notes 3(2)(b) and 41 to the consolidated financial statements.	We assessed the Group's methodology for calculating long-term life and health reinsurance contract liabilities against recognised actuarial practices.
As at 31 December 2016, the Group had significant long-term life and health reinsurance contract liabilities of RMB37.16 billion, representing 26.7% of the Group's total liabilities.	We assessed the reasonableness of key assumptions including discount rates, mortality and morbidity rates, surrender rates and expense assumptions used in the valuation models by comparing them to the Group's historical experiences.
The valuation of long-term life and health reinsurance contract liabilities is determined using multiple complex models which were set up based on the terms of the Group's reinsurance contracts.	On a sample basis, we accessed the appropriateness of actuarial models by independently modelling selected contracts.
The main actuarial assumptions adopted in the valuation models include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, and expense assumptions.	Based on our audit procedures performed, we found no material exception.
The determination of assumptions used at the balance sheet date requires the use of management judgement and it involves significant uncertainty of future events and hence we focused our work in this area.	

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of insurance contract liabilities — claim reserves</p> <p>Refer to notes 3(2)(b) and 41 to the consolidated financial statements.</p> <p>As at 31 December 2016, the Group had significant claim reserves of RMB35.95 billion, representing 25.9 % of the Group's total liabilities.</p> <p>The valuation of claim reserves is determined using multiple complex models which were set up based on the terms of the Group's insurance contracts.</p> <p>The main assumption in measuring the claim reserves is developed using the Group's experience of historical claims, which can be used to project the trend of future claims and hence ultimate claim costs. Accordingly, management extrapolates the amount of paid and incurred losses, average costs per claim and claim number of primary insurance contracts, based on the observed development of earlier years to develop the expected loss ratios for estimating the claim reserves.</p> <p>The determination of the main assumption on future claims requires the use of management judgement and it involves significant uncertainty of future events and hence we focused our work in this area.</p>	<p>We, with the assistance of our own actuarial experts, performed the audit procedures listed below.</p> <p>For major lines of business, we assessed the reasonableness of the key assumptions, such as ultimate loss ratio, risk factor, claims adjustment expenses, which were used in the valuation models by comparing them to the Group's historical data.</p> <p>For the selected lines of business, we also compared the Group's computation of claim reserves with an estimated range of valuation result independently developed by us.</p> <p>We evaluated the overall reasonableness of the claim reserves by performing the comparison of the actual experiences to previously expected results and assessed the adequacy of the estimated liability as at year end.</p> <p>Based on our audit procedures performed, we found no material exception.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of unlisted equity instruments</p> <p>Refer to note 3(2)(c) and 48 to the consolidated financial statements.</p> <p>The Group's unlisted equity instruments stated at RMB4.42 billion representing 2.1% of the Group's total assets as at the balance sheet date. These unlisted equity instruments were classified under available-for-sale financial assets and financial assets at fair value through profit or loss, and were classified as level 3 for fair value measurement purposes.</p> <p>We focused on the valuation of these instruments because it involves a high degree of estimation uncertainty as they are valued based on models, assumptions and inputs such as credit premium and valuation multiples of comparable companies which are not observable from the market.</p>	<p>We evaluated the design and tested certain key internal controls over management's investment valuation process, such as management's review over key assumptions and inputs.</p> <p>We involved our internal valuation experts in assessing management's pricing model of the Group's investments against industry practice and valuation guidelines.</p> <p>We checked the appropriateness of the unobservable assumptions and inputs such as credit premium and valuation multiples of comparable companies used in the valuation by comparing them with comparable market data.</p> <p>Based on our audit procedures performed, we found no material exception.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 THE AUDIT COMMITTEE 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 IFRSs 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.

The Audit Committee is 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. We report our opinion solely to you, as a body, 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 ISAs 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.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.
- 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 the Audit Committee 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 the Audit Committee 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.

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2017

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2016	2015
Gross written premiums	5	86,677,227	80,433,557
Less: Premiums ceded to reinsurers and retrocessionaires	5	(3,536,754)	(5,754,975)
Net written premiums	5	83,140,473	74,678,582
Changes in unearned premium reserves	6	(520,548)	(1,442,148)
Net premiums earned		82,619,925	73,236,434
Reinsurance commission income		804,346	705,982
Investment income	7	7,738,840	11,696,420
Exchange gains, net		386,344	152,446
Other income	8	814,989	526,483
Total income		92,364,444	86,317,765

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2016	2015
Total income		92,364,444	86,317,765
Claims and policyholders' benefits	9	(61,247,667)	(50,097,164)
— Claims incurred		(33,514,316)	(34,949,502)
— Life and health reinsurance death and other benefits paid		(42,859,432)	(7,153,330)
— Changes in long-term life and health reinsurance contract liabilities		15,126,081	(7,994,332)
Handling charges and commissions	10	(13,834,923)	(16,425,506)
Finance costs	11	(136,897)	(141,434)
Other operating and administrative expenses	12	(12,188,931)	(11,020,876)
Total benefits, claims and expenses		(87,408,418)	(77,684,980)
Share of profits of associates		1,446,146	1,256,091
Profit before tax	13	6,402,172	9,888,876
Income tax	16	(1,168,980)	(2,214,098)
Profit for the year		5,233,192	7,674,778
Attributable to:			
Equity shareholders of the parent		5,146,052	7,578,810
Non-controlling interests		87,140	95,968
Profit for the year		5,233,192	7,674,778
Earnings per share (in RMB)	18		
— Basic		0.12	0.20
— Diluted		0.12	0.20

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2016	2015
Profit for the year		5,233,192	7,674,778
Other comprehensive income for the year after tax			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligation	<i>42(a)</i>	4,674	(7,447)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates, after tax		(155,560)	104,845
Available-for-sale financial assets, after tax		(2,073,054)	(301,504)
Exchange differences on translation of financial statements of foreign operations		(4,011)	7,102
Other comprehensive income for the year after tax	<i>19</i>	(2,227,951)	(197,004)
Total comprehensive income for the year		3,005,241	7,477,774
Attributable to:			
Equity shareholders of the parent		2,949,550	7,371,144
Non-controlling interests		55,691	106,630
Total comprehensive income for the year		3,005,241	7,477,774

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	31 December 2016	31 December 2015
Assets			
Cash and short-term time deposits	20	16,833,425	20,448,273
Financial assets at fair value through profit or loss	21	4,232,310	10,011,755
Financial assets held under resale agreements	22	4,252,301	1,288,501
Premiums receivable	23	2,127,083	860,078
Reinsurance debtors	24	21,009,260	23,292,207
Reinsurers' share of insurance contract liabilities	41	4,892,663	8,699,269
Time deposits	25	13,505,066	27,890,005
Available-for-sale financial assets	26	56,244,050	50,186,175
Held-to-maturity investments	27	18,483,057	19,077,930
Investments classified as loans and receivables	28	25,893,884	13,810,000
Reinsurers' share of policy loans		365,622	302,561
Investment contracts receivable	29	124,343	109,343,386
Investments in associates	31	12,450,926	8,817,229
Statutory deposits	32	14,718,052	14,584,415
Investment properties	33	3,121,808	3,191,767
Property and equipment	34	2,547,472	2,559,206
Intangible assets	35	347,898	336,172
Goodwill	36	1,188,538	1,188,538
Deferred tax assets	37	838,155	352,818
Other assets	38	8,031,458	12,753,016
Total assets		211,207,371	328,993,301

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	31 December 2016	31 December 2015
Liabilities and equity			
Liabilities			
Securities sold under agreements to repurchase	39	2,737,680	6,470,650
Reinsurance payables		12,217,369	6,020,044
Income tax payable		189,211	387,658
Policyholders' deposits		1,286,131	927,332
Investment contract liabilities	40	11,530,102	118,992,978
Insurance contract liabilities	41	95,180,594	112,690,378
Deferred tax liabilities	37	1,036,157	1,509,188
Other liabilities	42	14,890,274	11,038,177
Total liabilities		139,067,518	258,036,405
Equity			
Share capital	43	42,479,808	42,479,808
Reserves	44	13,241,223	14,280,286
Retained profits	44	15,460,852	13,427,137
Total equity attributable to equity shareholders of the parent		71,181,883	70,187,231
Non-controlling interests		957,970	769,665
Total equity		72,139,853	70,956,896
Total liabilities and equity		211,207,371	328,993,301

Approved and authorized for issue by the board of directors on 30 March 2017.

Yuan Linjiang
Director

He Chunlei
Director

Yu Qing
Vice President, temporarily responsible for accounting

Tian Meipan
Chief Actuary

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the parent												
	Note	Reserves										Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General risk reserve	Agriculture catastrophic loss reserve	Defined benefit remeasurement reserve	Fair value reserve	Exchange reserve	Retained profits	Subtotal		
As at 1 January 2016		42,479,808	8,166,871	1,049,322	2,703,438	9,968	(7,447)	2,356,496	1,638	13,427,137	70,187,231	769,665	70,956,896
Changes in equity for the year													
Profit for the year		-	-	-	-	-	-	-	-	5,146,052	5,146,052	87,140	5,233,192
Other comprehensive income	19	-	-	-	-	-	4,674	(2,197,165)	(4,011)	-	(2,196,502)	(31,449)	(2,227,951)
Total comprehensive income		-	-	-	-	-	4,674	(2,197,165)	(4,011)	5,146,052	2,949,550	55,691	3,005,241
Appropriations to surplus reserve		-	-	390,993	-	-	-	-	-	(390,993)	-	-	-
Appropriations to general risk reserve		-	-	-	767,273	-	-	-	-	(767,273)	-	-	-
Distributions to shareholders		-	-	-	-	-	-	-	-	(1,954,071)	(1,954,071)	(37,886)	(1,991,957)
Capital injection from minority shareholders		-	-	-	-	-	-	-	-	-	-	170,500	170,500
Others		-	(827)	-	-	-	-	-	-	-	(827)	-	(827)
As at 31 December 2016		42,479,808	8,166,044	1,440,315	3,470,711	9,968	(2,773)	159,331	(2,373)	15,460,852	71,181,883	957,970	72,139,853

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the parent													Total equity
	Note	Reserves											Non-controlling interests	
		Share capital	Capital reserve	Surplus reserve	General risk reserve	Defined benefit		Fair value reserve	Exchange reserve	Retained profits	Subtotal			
						Agriculture catastrophic loss reserve	obligation remeasurement reserve							
As at 1 January 2015	36,407,611	1,166,250	697,827	1,745,000	-	-	2,563,817	(5,464)	11,318,253	53,893,294	741,414	54,634,708		
Changes in equity for the year														
Profit for the year	-	-	-	-	-	-	-	-	7,578,810	7,578,810	95,968	7,674,778		
Other comprehensive income	19	-	-	-	-	(7,447)	(207,321)	7,102	-	(207,666)	10,662	(197,004)		
Total comprehensive income		-	-	-	-	(7,447)	(207,321)	7,102	7,578,810	7,371,144	106,630	7,477,774		
Issue of H-shares	6,072,197	7,001,722	-	-	-	-	-	-	-	13,073,919	-	13,073,919		
Appropriations to surplus reserve	-	-	351,495	-	-	-	-	-	(351,495)	-	-	-		
Appropriations to general risk reserve	-	-	-	958,438	-	-	-	-	(958,438)	-	-	-		
Distributions to shareholders	-	-	-	-	-	-	-	-	(4,150,025)	(4,150,025)	(34,748)	(4,184,773)		
Appropriations to agriculture catastrophic loss reserve	-	-	-	-	9,968	-	-	-	(9,968)	-	-	-		
Others	-	(1,101)	-	-	-	-	-	-	-	(1,101)	(43,631)	(44,732)		
As at 31 December 2015	42,479,808	8,166,871	1,049,322	2,703,438	9,968	(7,447)	2,356,496	1,638	13,427,137	70,187,231	769,665	70,956,896		

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2016	2015
Operating activities			
Cash generated from operations	<i>46(a)</i>	(1,113,500)	227,725
Income tax paid		(1,640,992)	(2,224,672)
Net cash flows used in operating activities		(2,754,492)	(1,996,947)
Investing activities			
Interests received		5,914,430	5,216,319
Dividends received		1,275,968	936,536
Purchases of property and equipment, investment properties and intangible assets		(293,566)	(587,847)
Proceeds from disposals of property and equipment and intangible assets		21,205	31,585
Purchases of investments		(82,002,555)	(120,915,085)
Proceeds from disposals of investments		84,525,954	114,496,751
Disposals of subsidiaries		–	36,757
Disposals of associates		677,625	831,533
Investments in associates		(2,820,265)	(621,535)
Net cash flows generated from/(used in) investing activities		7,298,796	(574,986)

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2016	2015
Financing activities			
Changes in third party investors' interests of consolidated structured entities, net		278,353	–
Proceeds from shares issued		–	13,443,496
Capital injection from minority shareholders		170,500	–
Payment for shares issuance costs		(282,959)	(21,444)
Interests paid		(137,907)	(140,126)
Dividends paid to equity shareholders of the parent		(5,350,702)	(728,152)
Dividends paid by subsidiaries to non-controlling interests		(71,729)	(904)
Securities sold under agreements to repurchase, net		(3,023,136)	2,961,363
Net cash flows (used in)/generated from financing activities		(8,417,580)	15,514,233
Net (decrease)/increase in cash and cash equivalents		(3,873,276)	12,942,300
Cash and cash equivalents at the beginning of the year		19,872,898	6,370,718
Effect of foreign exchange rate changes		670,591	559,880
Cash and cash equivalents at the end of the year	<i>46(b)</i>	16,670,213	19,872,898

The accompanying notes on pages 126 to 232 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

The predecessor of China Reinsurance (Group) Corporation (the “Company”), PICC Reinsurance Company Limited, was originated from The People’s Insurance Company of China, which was established in October 1949. On 23 March 1999, pursuant to the approval of the State Council of the PRC and the China Insurance Regulatory Commission (the “CIRC”), PICC Reinsurance Company Limited was renamed to China Reinsurance Company. On 20 June 2003, with the approval of the CIRC, China Reinsurance Company was renamed to China Reinsurance (Group) Company. On 9 October 2007, pursuant to the approval from relevant authorities, China Reinsurance (Group) Company was converted into a joint stock limited company and changed the company name to China Reinsurance (Group) Corporation.

The Company completed its initial public offering of overseas-listed foreign shares (“H shares”) and was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 October 2015.

The Company’s registered office is located at No. 11 Jinrong Avenue, Xicheng District, Beijing 100033, the PRC.

The Company and its subsidiaries (the “Group”) are mainly engaged in property and casualty reinsurance, life and health reinsurance, primary property and casualty insurance, asset management and other businesses.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs in issue which are relevant to the Group for the current year’s financial statements, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2016. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2016 are set out in Note 53.

(2) Basis of measurement

The financial statements are presented in Renminbi (RMB), rounded to the nearest thousand, which is the functional currency of the Company, except when otherwise indicated.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Basis of measurement (continued)

It has been prepared on the historical cost basis except for the following assets and liabilities as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale or as financial assets at fair value through profit or loss (see Note 2(11)).
- reinsurers' share of insurance contract liabilities and insurance contract liabilities, which have been measured based on actuarial methods (see Note 2(23)).

(3) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current year's financial statements:

- | | |
|------------------------------|--|
| — IAS 1 (Amendment) | Disclosure initiative |
| — IAS 27 (Amendment) | Equity method in separate financial statements |
| — Annual Improvement Project | Annual Improvements 2012–2014 Cycle |

None of these developments have had a material effect on how the Group's results and financial position for the current or prior year's financial statements have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(4) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Use of estimates and judgements (continued)

Changes in accounting estimates

In determining insurance contract liabilities, assumptions such as discount rates, mortality and morbidity, surrender rates, and expense assumptions are applied to long term life and health reinsurance contracts. Such assumptions should be determined based on current information available at the end of the reporting period. The Group changed the above assumptions based on current information available as at 31 December 2016 (mainly the risk free discount rate and surrender rate) and updated estimate for future cash flows, with the corresponding impact on insurance contract liabilities taken into the current year's statement of income. As a result of such changes in assumptions, long term life and health reinsurance contracts liabilities were increased by RMB719 million as at 31 December 2016 and the profit before tax for the year 2016 was decreased by RMB719 million.

(5) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the reporting period between non-controlling interests and the shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(11)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(7)).

In the Company's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(20)(b)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Group determines whether it is an agent or a principal in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is agent, it acts primarily on behalf of others and so does not control the structured entity. It may be principal if it acts primarily for itself, and therefore controls the structured entity. In assessing whether the Group is acting as principal, the Group considers factors such as scope of the asset manager's decision-making authority; rights held by other parties; remuneration to which it is entitled; and exposure to variability of returns from its involvement with structured entities. The Group will make reassessment when the factors change.

(7) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 2(20)(b)). Any excess over cost at acquisition-date, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statements, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of comprehensive income.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Associates and joint ventures (continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(11)).

In the Company's statements of financial position, investments in associates are accounted for using equity method, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(8) Goodwill

Goodwill represents the excess of

- (a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (b) is greater than (a), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(20)(b)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term time deposits, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(10) Translation of foreign currencies

Foreign currency transactions are translated at the foreign exchange rates ruling at the transaction dates or at the rates that approximate the spot exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The functional currencies of certain foreign operations are currencies other than the Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period and their income statements are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(11) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as financial assets at fair value through profit or loss. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. Dividends or interest earned on these investments are recognised in accordance with the policies set out in Note 2(25)(c).

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Other investments in debt and equity securities (continued)

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see Note 2(20)(a)).

Debt securities classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, debt securities classified as loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses (see Note 2(20)(a)).

Investments which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(20)(a)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest rate method are recognised in profit or loss in accordance with the policies set out in Note 2(25)(c). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see Note 2(20)(a)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Purchases and sales of financial assets are recognised on the trade-date — the date on which the group commits to purchase or sell the asset.

(12) Financial assets held under resale agreements and securities sold under agreements to repurchase

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Securities sold under agreements to repurchase are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under agreements to repurchase in the statements of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under agreements to repurchase continue to be recognised in the statements of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest rate method and is included in interest income and interest expenses, respectively.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Reinsurance debtors and other receivables

Reinsurance debtors represent receivables from reinsurance contracts.

Reinsurance debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate method, less allowance for impairment of doubtful debts (see Note 2(20)(a)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(14) Policyholders' deposits, investment contract liabilities, reinsurance and other payables

Rights under contracts that do not transfer significant insurance risk are accounted for as investment contracts. Reinsurance payables are primarily premiums, benefits and claims payable for reinsurance contracts, which are recognised as an expense when due. Policyholders' deposits are the payments received in advance by the Company's subsidiary China Life Reinsurance Company Ltd, which represent amounts, including interest, collected from contracts not yet effective as renewal payment as at the end of the reporting period.

Policyholders' deposits, investment contract liabilities, reinsurance and other payables are initially recognised at fair value. Investment contract liabilities, policyholders' deposits, reinsurance and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(15) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(16) Investment properties

The Group's investment properties are buildings held to earn rental income, rather than for the supply of services or for administrative purposes.

An investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment loss.

Depreciation is computed on the straight-line basis over the estimated useful life. The estimated useful life of investment properties is 15 to 35 years.

The residual value, the useful life and the depreciation method are reviewed at least at end of the reporting period to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the investment properties.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Investment properties (continued)

An investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of retirement or disposal. A transfer to, or from, an investment property is made when, and only when, there is evidence of a change in use.

(17) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see Note 2(20)(b)). The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	15–35 years
Machinery and equipment	3–11 years
Motor vehicles	5–8 years
Office and electronic equipment	3–8 years
Leasehold improvement	lease terms

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents costs of construction of buildings and other items of property as well as costs of equipment under installation. Construction in progress is stated at cost less any impairment losses (see Note 2(20)(b)), and is not depreciated, and is reclassified to the appropriate category of property and equipment when completed and ready for use.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Intangible assets (other than goodwill)

Intangible assets are mainly the value of business acquired and software.

Value of business acquired (“VOBA”)

Insurance contract liabilities for long-term insurance business arising from business combination are recognised at the carrying amount. The difference between its carrying value and fair value, calculated as the present value of future profits arising from the enforceable insurance business at the acquisition date, is recorded as VOBA. The calculation of discounted future profits is based on the estimation at the acquisition date using the actuarial assumptions, as well as the cost of capital at the acquisition date and a risk-adjusted discount rate.

VOBA is recognised as an intangible asset on the consolidated statements of financial position, and amortised in line with gross profit margins expected to realise within the contract periods over the remaining effective policy contract periods. The estimated gross profit margins include mortality surplus, expense surplus, interest surplus and surrender gains.

During the liability adequacy test, the recoverability of VOBA is reviewed based on the actual experience of enforceable business and the updated key assumptions. VOBA is derecognised when underlying insurance contracts are terminated or commuted.

Software

Purchased software is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(20)(b)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	3–10 years
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Both the period and method of amortisation are reviewed annually.

(19) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Impairment of assets

(a) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost, including:
 - (i) the market price of the equity securities was more than 50% below their cost at the reporting date;
 - (ii) the market price of the equity securities was more than 20% below their cost for a period of at least six months at the reporting date; and
 - (iii) the market price of the equity securities was below their cost for a period of more than one year (including one year) at the reporting date.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Impairment of assets (continued)

(a) Impairment of financial assets (continued)

Investments classified as held-to-maturity and loans and receivables, reinsurance debtors and other receivables
The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Impairment of assets (continued)

(b) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment;
- investment properties;
- intangible assets;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(21) Insurance contracts

Insurance contracts are those contracts under which the Group accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (“the insured event”) adversely affects the policyholder or other beneficiary. Insurance risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party of the contract.

The Group’s insurance contracts comprise primary insurance contracts and reinsurance contracts.

(22) Testing the significance of insurance risk

For contracts that contain both insurance risks and non-insurance risks, and where insurance risks and non-insurance risks can be distinguished and measured separately, the insurance risks and non-insurance risks should be unbundled. Insurance risk components should be treated as insurance contracts while other risk components should be treated as non-insurance contracts. When the insurance risk components and other risk components cannot be distinguished, or could be distinguished but not be measured separately, the entire contract should be treated as an insurance contract if the insurance risk is significant, otherwise it should be treated as a non-insurance contract.

For contracts issued by the Group which require testing the significance of insurance risk, it should be performed at the initial recognition of such contracts.

For reinsurance contracts, the Group uses the contract (or facultative insurance policy) as a basic unit for the risk significance test. Tests can be combined for small business contracts or facultative insurance policies. If it is specified in the terms of a contract that its payment responsibility changes according to another contract’s claim amount, those contracts should be combined for risk significance test. For primary property and casualty insurance contracts, the Group uses the product as a risk significance test unit. If the test results show that insurance accident specified in the contract may result in significant additional benefits paid by the Group, the contract is recognised as a significant risk contract, except for those with no commercial substance. The additional benefits above-mentioned refer to the amount the Group pays when an accident occurs in excess of the amount the Group pays when an accident does not occur. A contract has no commercial substance if it has no identifiable impacts on either the Group or its counter-party’s economic interests.

The Group’s other contracts that do not meet the definition of an insurance contract (“investment contract”) should be recognised and measured according to relevant accounting policies for financial assets or liabilities.

The assumptions used for testing the significance of insurance risk mainly include loss ratio, mortality and morbidity, loss distribution, etc. The Group determines such assumptions based on historical experiences and the estimation on future development trends so as to reflect the Group’s product characteristics and actual claim payments.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Insurance contract liabilities

The Group's insurance contract liabilities include unearned premium reserves, claim reserves and long-term life and health insurance contract reserves. The Group measures the insurance contract reserves at the end of the reporting period.

When the Group calculates the insurance contract reserves, it combines the insurance contracts with homogeneous insurance risks as one measuring unit.

The Group calculates the insurance contract reserves based on the future expected net cash flows arising from insurance contracts with consideration of the time value of money. Future cash inflows mainly include future insurance premium, future salvage and subrogation on incurred claims. Future cash outflows mainly include claims paid to the insureds, surrender payments, and loss adjustment expenses, etc. The reinsurance contracts also take the adjustable commission and profit commission into consideration. If the effect of time value of money is significant, the Group will discount the relative future cash flows. The Group determines the discount rate based on the latest obtainable information at the end of the reporting period.

The Group considers the margin factor and measures separately when determining the reserve of insurance contracts. During the period of insurance, the Group uses a systematic and reasonable method to record the margin in the current period profit or loss. At the inception of the contracts, the Group does not recognise day-one gain, whereas in contrast, day-one loss is recognised directly in profit or loss.

The Group evaluates the cash flows of insurance contracts and related reinsurance contracts separately. Meanwhile, the Group calculates the corresponding reserves that shall be recovered from the reinsurer and retrocessionaire and recognises the corresponding insurance reserve receivable as an asset.

Unearned premium reserves

The Group adopts the larger of the following as the unearned premium reserves for property and casualty, accident and short-term life and health insurance contracts:

- (i) For reinsurance contracts, the result of applying 1/8 method, 1/24 method or 1/365 method on the difference between written premiums and acquisition costs; for primary insurance contracts, the result of applying 1/365 method on the difference between written premiums and acquisition costs.
- (ii) The discounted net future cash outflows including claim payments, maintenance expenses, loss adjustment expenses, and corresponding risk margin. Risk margin is determined using the 75% percentile approach, and the cost of capital approach, with reference to the relevant industry benchmarks.

The acquisition costs of the Group's reinsurance contracts primarily include reinsurance commissions and insurance supervision fees. The acquisition costs of the Group's primary insurance contracts primarily include handling charges and commission expenses, taxes and surcharges, statutory insurance fund contributions, insurance supervision fees, and commissions paid to employees working as sales representatives.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Insurance contract liabilities (continued)

The Group calculates the expected future net cash outflows over the entire coverage and settlement period to measure the unearned premium reserves.

Claim reserves

Claim reserves refer to the provision for incurred events of property and casualty, accident and short-term life and health insurance contracts insured by the Group as primary insurer or reinsurer, including case reserves, incurred but not reported (“IBNR”) reserves and loss adjustment expense reserves.

Case reserves represent the reserves for incurred insurance accidents, which have been reported to the Group but not yet settled. As primary insurer, the Group adopts case-by-case loss estimating method and average cost per claim method to measure case reserves, based on the reasonable estimate of the ultimate settlement amount, with consideration of risk margin. In regard to reinsurance contracts, the Group measures case reserves based on the information provided by cedants.

IBNR reserves represent the reserves for incurred insurance events that have not been reported to the Group or with inadequate case reserves. Based on the nature and distribution of insurance risk, the pattern of historical claim development, and the latest available claim data, the Group adopts commonly accepted actuarial reserving methods such as the chain ladder methods, average cost per claim method, frequency-severity method, Bornhuetter-Ferguson method and expected loss ratio method to measure IBNR reserves, with consideration of the time value of money and risk margin.

Loss adjustment expense reserves represent reserves for claims related expenses such as settlement fees, legal cost, claim-surveying cost and claim handling staff’s salary, on insurance accidents. The Group mainly uses the ratio allocation method to measure loss adjustment expense reserves.

Long-term life and health insurance contract reserves

The Group measures long-term life and health insurance contract reserves on the basis of the best estimates of future payments that will be required to fulfil the contractual obligations. These payments refer to the expected net future cash outflows for the insurance contracts, which is the difference between the expected future cash outflows and the expected future cash inflows. The expected future cash outflows are cash outflows incurred to fulfil contractual obligations, consisting of: (i) the guaranteed benefits based on contractual terms, including death claims, disability claims, medical benefits, survival benefits, maturity benefits, etc.; (ii) the non-guaranteed benefits, including policyholder dividends, etc.; and (iii) expenses incurred to manage insurance contracts or to process claims, including loss adjustment expenses, etc. The expected future cash inflows include cash inflows arising from the undertaking of insurance obligations, including premium and other fees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Insurance contract liabilities (continued)

Long-term life and health insurance contract reserves (continued)

Margin comprising risk margin and residual margin has been taken into consideration while computing the reserve of life and health insurance contracts. Risk margin is the reserve accrued to compensate for the uncertain amount and timing of future cash flows. Residual margin is the margin for not recognising day-one gain and will be amortised over the life of the contracts. The subsequent measurement of residual margin is independent of the reserve related to best estimate of future discounted cash flows and risk margin. The assumption changes have no effect on the subsequent measurement of residual margin.

The Group determines the assumptions for measuring the unexpired liability reserves on the basis of latest information obtained on the balance sheet date.

For the insurance contracts of which the future returns are not affected by the investment yields of the corresponding investment portfolios, the Group determines the discount rate for computing the unexpired liability reserves on the basis of market interest with equivalent duration and equivalent risk to liability cash outflows. For the insurance contracts of which future returns are affected by the investment yields of corresponding investment portfolios, the Group determines the discount rate for computing the unexpired liability reserves on the basis of expected future investment returns rate of the corresponding investment portfolios.

Based on the historical experience and trend of future development, the Group determines the reasonable estimates as the assumptions, such as mortality rate, morbidity rate, lapse rate and expenses. For future expense which is sensitive to inflation, the Group considers the factors of inflation and the effects of the Group's expense controls to determine the expenses assumptions.

For insurance contracts with renewal rights, if the policyholder is likely to execute the renewal right without adjusting the premium rates, the Group takes the whole insurance period as the expected future net cash outflow period while measuring the reserves.

Liability adequacy test

The Group performs liability adequacy tests for unearned premium reserves and reserves for long-term life and health insurance on the balance sheet date. If the result of adequacy test exceeds the carrying amount of the reserves, the carrying amounts of the reserves shall be increased to the adequacy test result. For insurance policies acquired from business combination, the VOBA should be written off first and the deficiencies in excess of VOBA should be treated as additional reserves. And if the related reserve is adequate, no adjustment is made.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Reinsurance

The Group cedes insurance/reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expenses arising from ceded insurance/reinsurance contracts are presented separately from the assets, liabilities, income and expenses arising from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

(25) Revenue recognition

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

(a) Gross written premiums

Gross written premiums in respect of primary property and casualty insurance contracts are recognised as revenue when the amount is determined, which is generally when the risk commences.

Gross written premiums in respect of reinsurance contracts reflect business written during the reporting period. Premiums written include an estimate for written premiums receivable of the current period and adjustments to estimates of premiums written in previous years at period end.

(b) Fee income

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

(c) Investment income

Interest income is recognised in profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

(d) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(26) Employee benefits

(a) Short term employee benefits and defined contribution plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(b) Defined benefit retirement plan obligation

The Group's defined benefit retirement plan is a pension plan for its retired staff in addition to the overall social insurance scheme, including retirement allowances and medical expenses. The contributions to the pension plan in addition to the overall social insurance scheme are made by the Group after taking the approved defined policy into account.

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit retirement plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discounts obligations under the defined benefit retirement plans to determine the present value of the defined benefit liability.

Service cost and interest expense on the defined benefit liability are charged to profit or loss and remeasurements of the defined benefit liability are recognised in other comprehensive income.

(27) Operating leases

(a) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

(b) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(17). Impairment losses are recognised in accordance with the accounting policies described in Note 2(20)(b). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(28) Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(28) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(29) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(30) Dividends

When the final cash dividends proposed by the directors have been approved by the shareholders and declared, they are recognized as a liability.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(31) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.
- (b) An entity is related to the Group if 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 an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities 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);
 - (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); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(32) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(1) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(a) Classification and significant risk testing of contracts

The Group makes significant judgements on whether a written policy contains both an insurance component and a deposit component and whether the insurance component and deposit component are distinct and separately measurable. In addition, the Group makes significant judgements on whether the contract transfers insurance risk, whether transfer of insurance risk has commercial substance, and whether the transferred insurance risk is significant when performing insurance risk significance tests. The result of such judgement affects the classification of insurance contracts. Different contract classifications would affect the accounting treatment and the Group's financial position and operating results.

(b) Measurement unit for insurance contracts

The Group shall make judgements on whether a group of insurance contracts' insurance risks are of the same nature. Different measurement unit would affect the measurement results of insurance contract liabilities.

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

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires management judgement. When making such judgement, the Group considers the length of the period over which the fair value is lower than cost and the magnitude of the decline in fair value.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(1) Critical accounting judgements in applying the Group's accounting policies (continued)

(d) Significant influence when less than 20% 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% of the voting power of the investee, but one or more of the following indicators are present:

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

An investee as accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset. The reasons for existence of significant influence over some investees, even though the voting power held by the Group is less than 20%, are disclosed in Note 31 to the financial statements.

(2) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period are detailed below, which will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years.

(a) Insurance risk significance test

The Group implements insurance risk significance test at the first recognised day of a contract, and makes necessary review at the end of the reporting period.

The Group determines insurance and reinsurance contracts as insurance contracts directly if they are reasonably self-evidenced; for other contracts, the Group uses the proportion of insurance risk to measure the significant level of risk transferring. The Group determines whether the insurance and reinsurance contracts transfer significant risk using the following methods and standards:

(i) Property and casualty reinsurance contracts

The Group considers reinsurance policies with expected reinsurer deficit ("ERD") larger than 1% as reinsurance contracts, according to "Guidelines for Implementation of Insurance Risk Significance Test" issued by the CIRC. When calculating ERD of reinsurance policies, the Group selects appropriate loss distribution, based on its own historical claim experience and stochastic simulation method.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(a) Insurance risk significance test (continued)

(ii) *Life and health reinsurance contracts*

When signing a reinsurance contract (or a facultative policy), the Group determines whether it transfers significant insurance risk based on qualitative assessment or quantitative analysis. In the case that a contract transfers significant insurance risk, it will be determined as a reinsurance contract; otherwise it will be determined as non-reinsurance contract. The Group performs examination on such test at the end of the reporting period.

When the Group performs risk significance test, for life and health reinsurance business, it considers whether the reinsurance contracts are reasonably self-evidenced. Contracts that are reasonably self-evident are determined as reinsurance contracts. Such conditions include: i) the business having apparent characteristics of transferring insurance risks, namely the ceding company transfers the primary insurance risk of primary insurance business to reinsurer; and ii) no apparent loss participation clauses such as loss compensation, loss distribution pro rata, etc. in place. Businesses that are considered reasonably self-evident need to be reviewed every year to ensure the reasonableness of these conditions. The Group uses scenario testing methods for risk significance test for those contracts not reasonably self-evidenced.

(iii) *Primary property and casualty insurance contracts*

A primary insurance policy is identified as an insurance contract if its ratio of insurance risk transferred is larger than 5%; otherwise it should be treated as a non-insurance contract.

As property and casualty policies usually satisfy the above risk significance test, the Group determines that most of the property and casualty policies can be treated as insurance contracts directly.

(b) Insurance contract liabilities

(i) *Property and casualty reinsurance contract reserves*

- Risk margin

According to the “Notice for insurance companies on the implementation of Interpretation No. 2 to Accounting Standards for Business Enterprises” (NO. 6 [2010]), issued by the CIRC, the ratio of final risk margin applied to the unbiased estimate of the present value of future cash flows should generally fall between 2.5% to 15%.

When measuring reserves for property and casualty reinsurance contracts, the risk margin has been calculated using the 75% percentile approach and the cost of capital approach, with reference to industry benchmarks.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(b) Insurance contract liabilities (continued)

(i) *Property and casualty reinsurance contract reserves (continued)*

- Discount rate

When determining the reserves, the Group discounts relevant future cash flows if the impact of time value of money is significant. Level of impact depends on the “duration” of insurance liability. If the duration of insurance liability is longer than one year, the time value of money is significant and should be included when determining the reserves; otherwise, it is not compulsory for determining the reserves. The Group determines the assumption of discount rate according to the “Yield Curve of Insurance Contract Reserves” published by chinabond.com.cn, without considering liquidity risk premium, tax effect, credit risk premium and so on. The assumption of discount rates for the Group’s property and casualty reinsurance business used as at 31 December 2016 is 2.9%–3.2% (31 December 2015: 3.1%–3.6%).

(ii) *Life and health reinsurance contract reserves*

Life and health reinsurance contract reserves are determined by the reasonable estimation of future benefit, expense, premium as well as the risk margin. Assumptions adopted when making reasonable estimations such as mortality rate, morbidity rate, lapse rate, discount rate and loss adjustment expenses are determined by the Group’s historical experience and reasonable future expectation. The risk margin reflects the uncertainty of insurance liability brought by the cash flows uncertainty of future benefit, expense and premium.

- Discount rate

For contracts wherein profit in the future is not impacted by the asset portfolio investment return of the ceded company, the Group uses the “Yield Curve of Insurance Contract Reserves” published by chinabond.com.cn and also considers the liquidity risk premium when determining the time value of money.

The discount rates including the liquidity risk premium used as at 31 December 2016 are 3.3%–5.4% (31 December 2015: 3.6%–6.0%).

For contracts wherein profit in the future is impacted by the investment return of the ceded company, the Group uses the assumption of investment return as the discount rate to determine the time value of money. The assumption of investment return is determined by the Group’s expectation on the investment return in the future and is applied on the estimation of the cash flow and risk margin.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(b) Insurance contract liabilities (continued)

(ii) Life and health reinsurance contract reserves (continued)

- **The probability of insurance event**
The Group determines the probability of insurance event according to historical experience and the expectation in the future. For mortality data, the Group uses “China Life Insurance Mortality Table” issued by the CIRC in addition to its historical experience. For other assumptions, the Group would mainly refer to its historical experience, the pricing assumption or the industry benchmarks.
- **Expense assumption**
The Group determines the expense assumption according to its historical experience and the future expectation. The Group would also consider inflation metrics to determine the expense assumption if the assumption is sensitive to inflationary pressures.

The lapse rate and other assumptions for reserving are determined using the Group’s reliable historical experience, current situations and future expectations.

(iii) Primary property and casualty insurance contract reserves

- **Risk margin**
According to the “Notice for insurance companies on the implementation of Interpretation No. 2 to Accounting Standards for Business Enterprises” (NO. 6 [2010]), issued by the CIRC, the ratio of final risk margin applied to the unbiased estimate of the present value of future cash flows should generally fall between 2.5% to 15%.

The risk margin has been calculated using the 75% percentile approach by the Group, with reference to industry benchmarks.
- **Discount rate**
The Group adopts the “Yield Curve of Insurance Contract Reserves” issued by chinabond.com.cn when determining the time value of money, without considering liquidity risk premium, tax effect, credit risk premium and so on. The assumption of discount rates for the Group’s property and casualty insurance business used as at 31 December 2016 is 2.7%–2.9% (31 December 2015: 3.1%–3.3%).

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(c) Fair value of financial instruments

The Group invests primarily in debt investments, equity investments, time deposits, financial assets held under resale agreements and so on. The Group's significant accounting estimates and judgements regarding investments are related to the recognition of impairment of financial assets and the determination of the fair value. In assessing the impairment, the Group has considered various factors (see Note 2(20)(a)). The fair values of quoted investments are based on current bid prices. The fair value is the price at which two knowing parties transact willingly in a fair trade rather than under on compulsion or in liquidation.

The Group estimates the fair value of financial instruments using the following methods and assumptions:

- Debt investments: usually, fair market value is determined on the basis of its recent quoted market price. If there is no recent quoted market price for reference, fair value is determined by the observed recent transaction price, or comparable investment's recent market price. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques.
- Equity investments: its fair market value is determined on the basis of its recent quoted market price. If there is no recent quoted market price, for the equity investments whose fair value cannot be measured reliably, they can be determined by using valuation techniques.
- Time deposits, investments classified as loans and receivables, financial assets held under resale agreements and securities sold under agreements to repurchase: the book value on the consolidated statements of financial position approximates to fair value.

(d) Reinsurance premium

For reinsurance contracts, the Group estimates the ultimate premium collected by cedants during the reporting period, and calculates the Group's share of the premiums according to the reinsurance contract terms. The estimation is based on the information provided by the cedant, as well as the historical premium development pattern.

(e) Impairment of goodwill

The Group performs goodwill impairment test annually. The recoverable amount of an asset group or a set of asset groups including goodwill is the higher of its fair value less costs to disposal and its value-in-use, and the principal assumptions used are set out in Note 36 to the financial statements.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(f) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences to the extent that it is probable that taxable profit will be available against which the used tax losses and temporary deductible differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimated timing and level of future taxable profits as well as the applicable tax rates.

There are some uncertainties on the estimation of future taxable profit as it involves a number of estimations for future transactions, including whether the actuarial assumptions and experience are consistent, the performance of future investment market, as well as the impacts of any changes in corporate tax law.

(g) Retirement benefit liabilities

The Group measured certain employee retirement benefits using projected unit credit method, when these benefit plans met the definition of defined benefit plans as set out in IAS 19. Carrying value of these liabilities and the principal assumptions used in measuring these liabilities are set out in Note 42 to the financial statements.

(h) Impairment of held-to-maturity investments, investments classified as loans and receivables, reinsurance debtors and other receivables

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

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

(i) Impairment of non-current assets other than financial assets

The Group makes judgement on whether there is an indication that non-current assets other than financial assets may be impaired as at the end of the reporting period. When any such indication exists, the Group performs impairment testing for the asset or a group of assets and makes estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group determines the recoverable amount according to the higher of the fair value less costs of disposal and the present value of expected future cash flows. Fair value less costs of disposals is determined with reference to the prices in sales agreements or observable market prices of similar assets in fair transactions. When using the present value of estimated future cash flows, management must use the estimated future cash flows of the asset or a group of assets, and select the appropriate discount rate to determine the present value of the future cash flows.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

4 SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the management for deciding how to allocate resources and for assessing performance.

For management purposes, the Group is organised into business units based on their products and services and has the following operating and reportable segments:

- The property and casualty reinsurance segment, operated by the Company and subsidiaries of the Company China Property and Casualty Reinsurance Company Ltd. ("China Re P&C") and China Re UK Limited. ("China Re UK"), etc. offers a wide variety of reinsurance products for various property and casualty insurance, such as motor, property, agricultural and liability insurance, etc.
- The life and health reinsurance segment, operated by the Company and the subsidiary of the Company China Life Reinsurance Company Ltd. ("China Re Life"), offers a wide range of reinsurance products, such as life, health and accident insurance.
- The primary property and casualty insurance segment, operated by the subsidiary of the Company China Continent Property and Casualty Insurance Company Ltd. ("China Continent Insurance"), offers a wide variety of insurance products to both personal and corporate customers including motor, property and liability insurance, etc.
- The asset management segment, operated by the subsidiary of the Company, China Re Asset Management Company Ltd. ("China Re AMC"), comprises asset management services.
- Other segment provides management and support for the Group's business through its strategy, risk management, actuary, finance, legal and human resources functions; and other operating and insurance agent business of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on segment profit/(loss).

As the total income, net profit, assets and liabilities of operations outside Mainland China constitutes only around 1% of the consolidated amounts in the financial statements, geographical segmental information is not presented.

Inter-segment sales are transacted according to terms and conditions negotiated by the relevant parties within the Group.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	2016						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Gross written premiums	24,457,019	31,366,144	32,071,091	–	–	(1,217,027)	86,677,227
Less: Premiums ceded to reinsurers and retrocessionaires	(557,819)	(1,806,476)	(2,391,332)	–	–	1,218,873	(3,536,754)
Net written premiums	23,899,200	29,559,668	29,679,759	–	–	1,846	83,140,473
Changes in unearned premium reserves	1,744,165	(762,390)	(1,417,112)	–	–	(85,211)	(520,548)
Net premiums earned	25,643,365	28,797,278	28,262,647	–	–	(83,365)	82,619,925
Reinsurance commission income	82,453	412,174	679,514	–	–	(369,795)	804,346
Investment income	2,080,760	3,354,892	1,329,598	54,391	3,351,126	(2,431,927)	7,738,840
Exchange (losses)/gains, net	(119,708)	148,685	101,674	1,157	299,709	(45,173)	386,344
Other income	11,063	310,503	128,501	320,081	291,415	(246,574)	814,989
Total income	27,697,933	33,023,532	30,501,934	375,629	3,942,250	(3,176,834)	92,364,444
— External income	26,480,419	33,023,476	31,224,849	141,504	1,494,196	–	92,364,444
— Inter-segment income	1,217,514	56	(722,915)	234,125	2,448,054	(3,176,834)	–
Claims and policyholders' benefits	(15,897,068)	(30,518,984)	(14,822,406)	–	–	(9,209)	(61,247,667)
— Claims incurred	(15,897,068)	(2,785,633)	(14,822,406)	–	–	(9,209)	(33,514,316)
— Life and health reinsurance death and other benefits paid	–	(42,859,432)	–	–	–	–	(42,859,432)
— Changes in long-term life and health reinsurance contract liabilities	–	15,126,081	–	–	–	–	15,126,081
Handling charges and commissions	(9,327,079)	(766,033)	(4,114,385)	–	–	372,574	(13,834,923)
Finance costs	(1,733)	(98,768)	(5,895)	(51)	(30,450)	–	(136,897)
Other operating and administrative expenses	(407,432)	(800,950)	(9,995,700)	(312,245)	(917,915)	245,311	(12,188,931)
Total benefits, claims and expenses	(25,633,312)	(32,184,735)	(28,938,386)	(312,296)	(948,365)	608,676	(87,408,418)
Share of profits of associates	9,649	791,189	5,735	–	657,441	(17,868)	1,446,146
Profit before tax	2,074,270	1,629,986	1,569,283	63,333	3,651,326	(2,586,026)	6,402,172
Income tax	(224,749)	(256,048)	(325,668)	(5,988)	(377,874)	21,347	(1,168,980)
Profit for the year	1,849,521	1,373,938	1,243,615	57,345	3,273,452	(2,564,679)	5,233,192

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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4 SEGMENT INFORMATION (continued)

	2015						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Gross written premiums	31,923,511	22,977,842	26,684,575	–	–	(1,152,371)	80,433,557
Less: Premiums ceded to reinsurers and retrocessionaires	(590,166)	(4,201,622)	(2,112,776)	–	–	1,149,589	(5,754,975)
Net written premiums	31,333,345	18,776,220	24,571,799	–	–	(2,782)	74,678,582
Changes in unearned premium reserves	270,757	(186,657)	(1,658,945)	–	–	132,697	(1,442,148)
Net premiums earned	31,604,102	18,589,563	22,912,854	–	–	129,915	73,236,434
Reinsurance commission income	49,642	433,291	580,883	–	–	(357,834)	705,982
Investment income	3,704,837	4,764,575	2,363,306	32,464	2,900,216	(2,068,978)	11,696,420
Exchange gains/(losses), net	95,632	15,043	34,567	591	18,730	(12,117)	152,446
Other income	19,962	127,365	106,647	307,047	266,200	(300,738)	526,483
Total income	35,474,175	23,929,837	25,998,257	340,102	3,185,146	(2,609,752)	86,317,765
— External income	34,440,645	23,929,785	26,790,728	98,765	1,057,842	–	86,317,765
— Inter-segment income	1,033,530	52	(792,471)	241,337	2,127,304	(2,609,752)	–
Claims and policyholders' benefits	(19,294,973)	(18,102,000)	(12,689,432)	–	–	(10,759)	(50,097,164)
— Claims incurred	(19,294,973)	(2,953,785)	(12,689,432)	–	–	(11,312)	(34,949,502)
— Life and health reinsurance death and other benefits paid	–	(7,153,330)	–	–	–	–	(7,153,330)
— Changes in long-term life and health reinsurance contract liabilities	–	(7,994,885)	–	–	–	553	(7,994,332)
Handling charges and commissions	(11,723,015)	(2,449,751)	(2,616,702)	–	–	363,962	(16,425,506)
Finance costs	(24,975)	(84,475)	(16,133)	(379)	(15,472)	–	(141,434)
Other operating and administrative expenses	(509,996)	(786,796)	(8,905,300)	(334,326)	(784,334)	299,876	(11,020,876)
Total benefits, claims and expenses	(31,552,959)	(21,423,022)	(24,227,567)	(334,705)	(799,806)	653,079	(77,684,980)
Share of profits of associates	6,624	721,957	223	–	527,956	(669)	1,256,091
Profit before tax	3,927,840	3,228,772	1,770,913	5,397	2,913,296	(1,957,342)	9,888,876
Income tax	(846,897)	(697,959)	(419,335)	(3,170)	(208,427)	(38,310)	(2,214,098)
Profit for the year	3,080,943	2,530,813	1,351,578	2,227	2,704,869	(1,995,652)	7,674,778

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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4 SEGMENT INFORMATION (continued)

	2016						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Segment assets	63,290,307	82,082,234	41,005,564	1,965,460	54,807,870	(31,944,064)	211,207,371
Segment liabilities	(42,281,727)	(64,777,641)	(27,463,862)	(340,702)	(6,367,700)	2,164,114	(139,067,518)
Other segment information							
Capital expenditures	(5,998)	(5,449)	(261,419)	(15,214)	(9,659)	–	(297,739)
Depreciation and amortisation	(15,605)	(35,949)	(207,777)	(8,736)	(89,289)	–	(357,356)
Interest income	1,392,533	2,394,435	1,010,056	19,576	886,976	–	5,703,576
Available-for-sale financial assets impairment loss charges	(258,203)	(258,486)	(44,235)	(508)	(235,674)	–	(797,106)
Other impairment loss (charges)/reversals	(6,729)	–	150,058	(635)	(17,766)	–	124,928
	2015						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Segment assets	56,693,753	197,510,509	38,602,683	855,132	63,448,685	(28,117,461)	328,993,301
Segment liabilities	(39,191,063)	(184,794,565)	(27,802,842)	(270,020)	(10,607,404)	4,629,489	(258,036,405)
Other segment information							
Capital expenditures	(87,307)	(116,073)	(268,050)	(18,208)	(98,209)	–	(587,847)
Depreciation and amortisation	(4,912)	(22,973)	(176,488)	(7,129)	(79,682)	–	(291,184)
Interest income	1,517,514	2,459,522	1,054,382	17,097	662,782	–	5,711,297
Impairment loss charges	(13,938)	(15,352)	(214,458)	–	(14,614)	–	(258,362)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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5 GROSS AND NET WRITTEN PREMIUMS

(a) Gross written premiums

	2016	2015
Long-term life and health reinsurance	24,859,969	16,901,869
Short-term life and health reinsurance	6,506,175	6,075,973
Property and casualty reinsurance	23,328,877	30,869,777
Primary property and casualty insurance	31,982,206	26,585,938
Total	86,677,227	80,433,557

(b) Premiums ceded to reinsurers and retrocessionaires

	2016	2015
Long-term life and health reinsurance	507,948	2,499,205
Short-term life and health reinsurance	1,298,528	1,702,417
Property and casualty reinsurance	553,450	586,581
Primary property and casualty insurance	1,176,828	966,772
Total	3,536,754	5,754,975

(c) Net written premiums

	2016	2015
Net written premiums	83,140,473	74,678,582

6 CHANGES IN UNEARNED PREMIUM RESERVES

	2016	2015
Short-term life and health reinsurance	762,390	186,657
Property and casualty reinsurance	(1,515,914)	(376,492)
Primary property and casualty insurance	1,274,072	1,631,983
Total	520,548	1,442,148

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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7 INVESTMENT INCOME

	2016	2015
Interest, dividend and rental income (a)	7,032,940	6,460,335
Realised gains(b)	579,106	5,257,664
Unrealised gains/(losses)(c)	110,867	(29,723)
Negative goodwill arising from investments in associates	813,033	77,347
Impairment losses (d)	(797,106)	(69,203)
Total	7,738,840	11,696,420

(a) Interest, dividend and rental income

	2016	2015
Interest income		
Current and time deposits	2,068,830	2,434,161
Debt securities		
— Held-to-maturity	998,546	975,255
— Available-for-sale	1,219,348	1,358,996
— Carried at fair value through profit or loss	26,584	29,573
— Loans and receivables	1,342,139	890,418
Financial assets held under resale agreements	42,210	17,720
Reinsurers' share of policy loans	5,919	5,174
Subtotal	5,703,576	5,711,297
Dividend income		
Equity securities		
— Available-for-sale	1,141,479	618,851
— Carried at fair value through profit or loss	144,396	86,648
Subtotal	1,285,875	705,499
Rental income from investment properties	43,489	43,539
Total	7,032,940	6,460,335

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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7 INVESTMENT INCOME (continued)

(a) Interest, dividend and rental income (continued)

An analysis of the dividend income from listed and unlisted equity securities is as follows:

	2016	2015
Dividend income		
Listed equity securities	382,422	380,803
Unlisted equity securities	903,453	324,696
Total	1,285,875	705,499

(b) Realised gains/(losses)

	2016	2015
Debt securities		
— Available-for-sale	188,000	27,843
— Carried at fair value through profit or loss	2,603	(6,847)
Equity securities		
— Available-for-sale	559,842	4,630,002
— Carried at fair value through profit or loss	(83,394)	404,572
— Investments in associates	(87,945)	202,094
Total	579,106	5,257,664

(c) Unrealised gains/(losses)

	2016	2015
Debt securities		
— Carried at fair value through profit or loss	(15,019)	18,558
Equity securities		
— Carried at fair value through profit or loss	125,886	(48,281)
Total	110,867	(29,723)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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7 INVESTMENT INCOME (continued)

(d) Impairment losses

	2016	2015
Equity securities		
— Available-for-sale	(797,106)	(69,203)
Total	(797,106)	(69,203)

8 OTHER INCOME

	2016	2015
Fee income from insurance related business	559,407	300,618
Commission income arising from the tax collection of motor vehicles and vessels	102,754	87,039
Management fee income	94,448	72,397
Income from the disposals of property and equipment, and intangible assets	15,229	2,721
Guarantee fee income	5,647	3,414
Others	37,504	60,294
Total	814,989	526,483

9 CLAIMS AND POLICYHOLDERS' BENEFITS

	2016		
	Gross	Ceded	Net
Claims incurred	35,088,562	(1,574,246)	33,514,316
— Short-term life and health reinsurance	3,885,207	(1,099,574)	2,785,633
— Property and casualty reinsurance	15,874,010	(133,747)	15,740,263
— Primary property and casualty insurance	15,329,345	(340,925)	14,988,420
Life and health reinsurance death and other benefits paid	45,251,464	(2,392,032)	42,859,432
Changes in long-term life and health reinsurance contract liabilities	(16,941,133)	1,815,052	(15,126,081)
Total	63,398,893	(2,151,226)	61,247,667

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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9 CLAIMS AND POLICYHOLDERS' BENEFITS (continued)

	2015		Net
	Gross	Ceded	
Claims incurred	38,461,689	(3,512,187)	34,949,502
— Short-term life and health reinsurance	4,124,060	(1,170,275)	2,953,785
— Property and casualty reinsurance	18,312,717	(443,794)	17,868,923
— Primary property and casualty insurance	16,024,912	(1,898,118)	14,126,794
Life and health reinsurance death and other benefits paid	8,208,572	(1,055,242)	7,153,330
Changes in long-term life and health reinsurance contract liabilities	9,530,824	(1,536,492)	7,994,332
Total	56,201,085	(6,103,921)	50,097,164

10 HANDLING CHARGES AND COMMISSIONS

	2016	2015
Long-term life and health reinsurance	(1,041,971)	1,098,942
Short-term life and health reinsurance	1,808,004	1,350,809
Property and casualty reinsurance	8,986,335	11,389,465
Primary property and casualty insurance	4,082,555	2,586,290
Total	13,834,923	16,425,506

11 FINANCE COSTS

	2016	2015
Interest expenses		
— Securities sold under agreements to repurchase	136,897	141,434

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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12 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Employee costs	4,138,115	3,372,374
Advertising and promotion expenses	2,382,849	1,579,077
Official and travel expenses	864,109	910,383
Interest expenses of policyholders' deposits and investment contracts	449,724	343,536
Rental expenses	375,249	324,708
Consulting fees	351,547	178,004
Depreciation and amortisation	289,692	230,887
Insurance guarantee fund	253,783	211,077
Taxes and surcharges	788,980	1,809,408
Regulatory fees	88,094	46,538
Impairment losses (reversals)/charges	(124,928)	189,159
Others	2,331,717	1,825,725
Total	12,188,931	11,020,876

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13 PROFIT BEFORE TAX

Profit before tax is recognized at after charging/(crediting) the following items:

	2016	2015
Employee costs (including directors' and supervisors' emoluments) (a) (note)	4,798,111	3,960,987
Depreciation of property and equipment (note)	229,955	210,486
Depreciation of investment properties (note)	71,616	26,714
Amortisation of intangible assets (note)	55,785	53,984
Rental expenses (note)	442,030	389,823
Auditors' remuneration	7,800	9,480
Impairment losses on available-for-sale financial assets	797,106	69,203
Impairment losses on premiums receivable	22,071	18,107
Impairment losses/(reversal) on reinsurance debtors	22,813	(3,558)
Impairment (reversal)/losses on other assets	(169,812)	174,610

Note: Certain employee costs, depreciation, amortization and rental expenses are recorded as loss adjustment expenses and are not included in other operating and administrative expenses.

(a) Employee costs (including directors' and supervisors' emoluments)

	2016	2015
Salaries, allowances and performance related bonuses	4,435,187	3,538,023
Contributions to defined contribution plan	358,815	298,567
Contributions to defined benefit retirement plan	4,109	124,397
Total	4,798,111	3,960,987

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14 DIRECTORS' AND SUPERVISORS' REMUNERATION

The total compensation package for these directors, and supervisors for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the relevant PRC authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2016 consolidated financial statements. The final compensation will be disclosed when determined.

	2016							Total
	Fees	Salaries	Discretionary Bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
Executive directors								
Mr. Yuan Linjiang (i) (v)	-	185	220	56	61	-	-	522
Mr. Li Peiyu (ii) (v)	-	46	54	9	15	-	-	124
Mr. Zhang Hong	-	277	329	78	84	-	-	768
Mr. Wang Pingsheng	-	249	296	78	82	-	-	705
Mr. Ren Xiaobing	-	249	296	78	78	-	-	701
Non-executive directors								
Ms. Lu Xiuli	-	-	-	-	-	-	-	-
Mr. Shen Shuhai	-	-	-	-	-	-	-	-
Independent non-executive directors								
Ms. Wang Jun	250	-	-	-	-	-	-	250
Mr. Hao Yansu	250	-	-	-	-	-	-	250
Mr. Li Sanxi	250	-	-	-	-	-	-	250
Ms. Mok Kam Sheung	250	-	-	-	-	-	-	250
Supervisors								
Mr. Wang Yonggang	-	277	329	78	82	-	-	766
Mr. Wei Shiping	-	-	-	-	-	-	-	-
Mr. Zhu Yong	-	-	-	-	-	-	-	-
Mr. Cao Shunming (vi)	-	-	-	-	-	18	24	42
Mr. Lin Wei (iii) (v) (vi)	-	-	-	-	-	6	8	14
Mr. Tian Bo (iv) (v) (vi)	-	-	-	-	-	8	-	8
Total	1,000	1,283	1,524	377	402	32	32	4,650

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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14 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

- (i) Mr. Yuan Linjiang was appointed as executive director since 6 May 2016.
- (ii) Mr. Li Peiyu retired as executive director on 10 March 2016.
- (iii) Mr. Lin Wei retired as supervisor on 11 July 2016.
- (iv) Mr. Tian Bo was appointed as supervisor since 11 July 2016.
- (v) The remuneration for appointed and retired directors and supervisors were the compensation during their appointment.
- (vi) For Employee Representative Supervisors of the company, the amounts set forth above only included fees for their services as supervisors.

	2015							
	Fees	Salaries	Discretionary Bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive directors								
Mr. Li Peiyu (ii)	–	277	329	53	85	–	–	744
Mr. Zhang Hong	–	277	329	53	82	–	–	741
Mr. Wang Pingsheng	–	249	296	53	79	–	–	677
Mr. Ren Xiaobing	–	249	296	53	79	–	–	677
Non-executive directors								
Ms. Lu Xiuli	–	–	–	–	–	–	–	–
Mr. Shen Shuhai	–	–	–	–	–	–	–	–
Independent non-executive directors								
Ms. Wang Jun	213	–	–	–	–	–	–	213
Mr. Hao Yansu	213	–	–	–	–	–	–	213
Mr. Li Sanxi	213	–	–	–	–	–	–	213
Ms. Mok Kam Sheung (i) (ii)	104	–	–	–	–	–	–	104
Supervisors								
Mr. Wang Yonggang	–	277	329	53	80	–	–	739
Mr. Wei Shiping	–	–	–	–	–	–	–	–
Mr. Zhu Yong	–	–	–	–	–	–	–	–
Mr. Cao Shunming (iii)	–	–	–	–	–	9	12	21
Mr. Lin Wei (iii)	–	–	–	–	–	9	12	21
Total	743	1,329	1,579	265	405	18	24	4,363

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For the year ended 31 December 2016

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14 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

- (i) Ms. Mok Kam Sheung was appointed as independent non-executive directors since 6 August 2015.
- (ii) The remuneration for appointed directors and supervisors were the compensation during their appointment.
- (iii) For Employee Representative Supervisors of the company, the amounts set forth above only included fees for their services as supervisors.

The compensation amounts disclosed above for these directors and supervisors for the year ended 31 December 2015 were restated based on the finalised amounts determined during 2016.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

	2016	2015
Salaries, allowances and benefits in kind	5,445	5,343
Discretionary bonuses	16,215	13,856
Employer's contribution to a retirement benefit scheme	528	457
Total	22,188	19,656

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose remuneration fell within the following bands is as follows:

	2016	2015
RMB3,000,001 to RMB3,500,000	–	1
RMB3,500,001 to RMB4,000,000	2	2
RMB4,000,001 to RMB4,500,000	1	1
RMB4,500,001 to RMB5,000,000	1	1
RMB5,000,001 to RMB5,500,000	–	–
RMB5,500,001 to RMB6,000,000	1	–
Total	5	5

16 INCOME TAX

	2016	2015
Current income tax		
Charge for the year	1,388,331	1,948,207
Under-provision in respect of prior years	2,816	5,525
Deferred income tax	(222,167)	260,366
Total	1,168,980	2,214,098

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16 INCOME TAX (continued)

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2016	2015
Profit before tax	6,402,172	9,888,876
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	1,600,543	2,472,219
The effect of different tax rates of other countries and regions (note)	3,440	2,168
Tax effect of non-deductible expenses	24,664	114,430
Tax effect of non-taxable income	(501,630)	(412,697)
Tax effect of unused tax losses not recognised	10,911	9,825
Under-provision in prior years	2,816	5,525
Withheld income tax on dividends received from associates	28,236	22,628
Income tax	1,168,980	2,214,098

Note: The income tax rate applied to the Company and its subsidiaries in Mainland China is 25% for the year ended 31 December 2016 (the year ended 31 December 2015: 25%). Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

17 DIVIDENDS

	2016	2015
In respect of previous year:		
2016 final dividend: RMB0.046 per ordinary share	1,954,071	–
2015 final dividend: RMB0.020 per ordinary share	–	728,152
2015 special Pre-IPO dividend: RMB0.094 per ordinary share	–	3,421,873

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18 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to ordinary equity shareholders of the parent and the weighted average number of ordinary shares in issue.

	2016	2015
Net profit attributable to the equity shareholders of the parent	5,146,052	7,578,810
Weighted average number of ordinary shares (in thousands) (a)	42,479,808	37,488,204
Basic and diluted earnings per share (in RMB)	0.12	0.20

There were no potential diluted ordinary shares in issue during the year ended 31 December 2016 and the year ended 31 December 2015, so the diluted earnings per share were the same as the basic earnings per share.

(a) Weighted average number of ordinary shares (in thousands)

	2016	2015
Issued ordinary shares at 1 January	42,479,808	36,407,611
Weighted average effect of share issue	–	1,080,593
Weighted average number of ordinary shares at 31 December	42,479,808	37,488,204

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19 OTHER COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX

	2016	2015
Items that may not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability	4,674	(7,447)
Sub-total	4,674	(7,447)
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive income of associates	(207,363)	139,867
Income tax	51,803	(35,022)
Sub-total	(155,560)	104,845
Losses/(gains) arising from changes in fair value of available-for-sale financial assets	(2,806,567)	4,186,636
Less: Reclassification adjustments for amounts transferred to profit or loss		
— Gains on disposal	(747,842)	(4,657,845)
— Impairment losses	797,106	69,203
Income tax	684,249	100,502
Sub-total	(2,073,054)	(301,504)
Exchange differences on translation of financial statements of overseas subsidiaries	(4,011)	7,102
Total	(2,227,951)	(197,004)
Attributable to:		
Equity shareholders of the Company	(2,196,502)	(207,666)
Non-controlling interests	(31,449)	10,662
Total	(2,227,951)	(197,004)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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20 CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2016	31 December 2015
Cash at banks and on hand	14,268,691	19,257,208
Time deposits with original maturity of no more than three months	2,251,233	974,302
Other monetary deposits	313,501	216,763
Total	16,833,425	20,448,273

As at 31 December 2016, cash and short-term time deposits of RMB4,415,513 thousand (31 December 2015: RMB1,863,876 thousand) were restricted from use, which are mainly trading deposits and securities settlement deposits.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Listed		
Debt securities		
Corporate bonds	2,561	6,365
Equity securities		
Stocks	856,867	542,022
Sub-total	859,428	548,387
Unlisted		
Debt securities		
Government bonds	19,412	19,572
Financial bonds	371,700	405,892
Corporate bonds	–	20,156
Equity securities		
Investment funds	2,944,079	9,017,748
Derivative instruments	37,691	–
Sub-total	3,372,882	9,463,368
Total	4,232,310	10,011,755

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22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements of the Group contain only securities held under resale agreements, with details as follows:

	31 December 2016	31 December 2015
Securities — bonds		
Stock exchange	4,051,301	1,288,501
Inter-bank market	201,000	—
Total	4,252,301	1,288,501

23 PREMIUMS RECEIVABLE

	31 December 2016	31 December 2015
Premiums receivable	2,216,899	928,666
Less: impairment provision	(89,816)	(68,588)
Premiums receivable, net	2,127,083	860,078

(a) Aging analysis

	31 December 2016	31 December 2015
Within 3 months (inclusive)	1,948,195	703,437
3 months to 1 year (inclusive)	181,119	156,641
1 to 2 years (inclusive)	39,491	33,587
Over 2 years	48,094	35,001
Total	2,216,899	928,666
Less: impairment provision	(89,816)	(68,588)
Net	2,127,083	860,078

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23 PREMIUMS RECEIVABLE (continued)

(b) Impairment provision of premiums receivable

	31 December 2016	31 December 2015
At the beginning of the year	68,588	55,096
Charge for the period	22,071	18,107
Written off	(843)	(4,615)
At the end of the year	89,816	68,588

24 REINSURANCE DEBTORS

	31 December 2016	31 December 2015
Reinsurance debtors	21,132,605	23,388,324
Less: impairment provision	(123,345)	(96,117)
Reinsurance debtors, net	21,009,260	23,292,207

(a) Aging analysis

	31 December 2016	31 December 2015
Within 3 months (inclusive)	19,466,513	22,761,894
3 months to 1 year (inclusive)	1,460,254	443,569
1 to 2 years (inclusive)	40,709	68,188
Over 2 years	165,129	114,673
Total	21,132,605	23,388,324
Less: impairment provision	(123,345)	(96,117)
Net	21,009,260	23,292,207

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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24 REINSURANCE DEBTORS (continued)

(b) Impairment provision of reinsurance debtors

	2016	2015
At the beginning of the year	96,117	95,824
Charge/(reversal) for the year	22,813	(3,558)
Exchange difference	4,415	3,851
At the end of the year	123,345	96,117

25 TIME DEPOSITS

	31 December 2016	31 December 2015
Within 3 months (inclusive)	3,510,726	793,592
3 months to 1 year (inclusive)	8,494,340	14,076,413
1 to 2 years (inclusive)	1,500,000	11,520,000
2 to 3 years (inclusive)	–	1,500,000
Total	13,505,066	27,890,005

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26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2016	31 December 2015
Listed		
Debt securities		
Financial bonds	2,651	500,000
Corporate bonds	7,159,981	7,373,572
Subordinated bonds	504,611	–
Equity securities		
Investment funds	399,114	3,182,981
Stocks	11,919,562	10,084,820
Sub-total	19,985,919	21,141,373
Unlisted		
Debt securities		
Government bonds	704	41,274
Financial bonds	9,734,618	5,567,433
Corporate bonds	11,784,653	14,512,743
Subordinated bonds	804,194	1,071,716
Others	–	70,050
Equity securities		
Investment funds	11,182,331	6,302,684
Equity shares	1,375,922	78,227
Others	1,375,709	1,400,675
Sub-total	36,258,131	29,044,802
Total	56,244,050	50,186,175

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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27 HELD-TO-MATURITY INVESTMENTS

	31 December 2016	31 December 2015
Listed		
Government bonds	13,437	13,376
Corporate bonds	4,573,231	4,726,550
Sub-total	4,586,668	4,739,926
Unlisted		
Government bonds	109,657	109,162
Financial bonds	1,190,167	837,867
Corporate bonds	5,360,361	6,009,372
Subordinated bonds	7,236,204	7,370,938
Others	–	10,665
Sub-total	13,896,389	14,338,004
Total	18,483,057	19,077,930

28 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2016	31 December 2015
Debt investment plan	22,013,884	10,060,000
Trust schemes	2,680,000	2,400,000
Subordinated debts	1,200,000	1,200,000
Certificate treasury bonds	–	150,000
Total	25,893,884	13,810,000

29 INVESTMENT CONTRACTS RECEIVABLE

	31 December 2015	Additions	Payments, surrenders, recaptures, others	31 December 2016
Investment contracts receivable	109,343,386	9,542,240	(118,761,283)	124,343

Investment contracts receivable represents receivable from cedants arising from reinsurance contracts which do not meet the definition of insurance contracts.

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30 SCOPE OF CONSOLIDATION

1) Particulars of the Company's primary subsidiaries as at 31 December 2016 are as follows:

Name	Place of Incorporation/ registration	Nominal value of registered share capital	Percentage of equity attributable to the Company		Principal activities/place of operation
			Direct	Indirect	
China Re P&C	Beijing	RMB11,482,250,000	100	–	Property and casualty reinsurance, China
China Re Life	Beijing	RMB8,170,000,000	100	–	Life and health reinsurance, China
China Continent Insurance	Shanghai	RMB8,335,134,974	93.18	–	Primary property and casualty insurance, China
China Re AMC	Beijing	RMB1,500,000,000	70	29.318	Management of insurance investments, China
Huatai Insurance Agency and Consultant Service Limited (“Huatai Insurance Agency”)	Beijing	RMB50,000,000	52.50	–	Insurance brokerage, risk evaluation and management, China
China Re UK	London	GBP300,000	100	–	Property and casualty reinsurance, UK
China Re Underwriting Agency Limited	London	GBP18,000,000	100	–	Underwriting agency, UK

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30 SCOPE OF CONSOLIDATION (continued)

2) As at 31 December 2016, the Company consolidated the following structured entities:

Name	Attributable equity interest	Paid-in capital	Principal activities
Bairong World Trade Center Real Estate Debt Investment Scheme	91%	RMB 9,000,000,000	Investment in Loan
Subway Sixteen Equity Investment Plan	65%	RMB 7,000,000,000	Investment in Loan
Binghai Environmental Equity Investment Plan	96%	RMB 900,000,000	Investment in Loan
Zhongye Zhiye Equity Investment Plan	60%	RMB 1,000,000,000	Investment in Loan
Ruiqi Asset Management Product	95%	RMB 2,253,483,567	Investment in Debt/ Debt investment plan/Trust
Ruiqi 2nd Asset Management Product	100%	RMB 30,121,136	Investment in Debt
Zhongzai Alternative Equity Fund	100%	RMB 864,370,865	Investment in Private Equity

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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31 INVESTMENTS IN ASSOCIATES

	31 December 2016	31 December 2015
Share of net assets		
— Listed shares	12,152,453	8,677,589
— Unlisted shares	298,473	139,640
Total	12,450,926	8,817,229

(a) Particulars of the Group's material associate are as follows:

Name of associate	Place of incorporation and business	Registered capital (RMB million)	Principal activities	Proportion of ownership interest		
				Group's effective interest	Held by the Company	Held by a subsidiary
China Everbright Bank Company Limited ("CEB")	China	46,679	Commercial banking			
				4.91%	2.11%	2.80%
				4.29%	1.80%	2.49%

The Group has significant influence over CEB through a group representative being a director of CEB. As such, the interest in this associate is accounted for using the equity method.

As at 31 December 2016, the market value of the Group's investment in CEB was RMB7,711 million (31 December 2015: RMB7,177 million).

The following table sets out the key financial statements of the Group's material associates, adjusted for fair value adjustments at the time of acquisition and the differences in adopting accounting policies of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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31 INVESTMENTS IN ASSOCIATES (continued)

(a) Particulars of the Group's material associate are as follows (continued):

	CEB (in RMB millions)	
	2016	2015
Gross amounts of the associate		
Operating income	94,365	93,364
Profit before tax	40,180	39,358
Net profit (i)	30,329	29,528
Other comprehensive income (i)	(3,420)	3,707
Total comprehensive income (i)	26,909	33,235
Total assets	4,020,042	3,167,710
Total liabilities	3,768,974	2,943,663
Net assets (ii)	219,227	202,247
Non-controlling interests	613	554
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate (ii)	219,227	202,247
Group's effective interest	4.91%	4.29%
Group's share of net assets of the associate	10,765	8,678
Carrying amount in the financial statements	10,765	8,678
Dividends received from the associate for the year	438	372

(i) Amount attributable to shareholders of the associate.

(ii) Amount attributable to preferred shareholders of the associate and goodwill are not included.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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31 INVESTMENTS IN ASSOCIATES (continued)

(b) Particulars of immaterial associates accounted for using the equity method are summarised as follows:

	2016	2015
Aggregate carrying amount of investments	1,685,872	139,640
Aggregate amount of share of:		
— Net profit	3,009	7,811
— Other comprehensive income	(152)	(224)
— Change in capital reserve	(277)	419
Total	2,580	8,006

32 STATUTORY DEPOSITS

In accordance with relevant provision of Insurance Law of the PRC, the Company, China Re P&C, China Re Life, China Continent Insurance and Huatai Insurance Agency should place 20% of its issued capital as restricted statutory deposits, respectively.

Details of the Group's statutory deposits are as follows:

	31 December 2016	31 December 2015
The Company	8,500,000	8,903,000
China Re P&C	2,300,000	2,090,000
China Re Life	1,750,000	1,750,000
China Continent Insurance	2,167,027	1,840,415
Huatai Insurance Agency	1,025	1,000
Total	14,718,052	14,584,415

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

33 INVESTMENT PROPERTIES

	Buildings	Construction In progress	Total
Cost			
Balance at 1 January 2015	647,310	–	647,310
Additions during the year	2,785,387	–	2,785,387
Balance at 31 December 2015	3,432,697	–	3,432,697
Additions during the year	1,657	–	1,657
Transfers to Construction in progress	(2,787,043)	2,742,141	(44,902)
Balance at 31 December 2016	647,311	2,742,141	3,389,452
Less: Accumulated depreciation			
Balance at 1 January 2015	(214,216)	–	(214,216)
Charge for the year	(26,714)	–	(26,714)
Balance at 31 December 2015	(240,930)	–	(240,930)
Charge for the year	(71,616)	–	(71,616)
Transfers to Construction in progress	44,902	–	44,902
Balance at 31 December 2016	(267,644)	–	(267,644)
Carrying amount			
Balance at 31 December 2016	379,667	2,742,141	3,121,808
Balance at 31 December 2015	3,191,767	–	3,191,767

According to the asset valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the fair value of investment properties as at 31 December 2016 was RMB4,244 million (31 December 2015: RMB4,183 million).

As at 31 December 2016, the Group was in the process of completing the ownership documentation of certain investment properties with a net carrying value of RMB2,742 million (31 December 2015: RMB2,785 million). The management are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned investment properties.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

34 PROPERTY AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction in progress	Leasehold improvement	Total
Cost							
Balance at 1 January 2015	2,465,280	68,209	365,421	544,995	151,102	124,555	3,719,562
Additions during the year	–	5,997	42,998	92,060	58,581	55,547	255,183
Transfers upon completion	67,946	–	–	5,458	(73,404)	–	–
Disposals during the year	(54,965)	(3,335)	(65,240)	(23,040)	–	–	(146,580)
Balance at 31 December 2015	2,478,261	70,871	343,179	619,473	136,279	180,102	3,828,165
Additions during the year	–	5,855	37,529	76,517	51,287	57,337	228,525
Transfers upon completion	153,801	–	–	1,520	(155,321)	–	–
Disposals during the year	(6,208)	(3,842)	(52,479)	(25,028)	–	–	(87,557)
Balance at 31 December 2016	2,625,854	72,884	328,229	672,482	32,245	237,439	3,969,133
Less: Accumulated depreciation							
Balance at 1 January 2015	(420,153)	(46,672)	(255,601)	(361,624)	–	(70,908)	(1,154,958)
Charge for the year	(81,940)	(7,066)	(24,630)	(67,267)	–	(29,583)	(210,486)
Written back on disposals	12,675	2,985	60,421	20,404	–	–	96,485
Balance at 31 December 2015	(489,418)	(50,753)	(219,810)	(408,487)	–	(100,491)	(1,268,959)
Charge for the year	(83,350)	(6,009)	(29,558)	(71,100)	–	(39,938)	(229,955)
Written back on disposals	2,106	3,592	49,419	22,136	–	–	77,253
Balance at 31 December 2016	(570,662)	(53,170)	(199,949)	(457,451)	–	(140,429)	(1,421,661)
Carrying amount							
Balance at 31 December 2016	2,055,192	19,714	128,280	215,031	32,245	97,010	2,547,472
Balance at 31 December 2015	1,988,843	20,118	123,369	210,986	136,279	79,611	2,559,206

As at 31 December 2016, the Group was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of RMB205 million (31 December 2015: RMB410 million). The management are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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35 INTANGIBLE ASSETS

	VOBA	Software	Total
Cost			
Balance at 1 January 2015	420,059	342,682	762,741
Additions during the year	–	80,029	80,029
Disposals during the year	–	(4,677)	(4,677)
Balance at 31 December 2015	420,059	418,034	838,093
Additions during the year	–	67,557	67,557
Disposals during the year	–	(49)	(49)
Balance at 31 December 2016	420,059	485,542	905,601
Less: Accumulated amortisation			
Balance at 1 January 2015	(306,796)	(142,077)	(448,873)
Charge for the year	(16,941)	(37,043)	(53,984)
Written back on disposals	–	936	936
Balance at 31 December 2015	(323,737)	(178,184)	(501,921)
Charge for the year	(13,518)	(42,267)	(55,785)
Written back on disposals	–	3	3
Balance at 31 December 2016	(337,255)	(220,448)	(557,703)
Carrying amount			
Balance at 31 December 2016	82,804	265,094	347,898
Balance at 31 December 2015	96,322	239,850	336,172

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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36 GOODWILL

	31 December 2016	31 December 2015
Cost		
— China Re P&C	650,529	650,529
— China Re Life	463,630	463,630
— China Continent Insurance	74,379	74,379
Total	1,188,538	1,188,538
Less: impairment provision	—	—
Carrying amount	1,188,538	1,188,538

For China Re P&C and China Continent Insurance, the Group uses discounted cash flow method to conduct goodwill impairment test. It is based on the Group's five years business plans, and cash flows beyond five years are extrapolated using a steady growth rate and terminal value. For China Re Life, the Group used embedded value and value of new business to conduct goodwill impairment test. Key assumptions used include:

Risk adjusted discount rate	11%
Investment yield	5%–6%
Sustainable growth rate	2%

The results of cash flow projections exceed the carried amount of each related cash-generating unit or group of units.

37 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities

	31 December 2016	31 December 2015
Deferred tax assets	838,155	352,818
Deferred tax liabilities	(1,036,157)	(1,509,188)
Net	(198,002)	(1,156,370)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

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37 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred tax assets and deferred tax liabilities

	2016			
	Balance at 1 January 2016	Credited/ (charged) to profit or loss	Credited/ (charged) to reserves	Balance at 31 December 2016
Available-for-sale financial assets	(730,369)	–	684,249	(46,120)
Financial assets at fair value				
through profit or loss	7,699	(22,477)	–	(14,778)
Impairment provisions	116,286	92,231	–	208,517
Premiums and reserves	192,952	461,450	–	654,402
Investment in associates	(755,601)	(351,702)	51,952	(1,055,351)
Payables to employees	181,904	4,836	–	186,740
Others	(169,241)	37,829	–	(131,412)
Total	(1,156,370)	222,167	736,201	(198,002)
	2015			
	Balance at 1 January 2015	Credited/ (charged) to profit or loss	Credited/ (charged) to reserves	Balance at 31 December 2015
Available-for-sale financial assets	(830,871)	–	100,502	(730,369)
Financial assets at fair value				
through profit or loss	33	7,666	–	7,699
Impairment provisions	61,912	54,374	–	116,286
Premiums and reserves	281,371	(88,419)	–	192,952
Investment in associates	(548,311)	(172,415)	(34,875)	(755,601)
Payables to employees	175,204	6,700	–	181,904
Others	(100,969)	(68,272)	–	(169,241)
Total	(961,631)	(260,366)	65,627	(1,156,370)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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37 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred tax assets and deferred tax liabilities (continued)

The estimated schedule of recoverability of deferred tax assets and liabilities is shown as follows:

	31 December 2016	31 December 2015
To be recovered within 12 months (inclusive)	1,213,711	226,976
To be recovered after more than 12 months	(1,411,713)	(1,383,346)
Total	(198,002)	(1,156,370)

38 OTHER ASSETS

	31 December 2016	31 December 2015
Subscription prepayment for securities	320,874	100,536
Interest receivables	2,493,734	2,704,588
Deposits retained by other parties	3,481,292	7,657,183
Claims prepaid	309,887	928,857
Deferred expenses	619,735	515,001
Others	825,957	1,038,593
Total	8,051,479	12,944,758
Less: impairment provision	(20,021)	(191,742)
Net	8,031,458	12,753,016

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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39 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2016	31 December 2015
Securities sold under agreements to repurchase		
— Stock exchange	2,238,788	5,146,250
— Inter-bank market	498,892	1,324,400
Total	2,737,680	6,470,650

As at 31 December 2016, the market value of RMB10,335 million bonds (31 December 2015: RMB12,967 million) are deposited in the collateral pool. Securities sold under agreements to repurchase are generally repurchased within 3 months from the date the securities are sold.

40 INVESTMENT CONTRACT LIABILITIES

	2016
At the beginning of the year	118,992,978
Additions	9,542,240
Payments, surrenders, recaptures	(117,387,948)
Fees deducted	(125,664)
Interest credited	508,496
At the end of the year	11,530,102

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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41 INSURANCE CONTRACT LIABILITIES

	31 December 2016		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health reinsurance contracts (a)	37,164,312	(1,436,909)	35,727,403
Short-term life and health reinsurance contracts (b)			
— Claim reserves	3,588,243	(1,335,778)	2,252,465
— Unearned premium reserves	1,832,387	(204,758)	1,627,629
Property and casualty reinsurance contracts (c)			
— Claim reserves	24,862,557	(422,278)	24,440,279
— Unearned premium reserves	7,793,411	(188,739)	7,604,672
Primary property and casualty insurance contracts (d)			
— Claim reserves	7,498,552	(917,490)	6,581,062
— Unearned premium reserves	12,441,132	(386,711)	12,054,421
Total insurance contract liabilities	95,180,594	(4,892,663)	90,287,931
	31 December 2015		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health reinsurance contracts (a)	54,110,061	(3,251,961)	50,858,100
Short-term life and health reinsurance contracts (b)			
— Claim reserves	3,261,587	(1,512,760)	1,748,827
— Unearned premium reserves	1,256,776	(390,840)	865,936
Property and casualty reinsurance contracts (c)			
— Claim reserves	23,943,406	(568,292)	23,375,114
— Unearned premium reserves	9,492,388	(185,133)	9,307,255
Primary property and casualty insurance contracts (d)			
— Claim reserves	9,806,683	(2,509,679)	7,297,004
— Unearned premium reserves	10,819,477	(280,604)	10,538,873
Total insurance contract liabilities	112,690,378	(8,699,269)	103,991,109

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41 INSURANCE CONTRACT LIABILITIES (continued)

(a) Long-term life and health reinsurance contracts

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	44,575,619	(1,715,469)	42,860,150
Additions	15,805,832	(2,376,890)	13,428,942
Payments	(5,696,242)	622,113	(5,074,129)
Surrenders	(2,512,508)	433,129	(2,079,379)
Others	1,937,360	(214,844)	1,722,516
At 31 December 2015	54,110,061	(3,251,961)	50,858,100
Additions	27,192,701	(1,806,476)	25,386,225
Payments	(10,830,505)	2,220,418	(8,610,087)
Surrenders	(34,420,959)	171,614	(34,249,345)
Others	1,113,014	1,229,496	2,342,510
At 31 December 2016	37,164,312	(1,436,909)	35,727,403

(b) Short-term life and health reinsurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	2,736,423	(845,218)	1,891,205
Claims incurred	4,141,923	(1,170,275)	2,971,648
Claims paid	(3,616,759)	502,733	(3,114,026)
At 31 December 2015	3,261,587	(1,512,760)	1,748,827
Claims incurred	3,885,207	(1,099,574)	2,785,633
Claims paid	(3,558,551)	1,276,556	(2,281,995)
At 31 December 2016	3,588,243	(1,335,778)	2,252,465

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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41 INSURANCE CONTRACT LIABILITIES (continued)

(b) Short-term life and health reinsurance contracts (continued)

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	861,694	(182,846)	678,848
Premiums written	6,075,974	(1,702,417)	4,373,557
Premiums earned	(5,680,892)	1,494,423	(4,186,469)
At 31 December 2015	1,256,776	(390,840)	865,936
Premiums written	6,506,175	(1,298,528)	5,207,647
Premiums earned	(5,930,564)	1,484,610	(4,445,954)
At 31 December 2016	1,832,387	(204,758)	1,627,629

(c) Property and casualty reinsurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	22,383,680	(414,410)	21,969,270
Claims incurred	18,589,369	(447,401)	18,141,968
Claims paid	(17,029,643)	293,519	(16,736,124)
At 31 December 2015	23,943,406	(568,292)	23,375,114
Claims incurred	15,874,010	(133,747)	15,740,263
Claims paid	(14,954,859)	279,761	(14,675,098)
At 31 December 2016	24,862,557	(422,278)	24,440,279

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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41 INSURANCE CONTRACT LIABILITIES (continued)

(c) Property and casualty reinsurance contracts (continued)

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	9,775,402	(142,739)	9,632,663
Premiums written	25,349,416	(4,978,198)	20,371,218
Premiums earned	(25,632,430)	4,935,804	(20,696,626)
At 31 December 2015	9,492,388	(185,133)	9,307,255
Premiums written	23,328,877	(553,450)	22,775,427
Premiums earned	(25,027,854)	549,844	(24,478,010)
At 31 December 2016	7,793,411	(188,739)	7,604,672

(d) Primary property and casualty insurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	7,697,908	(1,449,381)	6,248,527
Claims incurred	16,028,784	(1,899,871)	14,128,913
Claims paid	(13,920,009)	839,573	(13,080,436)
At 31 December 2015	9,806,683	(2,509,679)	7,297,004
Claims incurred	15,329,345	(340,925)	14,988,420
Claims paid	(17,637,476)	1,933,114	(15,704,362)
At 31 December 2016	7,498,552	(917,490)	6,581,062

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41 INSURANCE CONTRACT LIABILITIES (continued)

(d) Primary property and casualty insurance contracts (continued)

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	9,214,812	(308,364)	8,906,448
Premiums written	26,586,824	(966,822)	25,620,002
Premiums earned	(24,982,159)	994,582	(23,987,577)
At 31 December 2015	10,819,477	(280,604)	10,538,873
Premiums written	31,982,206	(1,176,828)	30,805,378
Premiums earned	(30,360,551)	1,070,721	(29,289,830)
At 31 December 2016	12,441,132	(386,711)	12,054,421

42 OTHER LIABILITIES

	31 December 2016	31 December 2015
Claims payable	95,044	115,656
Premiums received in advance	1,853,191	1,398,266
Salaries and welfare payable	1,360,055	1,255,923
Defined benefit obligation (a)	124,203	129,055
Unallocated cash	463,592	202,089
Insurance guarantee fund payable	95,476	76,929
Deposits from cedants	315,897	280,776
Securities clearance payable	4,245,452	1,731,041
Handling charges and commissions payable	575,467	362,206
Taxes payable	296,804	297,213
Payable to third party investors of consolidated structured entities	3,889,856	–
Dividends payable	–	3,455,718
Others	1,575,237	1,733,305
Total	14,890,274	11,038,177

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42 OTHER LIABILITIES (continued)

(a) Post-employment benefits — defined benefit retirement plan obligation

The Company offers the following two defined benefit retirement plans as post-employment benefit to its retired and early retired staff:

- (i) pension benefits for retired staff and pension benefits for early retired staff after they actually retire; and
- (ii) medical allowances.

Such defined benefit retirement plans would cause actuarial risks to the Company, such as longevity risk and inflation risk. As these defined benefit retirement plans share the same risk and characteristic, information about these plans is aggregated and disclosed below.

1) The amount of the defined benefit retirement plan obligation and its changes recognised in the financial statements are as follows:

	2016	2015
Opening balance	129,055	–
Cost of defined benefit retirement plans included in current profit or loss		
— Service cost in respect of prior years	–	120,850
— Interest cost	4,109	3,547
Remeasurement effects recognized in other comprehensive income	(4,674)	7,447
Benefits paid by the plans	(4,287)	(2,789)
Closing balance	124,203	129,055

2) Actuarial assumption

Significant actuarial assumptions utilised by the Company when estimating the present value of the obligation of defined benefit retirement plan are as follows (presented in weighted average):

	2016	2015
Discount rate	3.5%	3.25%
Mortality rate	Note	Note
Expected average life	84	84
Annual growth rate of pension benefits	4%	4%
Annual growth rate of medical allowances	7%	7%

Note: The mortality rate is determined based on the China Life Insurance Mortality Table-CL3/CL4 (2000–2003) issued by the CIRC in 2005.

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43 SHARE CAPITAL

	31 December 2016	31 December 2015
Issued and fully paid ordinary shares of RMB1 each		
Domestic shares	35,800,391	35,800,391
H shares	6,679,417	6,679,417
Total	42,479,808	42,479,808

The Company completed its initial public offering of overseas-listed foreign shares and was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 October 2015. In this offering, the Company issued 6,072 million H shares in total (including over-allotment of 302 million H shares) with a nominal value of RMB1.00 per share each and an issuance price of HKD2.70 per share. This public offering had raised a total amount of RMB13,443 million. As at 31 December 2016, a total of RMB7,002 million was recorded in share premiums after deducting the share capital of RMB6,072 million and the stock issuance fee.

Pursuant to the relevant PRC regulations “The interim regulation of the State Council on Transfers of State-owned Shares” (Guo Fa (2001) No.22) and the related regulatory approvals, 607,219,700 domestic shares held by the state-owned shareholders were converted into H shares during the initial public offering of the Company.

44 RESERVES AND RETAINED PROFITS

The amounts of the Group’s reserves and the movements therein for the reporting period are presented in the consolidated statements of changes in equity.

(a) **Capital reserve**

Pursuant to the approval from the Ministry of Finance, the Company recognised assets appraisal surplus from restructuring as capital reserve.

(b) **Surplus reserve**

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the Company.

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44 RESERVES AND RETAINED PROFITS (continued)

(c) **General risk reserve**

In accordance with the relevant regulations, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance business. The Group's respective entities would need to make appropriations to such reserve based on their respective profit or year-end risk assets as determined based on applicable financial regulations in the PRC, in their annual financial statements. This reserve is not available for profit distribution or transfer to capital.

(d) **Agriculture catastrophic loss reserve**

According to the relevant regulations of the PRC, which became effective from 1 January 2014, China Re P&C and China Continent Insurance are required to make appropriations to a reserve when the agricultural insurance records underwriting profits. This reserve cannot be used for dividend distribution, but can be utilised when there are catastrophic losses. The reserve can be transferred to general risk reserve if the Group ceases writing agricultural insurance business.

(e) **Retained profits**

As at 31 December 2016, the consolidated retained profits attributable to equity shareholders of the Company included an appropriation of RMB1,984 million to surplus reserve made by subsidiaries (31 December 2015: RMB1,602 million).

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45 INTEREST HELD IN UNCONSOLIDATED STRUCTURED ENTITIES

(a) Interest held in structured entities funded by third-party institutions

The Group holds an interest in some structured entities funded by third-party institutions through investments. Such structured entities mainly include investment funds, asset management products, debt investment plan and trust schemes. The Group does not consolidate these structured entities. The nature and purpose of these structured entities is to generate asset management fees by providing management services for investors. Third-party institutions raise funds via issuing investment products to investors.

As at 31 December, the carrying value of interest held by the Group in structured entities funded by third-party institutions through investments of the Group is listed below:

	31 December 2016			
	Held-to-maturity investments	Available-for-sale financial assets	Investments classified as loans and receivables	Financial assets at fair value through profit or loss
Investment funds	–	10,652,706	–	2,944,079
Asset management products	–	200,000	–	–
Debt investment plan	–	–	3,957,500	–
Trust schemes	–	–	1,700,000	–
Total	–	10,852,706	5,657,500	2,944,079

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

45 INTEREST HELD IN UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(a) Interest held in structured entities funded by third-party institutions (continued)

	31 December 2015			
	Held-to-maturity investments	Available-for-sale financial assets	Investments classified as loans and receivables	Financial assets at fair value through profit or loss
Investment funds	–	8,880,318	–	9,017,748
Asset management products	–	39,000	–	–
Debt investment plan	10,665	–	4,450,000	–
Trust schemes	–	–	2,400,000	–
Total	10,665	8,919,318	6,850,000	9,017,748

The maximum loss exposures of the interest held in structured entities funded by third-party institutions are their carrying amounts at the end of the reporting period.

(b) Interest held in the unconsolidated structured entities funded by the Group

Unconsolidated structured entities funded by the Group mainly include the asset management products and third-party entrusted asset management business products issued by the Group. The nature and purpose of these structured entities is to generate asset management fees by providing management services for investors. The Group raise funds via issuing investment products to investors.

Asset management products

As at 31 December 2016, the balances of asset management products funded by the Group but unconsolidated in the financial statements amounted to RMB1.7 billion (31 December 2015: RMB11.27 billion), among which RMB0.34 billion was held by the Group (31 December 2015: 6.25 billion).

Third-party entrusted asset management business products

As at 31 December 2016, the balances of the third-party entrusted asset management business products funded by the Group but unconsolidated in the financial statements amounted to RMB55.4 billion (31 December 2015: RMB39.83 billion).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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46 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operations:

	2016	2015
Profit before tax	6,402,172	9,888,876
Adjustments for:		
Investment income	(7,738,840)	(11,696,420)
Exchange gains, net	(386,344)	(152,446)
Finance costs	136,897	141,434
Share of profits of associates	(1,446,146)	(1,256,091)
Impairment provisions (reversals)/charges	(124,928)	189,159
Depreciation of property and equipment	229,955	210,486
Depreciation of investment property	71,616	26,714
Amortisation of intangible assets	42,267	37,043
(Gains)/losses on disposal of property and equipment and intangible assets, net	(10,854)	693
(Decrease)/Increase in insurance contract liabilities	(17,509,784)	14,865,673
(Decrease)/Increase in investment contract liabilities and policyholders' deposits	(107,104,077)	97,777,555
Decrease/(Increase) in reinsurer's share of insurance contract liabilities	3,806,606	(3,413,169)
Increase in premiums receivable	(1,267,005)	(284,432)
Decrease/(increase) in reinsurance debtors	2,282,947	(11,558,906)
Decrease/(increase) in investment contracts receivable	109,219,043	(94,750,774)
Increase in reinsurance payables	6,197,325	1,322,103
Decrease/(increase) in other assets	4,146,442	(754,293)
Increase/(decrease) in other liabilities	1,939,208	(365,480)
Cash generated from operations	(1,113,500)	227,725

(b) Analysis of balances of cash and cash equivalents:

	2016	2015
Cash and short-term time deposits	16,833,425	20,448,273
Add: Financial assets held under resale agreements with original maturity of no more than three months	4,252,301	1,288,501
Less: Restricted cash at banks	(4,415,513)	(1,863,876)
Cash and cash equivalents at end of the year	16,670,213	19,872,898

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT

(1) Insurance risk

An insurance policy's risk lies in uncertainty of insured events and the corresponding paid loss. From the perspective of fundamental nature of each policy, the above risk occurs randomly, and the actual paid amount will differ from the estimated data based on statistical methods for each period. For those policy portfolios using probability theory for pricing and reserve estimation, the main risk the Group faces is that the actual payment exceeds the carrying amount of insurance liability, which will occur when the actual loss occurrence or severity exceeds expected values. Such risk is likely to occur in the following situations:

Occurrence risk — the possibility that the number of insured events will differ from that expected;

Severity risk — the possibility that the cost of the events will differ from that expected; or

Development risk — the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

Experience shows that the larger the insurance contracts portfolio of the same nature, the smaller the variability of expected results. In addition, a more diversified portfolio is less likely to be impacted by any sub-portfolio's change. The Group has already established insurance underwriting strategy to diversify underwriting risks, and has maintained a sufficient number of policies for different types of insurance risk. Therefore uncertainty of expected results will be reduced.

For the Group's property and casualty insurance and reinsurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. For the Group's health and accident reinsurance contracts, infectious diseases, huge lifestyle changes, natural disasters and accidents are all important factors that may increase the loss ratio, which may lead to earlier or more claims than expected. For the Group's life reinsurance contracts, the most important factor is that continuous improvement of medical standards and social conditions help to extend life expectancy. Furthermore, policyholders' terminating contracts, reducing and refusing to pay premiums also impact insurance risk, which means that insurance risk is affected by policyholders' behaviours and decisions.

According to the risk characters, the Group's different departments and subsidiaries manage corresponding insurance risk by determining insurance products' underwriting standards and strategy, and prescribing counterparty risk limits, reinsurance arrangements and claim processing. The Group's assumed insurance liability also incorporates international business underwritten by the former PICC (Group) Company, including asbestos, pollution, health hazard and other potential long-tail risks. Due to such high level of inherent uncertainty in the above business, consisting of relevant payment instability and insurance liability's cognisant uncertainty, the Group cannot completely rule out such significant loss possibilities such as if other reinsurance companies underwrite this kind of business. The Group reduces the uncertainty posted by such business through contacting with ceding companies actively and seeking to settle the liability.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

The Group's insurance business mainly comes from Mainland China. The Group's concentration of insurance risk is reflected by its major lines of business as analysed by insurance and reinsurance premium income in Note 5.

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business

When measuring insurance contract reserves, the risk margin has been considered and measured at the 75% percentile by the Group. The risk margin for claim reserves falls between 2.5% and 15%, while the risk margin for unearned premium reserves falls between 3.0% and 15%. If the Group's calculated risk margin falls above/below the chosen interval, the Group chooses the upper/lower limit as the risk margin.

When determining the reserves, the Group discounts relevant future cash flows if the impact of time value of money is significant. Impact significance depends on the "duration" of insurance liability. If the duration of insurance liability is longer than one year, the time value of money is significant and should be included when determining the reserves; otherwise, it is not compulsory for determining the reserves.

Sensitivity analysis

Changes of paid loss and other factors of property and casualty, short-term life and health insurance and reinsurance business may impact changes of assumptions and further unpaid claim estimates. If all other variables remain unchanged, a 1% increase in average claim cost will result in a decrease in profit before tax by RMB583 million for the years ended 31 December 2016 (31 December 2015: RMB564 million).

Several variables' sensitivity cannot be quantified, such as legal changes, uncertainty of loss estimation and so on. In addition, time delay exists among claims occurrence, reporting and closing.

Claim development tables

According to the characteristics of property and casualty, short-term life and health insurance and reinsurance business, the claim development information is disclosed based on accident year for primary insurance and underwriting year for reinsurance respectively:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(i) Primary insurance contracts (*)

Gross

	2011 and earlier	2012	2013	2014	2015	2016	Total
Cumulated loss estimate							
Year ending	36,972,001	9,705,509	11,641,703	12,351,301	15,698,652	15,514,119	
1 year later	36,898,202	9,933,303	11,994,602	12,152,903	15,237,312		
2 years later	36,649,726	9,832,167	11,499,370	11,920,235			
3 years later	36,531,372	9,881,015	11,401,731				
4 years later	36,508,211	9,830,639					
5 years later	36,534,506						
Estimated cumulated claims	36,534,506	9,830,639	11,401,731	11,920,235	15,237,312	15,514,119	100,438,542
Less: Cumulated claims paid	36,437,406	9,733,993	11,234,056	11,521,339	14,108,549	10,434,026	93,469,369
Add: Adjustments in prior periods and unallocated loss adjustment expense ("ULAE"), discount and risk margin							561,722
Estimated unpaid claims							7,530,895

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(i) Primary insurance contracts (*) (continued)

Net

	2011 and earlier	2012	2013	2014	2015	2016	Total
Cumulated loss estimate							
Year ending	28,260,486	8,712,541	10,248,170	11,010,672	12,712,994	14,283,765	
1 year later	28,185,564	8,872,824	10,203,235	10,680,709	12,596,186		
2 years later	28,058,905	8,794,129	10,014,769	10,544,676			
3 years later	27,999,586	8,780,927	9,961,203				
4 years later	27,971,063	8,763,099					
5 years later	27,966,794						
Estimated cumulated claims	27,966,794	8,763,099	9,961,203	10,544,676	12,596,186	14,283,765	84,115,723
Less: Cumulated claims paid	27,911,895	8,721,381	9,874,992	10,353,767	11,685,459	9,819,994	78,367,488
Add: Adjustments in prior periods and ULAE, discount and risk margin							480,379
Estimated unpaid claims							6,228,614
Less: Estimated unpaid claims assumed by China Re Group							(384,791)
Gross estimated unpaid claims							6,613,405

(*) Primary insurance contracts presented include the assumed reinsurance business undertaken by China Continent Insurance.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(ii) Reinsurance contracts

Gross

	2011 and earlier	2012	2013	2014	2015	2016	Total
Cumulated loss estimate							
Year ending	167,840,155	18,414,971	23,081,049	24,138,475	27,027,637	20,800,237	
1 year later	167,273,365	18,690,595	23,039,691	22,774,946	26,217,685		
2 years later	166,048,998	18,093,574	22,072,015	21,188,387			
3 years later	165,390,135	17,927,497	21,980,201				
4 years later	165,493,077	17,994,290					
5 years later	167,621,325						
Estimated cumulated claims	167,621,325	17,994,290	21,980,201	21,188,387	26,217,685	20,800,237	275,802,125
Less: Cumulated claims paid	165,196,815	17,366,267	20,762,870	17,895,426	15,823,355	2,271,865	239,316,598
Unearned claims	86	1,145	5,534	15,300	87,618	8,753,399	8,863,082
Add: Risk margin, discount and ULAE	194,925	34,683	49,666	139,159	471,238	464,802	1,354,473
Estimated unpaid claims							28,976,918
Less: Estimated unpaid claims assumed by China Continent Insurance							558,461
Gross estimated unpaid claims							28,418,457

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(ii) Reinsurance contracts (continued)

Net	2011 and earlier	2012	2013	2014	2015	2016	Total
Cumulated loss estimate							
Year ending	165,924,417	17,346,826	21,329,248	22,605,769	24,259,952	19,343,760	
1 year later	165,563,074	18,386,234	21,935,057	21,586,001	24,632,153		
2 years later	164,276,470	17,599,041	20,985,479	19,915,051			
3 years later	163,589,148	17,418,341	21,053,866				
4 years later	163,977,436	17,479,484					
5 years later	166,202,527						
Estimated cumulated claims	166,202,527	17,479,484	21,053,866	19,915,051	24,632,153	19,343,760	268,626,841
Less: Cumulated claims paid	163,404,325	16,863,676	19,647,249	16,766,596	14,581,523	2,141,333	233,404,702
Unearned claims	86	1,140	5,522	15,051	73,042	8,417,952	8,512,793
Add: Risk margin, discount and ULAE	(207,031)	33,046	(167,137)	125,303	224,967	468,288	477,436
Estimated unpaid claims	2,591,085	647,715	1,233,958	3,258,707	10,202,555	9,252,762	27,186,782
Less: Estimated unpaid claims assumed by China Continent Insurance							526,380
Gross estimated unpaid claims							26,660,402

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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47 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(b) Assumptions and sensitivity analysis for long-term life and health insurance contracts

Major assumptions

Life and health insurance contract reserve is determined by the Group's reasonable estimate of future payments, premiums and related expenses, as well as considering risk margin. Mortality rates, morbidity rates, lapse rates, discount rates and loss adjustment expense assumptions adopted in reasonable estimation are determined by latest experience study, current and future expectations. Uncertainty of liabilities arisen from the uncertainty of future cash flows including future claim payments, premium and related expenses, etc. are reflected through risk margin.

Residual margin related to life and health insurance contract reserve is amortised during the expected benefit period using assumptions as at policy inception, including discount rates, incident rates, lapse rates and expenses assumptions.

Sensitivity analysis

Significant assumptions involved in reserve calculation include mortality rates, morbidity rates, lapse rates, investment return and policy management fees, etc.

	Changes in assumptions	Impact on profit before tax	
		2016	2015
Mortality/morbidity	+10%	(221,979)	(210,499)
Mortality/morbidity	-10%	227,600	215,482
Lapse rate	+10%	41,364	26,469
Lapse rate	-10%	(42,026)	(26,517)
Discount rate	+50bp	989,714	1,071,124
Discount rate	-50bp	(1,088,724)	(1,170,367)

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47 RISK MANAGEMENT (continued)

(2) Financial risk

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with commercial banks, bond issuers, premiums receivable and reinsurance arrangements. Majority of the Group's financial assets are debt investments which include government bonds, financial bonds, corporate bonds, subordinated bonds, debt investment plan, trust schemes and wealth management products with high credit ratings and time deposits in state-owned commercial banks, etc. As at 31 December 2016, 93% (31 December 2015: 95%) of the financial institution bonds held by the Group either had a credit rating of A or above, or were issued by national commercial banks. As at 31 December 2016, 100% (31 December 2015: 98%) of the corporate bonds and short term corporate financing bonds held by the Group had a credit rating of AA and A-1 or above. The bond credit ratings are assigned by qualified appraisal institutions in the PRC. As at 31 December 2016, 75% (31 December 2015: 55%) of the debt investment plan are guaranteed by third parties or collateralized.

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.

(i) Credit risk exposure

The Group's maximum exposure to credit risk is the carrying amount of the financial assets in the consolidated statement of financial position. The maximum exposure to credit risk in respect of these financial guarantees at the end of reporting period is disclosed in Note 32.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(a) Credit risk (continued)

(ii) Aging analysis of financial assets

	2016				Total
	Not due	Financial assets due but not impaired		Financial assets due and impaired	
		within 1 year	after 1 year		
Cash and short-term time deposits	16,833,425	–	–	–	16,833,425
Debt securities carried at fair value through profit or loss	393,673	–	–	–	393,673
Financial assets held under resale agreements	4,252,301	–	–	–	4,252,301
Premiums receivable	680,503	1,446,580	–	89,816	2,216,899
Reinsurance debtors	20,427,181	261,298	37,248	406,878	21,132,605
Time deposits	13,505,066	–	–	–	13,505,066
Available-for-sale debt securities	29,991,412	–	–	–	29,991,412
Held-to-maturity investments	18,483,057	–	–	–	18,483,057
Investments classified as loans and receivables	25,893,884	–	–	–	25,893,884
Reinsurers' share of policy loans	365,622	–	–	–	365,622
Investment contracts receivable	124,343	–	–	–	124,343
Statutory deposits	14,718,052	–	–	–	14,718,052
Other financial assets	7,093,954	–	–	20,021	7,113,975
Sub-total	152,762,473	1,707,878	37,248	516,715	155,024,314
Less: impairment provisions					(233,181)
Total					154,791,133

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(a) Credit risk (continued)

(ii) Aging analysis of financial assets (continued)

	2015				Total
	Not due	Financial assets due but not impaired		Financial assets due and impaired	
		within 1 year	after 1 year		
Cash and short-term time deposits	20,448,273	–	–	–	20,448,273
Debt securities carried at fair value through profit or loss	451,985	–	–	–	451,985
Financial assets held under resale agreements	1,288,501	–	–	–	1,288,501
Premiums receivable	703,437	156,641	–	68,588	928,666
Reinsurance debtors	22,831,382	247,527	62,979	246,436	23,388,324
Time deposits	27,890,005	–	–	–	27,890,005
Available-for-sale debt securities	29,136,788	–	–	–	29,136,788
Held-to-maturity investments	19,077,930	–	–	–	19,077,930
Investments classified as loans and receivables	13,810,000	–	–	–	13,810,000
Reinsurers' share of policy loans	302,561	–	–	–	302,561
Investment contracts receivable	109,343,386	–	–	–	109,343,386
Statutory deposits	14,584,415	–	–	–	14,584,415
Other financial assets	12,539,179	–	–	191,742	12,730,921
Sub-total	272,407,842	404,168	62,979	506,766	273,381,755
Less: impairment provisions					(356,447)
Total					273,025,308

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) 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 market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk).

The Group adopts various measures managing market risk, including sensitive analysis, Value-at-Risk ("VaR"), stress testing, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; setting acceptable risk tolerance level according to development goals; and tracking the risk control results dynamically to maintain market risk exposure within acceptable level.

(i) Interest rate risk

The Group's interest rate risk arises primarily from financial instruments mainly including cash and short-term time deposits, time deposits and debt investments. Financial instruments at fixed rates and at floating rates expose the Group to fair value interest rate risk and cash flow interest rate risk, respectively.

Fair value interest rate risk

The sensitivity analysis below indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

	Interest rate change	Impact on equity	
		2016	2015
Financial assets at fair value through profit or loss	+50bp	(2,848)	(4,817)
Financial assets at fair value through profit or loss	-50bp	2,848	4,817
Available-for-sale financial assets	+50bp	(418,124)	(437,998)
Available-for-sale financial assets	-50bp	418,124	437,998
	Interest rate change	Impact on net profit	
		2016	2015
Financial assets at fair value through profit or loss	+50bp	(2,848)	(4,817)
Financial assets at fair value through profit or loss	-50bp	2,848	4,817
Available-for-sale financial assets	+50bp	–	–
Available-for-sale financial assets	-50bp	–	–

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Cash flow interest rate risk

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for each reporting date.

	Interest rate change	Impact on net profit/equity	
		2016	2015
Floating interest rate debt securities	+50bp	2,099	13,367
Floating interest rate debt securities	-50bp	(2,099)	(13,367)
Floating interest rate debt investment	+50bp	4,003	7,350
Floating interest rate debt investment	-50bp	(4,003)	(7,350)
Floating interest rate deposits	+50bp	–	2,000
Floating interest rate deposits	-50bp	–	(2,000)

(ii) Currency risk

The Group is exposed to currency risk primarily through holding monetary financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities denominated in foreign currencies, which mainly including cash and short-term time deposits, time deposits, debt investments, reinsurance debtors, reinsurance payables and insurance contract liabilities.

The following table summarises the Group's financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities by major currency at the end of the reporting period, expressed in the RMB equivalent.

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

	2016					
	RMB	USD	HKD	GBP	Others	Total
Cash and short-term time deposits	8,310,941	4,963,453	2,810,630	208,352	540,049	16,833,425
Financial assets at fair value through profit or loss	3,646,820	-	585,490	-	-	4,232,310
Financial assets held under resale agreements	4,252,301	-	-	-	-	4,252,301
Premiums receivable	1,957,134	153,587	77	11,683	4,602	2,127,083
Reinsurance debtors	18,554,987	1,427,828	365,365	16,856	644,224	21,009,260
Reinsurers' share of insurance contract liabilities	4,342,953	405,364	46	142,054	2,246	4,892,663
Time deposits	13,193,985	241,761	-	69,320	-	13,505,066
Available-for-sale financial assets	48,335,567	1,645,334	6,263,149	-	-	56,244,050
Held-to-maturity investments	18,483,057	-	-	-	-	18,483,057
Investments classified as loans and receivables	25,893,884	-	-	-	-	25,893,884
Reinsurers' share of policy loans	365,622	-	-	-	-	365,622
Investment contracts receivable	116,424	433	7,486	-	-	124,343
Statutory deposits	14,718,052	-	-	-	-	14,718,052
Other financial assets	5,135,689	469,674	39,199	1,341,496	107,896	7,093,954
Total	167,307,416	9,307,434	10,071,442	1,789,761	1,299,017	189,775,070
Securities sold under agreements to repurchase	2,737,680	-	-	-	-	2,737,680
Reinsurance payables	10,984,643	683,639	11,058	331,335	206,694	12,217,369
Income tax payable	188,683	-	-	528	-	189,211
Policyholders' deposits	800,171	69,529	416,431	-	-	1,286,131
Investment contract liabilities	10,704,310	221,186	604,606	-	-	11,530,102
Insurance contract liabilities	83,975,297	7,701,681	1,958,931	1,192,306	352,379	95,180,594
Other financial liabilities	12,048,694	728,439	97,996	61,276	100,678	13,037,083
Total	121,439,478	9,404,474	3,089,022	1,585,445	659,751	136,178,170

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

	2015					Total
	RMB	USD	HKD	GBP	Others	
Cash and short-term time deposits	3,984,925	1,285,078	14,757,379	133,714	287,177	20,448,273
Financial assets at fair value through profit or loss	9,784,209	–	227,546	–	–	10,011,755
Financial assets held under resale agreements	1,288,501	–	–	–	–	1,288,501
Premiums receivable	763,187	95,002	59	–	1,830	860,078
Reinsurance debtors	21,641,166	994,581	189,052	26,201	441,207	23,292,207
Reinsurers' share of insurance contract liabilities	8,260,662	300,403	206	135,940	2,058	8,699,269
Time deposits	26,730,000	982,337	–	158,939	18,729	27,890,005
Available-for-sale financial assets	45,746,858	668,580	3,770,737	–	–	50,186,175
Held-to-maturity investments	19,077,930	–	–	–	–	19,077,930
Investments classified as loans and receivables	13,810,000	–	–	–	–	13,810,000
Reinsurers' share of policy loans	302,561	–	–	–	–	302,561
Investment contracts receivable	109,149,570	1,981	191,835	–	–	109,343,386
Statutory deposits	14,584,415	–	–	–	–	14,584,415
Other financial assets	10,712,386	390,326	17,278	1,336,974	82,215	12,539,179
Total	285,836,370	4,718,288	19,154,092	1,791,768	833,216	312,333,734
Securities sold under agreements to repurchase	6,470,650	–	–	–	–	6,470,650
Reinsurance payables	5,097,997	511,333	6,242	322,366	82,106	6,020,044
Income tax payable	387,658	–	–	–	–	387,658
Policyholders' deposits	396,343	80,141	450,848	–	–	927,332
Investment contract liabilities	118,795,000	5,648	192,163	–	167	118,992,978
Insurance contract liabilities	104,818,215	5,448,172	1,128,513	1,012,654	282,824	112,690,378
Other financial liabilities	8,894,259	239,832	356,102	107,099	42,619	9,639,911
Total	244,860,12	6,285,126	2,133,868	1,442,119	407,716	255,128,951

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity analysis

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit after tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Currency	Changes in exchange rate	Impact on equity	
		2016	2015
USD	+5%	(3,639)	(58,756)
USD	-5%	3,639	58,756
HKD	+5%	261,841	638,258
HKD	-5%	(261,841)	(638,258)
GBP	+5%	7,662	13,112
GBP	-5%	(7,662)	(13,112)

(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 the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group uses VaR to measure the expected loss in respect of equity price risk for stock and fund investments measured at fair value. The Group monitors the daily value fluctuation risk over a portent period of 1 day for going concern basis. Moreover, VaR is measured over a holding period of 250 trading days at a confidence level of 95% assumed under normal market condition.

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(iii) Price risk (continued)

Under normal market conditions, the impact on net equity of 1-day potential loss of equity investments such as equity shares and investment funds is estimated using the VaR technique as follows (presented in negative value):

	2016	2015
Financial assets at fair value through profit or loss		
Equity shares	(10,862)	(25,280)
Investment funds	(39)	(1,045)
Sub-total	(10,901)	(26,325)
Available-for-sale financial assets		
Equity shares	(245,768)	(330,029)
Investment funds	(51,442)	(169,186)
Sub-total	(297,210)	(499,215)
Total	(308,111)	(525,540)

(c) Liquidity risk

Liquidity risk is the risk that the Group fails to obtain sufficient capital to pay off its matured liabilities. During normal operating activities, the Group reduces liquidity risk through matching the maturity date of investment assets with that of financial liabilities and insurance liabilities.

The Group's relevant departments and the asset management company are responsible for managing and monitoring daily liquidity risks, including analysis of liquidity ratio, establishment of short-term and long-term investment strategy and setting up of a liquidity warning system to ensure liquidity safety.

The tables below summarise the remaining contractual maturity profile of the financial assets and financial liabilities, the expected timing of insurance contract liabilities and reinsurers' share of insurance contract liabilities of the Group based on undiscounted cash flows.

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(c) Liquidity risk (continued)

	31 December 2016					Total	Carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years			
Assets:							
Cash and short-term time deposits	16,833,425	-	-	-	16,833,425	16,833,425	
Debt securities carried at fair value through profit or loss	12,849	399,721	2,521	-	415,091	393,673	
Equity securities carried at fair value through profit or loss	3,838,637	-	-	-	3,838,637	3,838,637	
Financial assets held under resale agreements	4,254,396	-	-	-	4,254,396	4,252,301	
Premiums receivable	2,127,083	-	-	-	2,127,083	2,127,083	
Reinsurance debtors	19,724,431	1,386,390	-	-	21,110,821	21,009,260	
Reinsurers' share of insurance contract liabilities	3,571,272	767,984	546,518	36,381	4,922,155	4,892,663	
Time deposits	12,333,758	1,506,625	-	-	13,840,383	13,505,066	
Available-for-sale debt securities	5,286,889	7,439,222	11,785,584	10,578,434	35,090,129	29,991,412	
Available-for-sale equity securities	26,252,638	-	-	-	26,252,638	26,252,638	
Held-to-maturity investments	858,101	953,992	4,801,211	22,226,504	28,839,808	18,483,057	
Investments classified as loans and receivables	2,273,426	4,318,701	10,596,050	22,986,659	40,174,836	25,893,884	
Reinsurers' share of policy loans	365,622	-	-	-	365,622	365,622	
Investment contracts receivable	124,343	-	-	-	124,343	124,343	
Statutory deposits	7,338,185	3,210,301	5,081,247	-	15,629,733	14,718,052	
Other financial assets	5,371,125	59,016	1,663,813	-	7,093,954	7,093,954	
Total	110,566,180	20,041,952	34,476,944	55,827,978	220,913,054	189,775,070	
Liabilities:							
Securities sold under agreements to repurchase	2,739,190	-	-	-	2,739,190	2,737,680	
Reinsurance payables	11,772,414	-	444,955	-	12,217,369	12,217,369	
Income tax payable	189,211	-	-	-	189,211	189,211	
Policyholders' deposits	1,240,777	43,757	1,597	-	1,286,131	1,286,131	
Investment contract liabilities	285,022	808,163	5,193,979	11,255,597	17,542,761	11,530,102	
Insurance contract liabilities	47,619,770	14,417,040	15,455,683	24,871,547	102,364,040	95,180,594	
Other financial liabilities	8,891,604	112,845	591,673	3,440,962	13,037,084	13,037,083	
Total	72,737,988	15,381,805	21,687,887	39,568,106	149,375,786	136,178,170	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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47 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(c) Liquidity risk (continued)

	31 December 2015					Total	Carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years			
Assets:							
Cash and short-term time deposits	20,448,914	-	-	-	20,448,914	20,448,273	
Debt securities carried at fair value through profit or loss	39,001	42,969	403,465	340	485,775	451,985	
Equity securities carried at fair value through profit or loss	9,559,770	-	-	-	9,559,770	9,559,770	
Financial assets held under resale agreements	1,289,054	-	-	-	1,289,054	1,288,501	
Premiums receivable	860,078	-	-	-	860,078	860,078	
Reinsurance debtors	23,273,521	18,293	393	-	23,292,207	23,292,207	
Reinsurers' share of insurance contract liabilities	5,772,346	1,496,943	893,558	19,292	8,182,139	8,699,269	
Time deposits	15,855,772	11,751,030	2,137,742	-	29,744,544	27,890,005	
Available-for-sale debt securities	3,654,579	5,876,228	12,495,135	11,877,310	33,903,252	29,136,788	
Available-for-sale equity securities	21,049,387	-	-	-	21,049,387	21,049,387	
Held-to-maturity investments	1,116,332	1,258,989	4,690,394	23,425,260	30,490,975	19,077,930	
Investments classified as loans and receivables	1,497,897	1,696,201	6,870,358	10,960,973	21,025,429	13,810,000	
Reinsurers' share of policy loans	302,561	-	-	-	302,561	302,561	
Investment contracts receivable	109,343,386	-	-	-	109,343,386	109,343,386	
Statutory deposits	6,798,543	5,402,642	3,687,329	-	15,888,514	14,584,415	
Other financial assets	10,938,685	160,178	1,440,316	-	12,539,179	12,539,179	
Total	231,799,826	27,703,473	32,618,690	46,283,175	338,405,164	312,333,734	
Liabilities:							
Securities sold under agreements to repurchase	6,473,572	-	-	-	6,473,572	6,470,650	
Reinsurance payables	5,588,231	7,104	424,709	-	6,020,044	6,020,044	
Income tax payable	387,658	-	-	-	387,658	387,658	
Policyholders' deposits	921,957	2,442	2,412	521	927,332	927,332	
Investment contract liabilities	109,042,291	-	415,794	9,534,893	118,992,978	118,992,978	
Insurance contract liabilities	50,070,375	16,379,349	13,663,694	28,276,691	108,390,109	112,690,378	
Other financial liabilities	9,374,735	6,014	158,105	187,447	9,726,301	9,639,911	
Total	181,858,819	16,394,909	14,664,714	37,999,552	250,917,994	255,128,951	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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48 FAIR VALUE MEASUREMENT

(1) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following tables present the fair value of the Group's financial instruments measured at 31 December 2016 on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value As at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	393,673	2,561	391,112	–
— Equity securities	3,838,637	3,636,081	164,865	37,691
Available-for-sale financial assets				
— Debt securities	29,991,412	1,920,341	28,071,071	–
— Equity securities	26,252,638	21,432,983	441,419	4,378,236
Total	60,476,360	26,991,966	29,068,467	4,415,927

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48 FAIR VALUE MEASUREMENT (continued)

(1) Financial assets and liabilities measured at fair value (continued)

	Fair value As at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	451,985	6,365	445,620	—
— Equity securities	9,559,770	9,549,548	10,222	—
Available-for-sale financial assets				
— Debt securities	29,136,788	834,709	28,302,079	—
— Equity securities	21,049,387	18,469,938	118,657	2,460,792
Total	60,197,930	28,860,560	28,876,578	2,460,792

Reconciliation of movements in Level 3 financial instruments measured at fair value

	Available-for-sale financial assets		Financial assets at fair value through profit or loss	
	2016	2015	2016	2015
At 1 January	2,460,792	729,604	—	—
Additions	1,917,444	1,732,365	37,691	—
Expirations	—	(1,177)	—	—
At 31 December	4,378,236	2,460,792	37,691	—

Valuation techniques and inputs used in Level 2 fair value measurements

As at 31 December 2016, most of the prices of debt securities obtained from the valuation service providers are issued by the Chinese government and state-owned organisations. These valuation service providers utilise a discounted cash flow valuation model using observable market parameters, mainly interest rate, to determine a fair value.

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48 FAIR VALUE MEASUREMENT (continued)

(1) Financial assets and liabilities measured at fair value (continued)

Due to changes in availability of quoted prices in active markets, the Group transferred certain securities between Level 1 and Level 2. As at 31 December 2016, the Group transferred securities of RMB 301 million (31 December 2015: RMB 61 million) from Level 1 to Level 2 and RMB 36 million (31 December 2015: RMB 260 million) from Level 2 to Level 1.

The year ended 31 December 2016 and 31 December 2015, the Group did not have any assets transferred between fair value hierarchy Level 2 and Level 3.

Valuation techniques and inputs used in Level 3 fair value measurements

For derivative instruments, investment funds, unlisted equity share, etc., held by the Group, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value. The valuation techniques include discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

31 December 2016	Fair value
Derivative instruments	37,691
Investment funds	1,664,605
Unlisted equity shares	1,337,922
Others	1,375,709

The unobservable inputs which may have impact on the valuation include credit premium, valuation multiples of comparable companies, etc.

Critical unobservable inputs	Impacts on fair value measurements
Credit premium	The higher of credit premium, the lower the fair value
Valuation multiples of comparable companies	The higher of valuation multiples, the higher the fair value

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48 FAIR VALUE MEASUREMENT (continued)

(2) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2016 except for the following financial instruments, for which their carrying amounts, fair value and the level of fair value hierarchy are disclosed below:

	31 December 2016		31 December 2016 The fair value hierarchy		
	carrying amount	fair value	Level 1	Level 2	Level 3
Held-to-maturity financial assets	18,483,057	19,662,193	303,701	19,358,492	–

	31 December 2015		31 December 2015 The fair value hierarchy		
	carrying amount	fair value	Level 1	Level 2	Level 3
Held-to-maturity financial assets	19,077,930	20,682,822	3,551,088	17,131,734	–

The fair values of the financial assets included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The fair values of investments classified as loans and receivables are considered approximate to their carrying values recognised in these consolidated financial statements.

49 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to focus on the balance between risk and profit, to ensure that the Group meets the external capital requirements and maintains a sound solvency margin ratio to support its business development and maximise profit for shareholders, by pricing products and services commensurately with the level of risk and by accessing to finance at a reasonable cost.

The Group regularly reviews and manages its capital structure to achieve the most ideal capital structure and maximum returns to the shareholders. Factors taken into consideration include future capital requirement, capital efficiency, actual and expected profitability, expected cash flows and expected capital expenditure of the Group. The Group makes adjustments to the capital structure in light of changes in economic conditions.

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49 CAPITAL MANAGEMENT (continued)

The Group has formally implemented China Risk Oriented Solvency System since 1 January 2016 by reference to the 'Notice on the Formal Implementation of China Risk Oriented Solvency System by CIRC'. The Group adjusted the objective, policy and process of capital management. As at 31 December 2016, the Group was compliant with the relevant regulatory capital requirements.

31 December 2016	(in RMB millions, except for percentages)			
	Actual capital	Minimum capital	Core solvency adequacy ratio	Aggregated solvency adequacy ratio
The Group	61,396	23,822	258%	258%
The Company	60,089	7,470	804%	804%
China Re P&C	17,789	8,503	209%	209%
China Re Life	15,745	6,109	258%	258%
China Continent Insurance	12,986	4,488	289%	289%

50 SIGNIFICANT RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Ultimate parent

The immediate parent of the Company is Central Huijin Investment Ltd. and the ultimate parent of the Company is the Ministry of Finance of the PRC.

(2) Significant related parties

Name of significant related party	Relationship with the Company
China Everbright Bank	Associate

(3) Transactions with related parties except for key management personnel

(a) Significant related-party transactions between the Group and associates are as follows:

	2016	2015
Interest income	242,704	335,251
Premium income	1,663	3,200
Claims payments	87	1,289
Fees and commissions	67	404

During the year ended 31 December 2016, the Group received the dividends from China Everbright Bank of RMB438,255 thousand (the year ended 2015: RMB371,550 thousand).

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50 SIGNIFICANT RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Transactions with related parties except for key management personnel (continued)

(b) The balances of significant related-party transactions between the Group and associates are as follows:

	31 December 2016	31 December 2015
Cash and short-term time deposits	65,417	133,308
Time deposits	1,000,000	1,245,865
Statutory deposits	225,444	3,865,419
Interest receivables	79,135	181,237
Debt investments	998,897	998,842

(4) Key management personnel remuneration:

	2016	2015
Salaries, allowances and benefits in kind	9,017	6,668
Discretionary bonuses	7,717	5,555
Employer's contribution to a retirement benefit scheme	1,127	943
Total	17,861	13,166

The total compensation package for the Company's key management personnel for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the relevant PRC authorities, and will be disclosed when determined. The compensation amounts disclosed above for the Company's key management personnel for the year ended 31 December 2015 were restated based on the finalised amounts determined during 2016.

(5) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). The Group's key business is primary insurance and reinsurance related business and therefore the business transactions with other state-owned entities are primarily related to insurance, reinsurance and investment activities, including but not limited to insurance, reinsurance, provision of asset management or other services, and the sale, purchase, and redemption of bonds or equity instruments.

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50 SIGNIFICANT RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(5) Transactions with state-owned entities in the PRC (continued)

Management considers that transactions with state-owned 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 state-owned 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 state-owned 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.

As at the 31 December 2016, most of bank deposits of the Group were with state-owned banks, and the issuers of corporate bonds and subordinated bonds held by the Group were mainly state-owned enterprises (31 December 2015: same). For the year ended 31 December 2016, a large portion of its reinsurance business of the Group was with state-owned insurance companies (the year ended 31 December 2015: same).

51 CONTINGENCIES

As at 31 December 2016, the Group has issued the following guarantees:

- (1) As at 31 December 2016, the Group provided maritime guarantee of RMB2,258 million (31 December 2015: RMB1,894 million) for domestic and overseas ship mutual insurance associations or overseas insurance institutions which provided 100% of counter guarantee for the aforesaid maritime guarantee.
- (2) China Re UK, a subsidiary of the Company, became a member of Lloyd's and established China Re Syndicate 2088 since 2011. As at 31 December 2016, the Group provided letter of credit to Lloyd's to support China Re Syndicate 2088's underwriting business of GBP 90 million (31 December 2015: GBP 80 million).

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52 COMMITMENTS

(1) Capital commitments

	31 December 2016	31 December 2015
Contracted for		
— Intangible assets commitments	9,261	14,848
— Property and equipment commitments	976	1,164
— Investment commitments	714,163	634,880
Authorised but not contracted for		
— Investment commitments	198,055	200,922
Total	922,455	851,814

(2) Operating lease commitments

The Group leases certain of its office properties and office equipment under operating lease arrangements.

The total future minimum lease payments under non-cancellable operating leases are summarised as follows:

	31 December 2016	31 December 2015
Within 1 year	319,620	192,170
1 to 2 years	191,100	154,113
2 to 3 years	124,282	91,190
3 to 5 years	133,691	85,142
Over 5 years	88,439	74,958
Total	857,132	597,573

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

53 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of the financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the accounting year ended 31 December 2016 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

IAS 12 (Amendment)	Income taxes ⁽¹⁾
IAS 7 (Amendment)	Statement of cash flows ⁽¹⁾
IFRS 15	Revenue from Contracts with Customers ⁽²⁾
IFRS 9	Financial Instruments ⁽²⁾
IFRS 16	Leases ⁽³⁾
IAS 28 and IFRS 10 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture ⁽⁴⁾

(1) Effective for the accounting period beginning on 1 January 2017.

(2) Effective for the accounting period beginning on 1 January 2018.

(3) Effective for the accounting period beginning on 1 January 2019.

(4) Originally effective for the accounting period beginning on 1 January 2016. The effective date has now been deferred/removed.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for IFRS 9, IFRS 15 and IFRS 16 which may have an impact on the Group's financial performance and financial position.

IFRS 9, *Financial instruments*

On 24 July 2014, the IASB issued the complete standard of IFRS 9 (IFRS 9 (2014)).

Classification and measurement of financial assets and financial liabilities

IFRS 9 retains but simplifies the mixed measurement model by allowing three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income, with the basis of classification dependent on the entity's business model and contractual cash flow characteristics of the financial assets. IFRS 9 introduces a new requirement that the gain or loss on a financial liability designated at fair value through profit or loss that is attributable to changes in the entity's own credit risk is recognised in other comprehensive income; the remaining amount of change in fair value is recognised in profit or loss ("own credit risk requirements").

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

53 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Impairment

The new impairment methodology in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised.

Since the Group is in the process of making an assessment on overall impact of IFRS 9, given the nature of the Group’s operations, this standard is expected to have a material impact on the Group’s financial statements. For instance, the Group will replace incurred loss model with the expected loss model in the calculation of impairment of premiums receivable, reinsurance debtors, investments classified as loans and receivables, and held-to-maturity investments. The Group will change the categories for financial assets from four categories into three categories, and the corresponding measurement of financial assets. It is not practicable to provide a reasonable estimate of the effect and quantify the impact on its operating results and financial position until it performs a detailed review as the adoption of the new standard requires changes to systems and processes to collect the necessary data.

IFRS 15, Revenue from contracts with customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Some of these apply to interim financial reports prepared under IAS 34 as well as to annual financial statements. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

Application of IFRS 15 in the future may have a material impact on amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a ‘right of use’ asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 and it is not practicable to quantify the effect as at the date of the publication of these financial statements.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

54 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

(1) Company-level statement of financial position

	31 December 2016	31 December 2015
Assets		
Cash and short-term time deposits	4,275,011	15,359,050
Financial assets at fair value through profit or loss	1,527,388	527,056
Reinsurance debtors	1,367,765	2,099,886
Reinsurers' share of insurance contract liabilities	141,491	48,189
Time deposits	205,384	56,921
Available-for-sale financial assets	9,312,094	5,993,795
Held-to-maturity investments	890,327	1,305,530
Investments classified as loans and receivables	80,000	134,000
Reinsurers' share of policy loans	34,946	21,836
Investment contracts receivables	30,766	–
Investments in subsidiaries	30,486,626	24,557,024
Investments in associates	5,527,628	3,675,761
Statutory deposits	8,500,000	8,903,000
Investment property	1,415,765	1,453,247
Property and equipment	399,456	443,062
Intangible assets	7,010	9,688
Deferred tax assets	2,003	–
Other assets	1,938,665	4,272,869
Total assets	66,142,325	68,860,914

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

54 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (continued)

(1) Company-level statement of financial position (continued)

	31 December 2016	31 December 2015
Liabilities and equity		
Liabilities		
Securities sold under agreements to repurchase	134,886	195,164
Reinsurance payables	336,581	4,701,187
Income tax payable	150,496	257,529
Insurance contract liabilities	8,093,889	4,498,470
Deferred tax liabilities	328,231	429,261
Other liabilities	1,236,754	4,798,059
Total liabilities	10,280,837	14,879,670
Equity		
Share capital	42,479,808	42,479,808
Reserves	10,252,354	9,545,984
Retained profits	3,129,326	1,955,452
Total equity	55,861,488	53,981,244
Total liabilities and equity	66,142,325	68,860,914

The company-level statement of financial position was approved by the Board of Directors on 30 March 2017 and was signed on its behalf.

Yuan Linjiang
Director

He Chunlei
Director

Yu Qing
Vice President, temporarily responsible for accounting

Tian Meipan
Chief Actuary

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

54 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (continued)

(2) Company-level statement of changes in equity

	Share capital	Capital reserve	Surplus reserve	General risk reserve	Defined benefit liability remeasurement reserve	Fair value reserve	Exchange reserve	Retained profits	Total
Balance at 1 January 2015	36,407,611	103,485	724,160	724,160	-	519,883	-	3,293,517	41,772,816
Changes in equity for 2015									
Total comprehensive income for the year	-	-	-	-	(7,447)	(222,944)	-	3,514,950	3,284,559
Issue of H-shares	6,072,197	7,001,722	-	-	-	-	-	-	13,073,919
Dividends approved in respect of the previous year (RMB2.0 cents per share)	-	-	-	-	-	-	-	(728,152)	(728,152)
Special pre-IPO dividends approved (RMB9.4 cents per share)	-	-	-	-	-	-	-	(3,421,873)	(3,421,873)
Appropriation for surplus reserve	-	-	351,495	-	-	-	-	(351,495)	-
Appropriation for general risk reserve	-	-	-	351,495	-	-	-	(351,495)	-
Others	-	(25)	-	-	-	-	-	-	(25)
Balance at 31 December 2015	42,479,808	7,105,182	1,075,655	1,075,655	(7,447)	296,939	-	1,955,452	53,981,244
Changes in equity for 2016									
Total comprehensive income for the year	-	-	-	-	4,674	(81,227)	1,663	3,909,931	3,835,041
Dividends approved in respect of the previous year (RMB4.6 cents per share)	-	-	-	-	-	-	-	(1,954,071)	(1,954,071)
Appropriation for surplus reserve	-	-	390,993	-	-	-	-	(390,993)	-
Appropriation for general risk reserve	-	-	-	390,993	-	-	-	(390,993)	-
Others	-	(726)	-	-	-	-	-	-	(726)
Balance at 31 December 2016	42,479,808	7,104,456	1,466,648	1,466,648	(2,773)	215,712	1,663	3,129,326	55,861,488

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

55 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

(1) **Dividends**

On 30 March 2017, the Board of Directors of the Company proposed a final dividend of RMB 0.048 per ordinary share and is subject to the approval of shareholders of the Company at the 2016 annual general meeting.

(2) **Bond issuance**

China Reinsurance Finance Corporation Limited (the “Issuer”) was established by China Re Asset Management (Hong Kong) Company Ltd., a wholly-owned subsidiary of China Re AMC, the Company’s subsidiary on 3 February 2017. On 2 March 2017, the Issuer and the Company entered into a subscription agreement in relation to issuance of notes with joint lead managers. The Notes are offered to professional investors in Hong Kong and the Notes are offered only outside the United States in compliance with Regulation S under the Securities Act. The Notes are to be issued by the Issuer and supported by the Keepwell Deed to be executed by the Company, the Issuer and the Trustee. The aggregate principal amount of the US Notes is US\$800,000,000. The issue date will be 9 March 2017. The interest rate is 3.375% per annum payable semi-annually in arrears on 9 March and 9 September of each year. The maturity date is 9 March 2022, subject to earlier redemption in accordance with the terms thereof.

56 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentations in current period.

57 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

DEFINITIONS

“Articles of Association”	the articles of association of our Company as adopted at our shareholders’ meeting held on 26 June 2015 and approved by the CIRC on 9 July 2015 and 2 March 2016
“Belt and Road Initiative”	Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road issued by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China on 28 March 2015
“Board of Directors” or “Board”	the board of directors of our Company
“Board of Supervisors”	the board of supervisors of our Company
“C-ROSS”	China Risk Oriented Solvency System, which is China’s second generation insurance solvency regulation system
“CARP”	China Agricultural Reinsurance Pool
“Central Huijin”	Central Huijin Investment Ltd.
“China” or “PRC”	the People’s Republic of China and, for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to “China” or the “PRC” do not include Hong Kong, Macau and Taiwan
“China Continent Insurance”	China Continent Property & Casualty Insurance Company Ltd. (中國大地財產保險股份有限公司), a subsidiary of the Company incorporated in the PRC on 15 October 2003
“China Re AMC”	China Re Asset Management Company Ltd. (中再資產管理股份有限公司), a subsidiary of the Company incorporated in the PRC on 18 February 2005
“China Re AMC HK”	China Re Asset Management (Hong Kong) Company Ltd. (中再資產管理(香港)有限公司), a subsidiary of China Re AMC incorporated in Hong Kong on 22 January 2015
“China Re Life”	China Life Reinsurance Company Ltd. (中國人壽再保險有限責任公司), a wholly-owned subsidiary of the Company incorporated in the PRC on 16 December 2003

DEFINITIONS

“China Re P&C”	China Property and Casualty Reinsurance Company Ltd. (中國財產再保險有限責任公司), a wholly-owned subsidiary of the Company incorporated in the PRC on 15 December 2003
“China Re Syndicate 2088”	the syndicate established at Lloyd’s in December 2011 by the Company through China Re UK
“China Re UK”	China Re UK Limited, a wholly-owned subsidiary of the Company incorporated in England and Wales on 28 September 2011
“China Re Underwriting”	China Re Underwriting Agency Limited, a wholly-owned subsidiary of the Company incorporated in England and Wales on 8 August 2014, formerly known as China Re Agency Limited
“CIRC”	China Insurance Regulatory Commission (中國保險監督管理委員會)
“CNIP”	China Nuclear Insurance Pool
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huatai Insurance Agency”	Huatai Insurance Agency and Consultant Service Limited, a subsidiary of the Company incorporated in the PRC on 1 March 1993
“Latest Practicable Date”	20 April 2017, being the latest practicable date for the inclusion of certain information in this annual report prior to its publication
“Listing Date”	26 October 2015, being the date on which the H shares of the Company became listed on the Hong Kong Stock Exchange
“Lloyd’s”	the Society of Lloyd’s, a global leading specialised P&C and liability insurance market

DEFINITIONS

“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“Model Code for Securities Transactions”	the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Hong Kong Listing Rules
“NAO”	the National Audit Office of the PRC
“New Ten Guidelines”	The Several Opinions on Accelerating the Development of the Modern Insurance Service Industry (《關於加快發展現代保險服務業的若干意見》) issued by the State Council on 13 August 2014
the “Company” or “Group Company”	China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司)
the “Group”, “China Re Group” or “we”	our Company, and, except where the context requires, its subsidiaries, or, where the context refers to any time prior to its incorporation, the business which its predecessors were engaged in and which it subsequently inherited
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People’s Congress of the PRC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC Insurance Law”	the Insurance Law of the PRC (《中華人民共和國保險法》), as enacted by the Standing Committee of the Eighth National People’s Congress of the PRC on 30 June 1995 and effective on 1 October 1995, as amended, supplemented or otherwise modified from time to time
“Prospectus”	the prospectus of the Company dated 13 October 2015
“Reporting Period”	since 1 January 2016 until 31 December 2016
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) of Hong Kong
“Supervisor(s)”	the supervisor(s) of the Company

CORPORATE INFORMATION

REGISTERED NAMES

Legal Chinese name: 中國再保險(集團)股份有限公司
Chinese abbreviation: 中再集團
Legal English name: China Reinsurance (Group) Corporation
English abbreviation: China Re

REGISTERED OFFICE AND HEADQUARTERS

No. 11 Jinrong Avenue, Xicheng District,
Beijing, the PRC
(Postal code: 100033)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1805, Sun Hung Kai Centre,
30 Harbour Road, Wan Chai, Hong Kong

PLACE OF LISTING OF SHARES

Hong Kong Stock Exchange

CLASS OF SHARES

H shares

STOCK NAME

China Re

STOCK CODE

1508

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

WEBSITE

<http://www.chinare.com.cn>

INVESTOR RELATIONS DEPARTMENT

Office of the Board of Directors
Telephone: (8610) 66576880
Email: IR@chinare.com.cn

LEGAL REPRESENTATIVE

Mr. Yuan Linjiang

SECRETARY TO THE BOARD

Ms. Yu Qing

AUTHORISED REPRESENTATIVES

Mr. He Chunlei
Ms. Yu Qing

JOINT COMPANY SECRETARIES

Ms. Yu Qing
Ms. Mok Ming Wai

AUDITORS

Domestic auditor:
PricewaterhouseCoopers Zhong Tian LLP

Overseas auditor:
PricewaterhouseCoopers

ACTUARIAL CONSULTANT

Ernst & Young (China) Advisory Limited

HONG KONG LEGAL ADVISER

Clifford Chance

COMPLIANCE ADVISER

China International Capital Corporation
Hong Kong Securities Limited¹

UNIFIED SOCIAL CREDIT CODE

9110000010002371XD

Note: 1. Pursuant to Rule 3A.19 of the Hong Kong Listing Rules, China International Capital Corporation Hong Kong Securities Limited was appointed as the compliance adviser of the Company from the Listing Date to the date of this report. After disclosing this report, the term of service of compliance adviser will expire, and the Company will not appoint any compliance adviser.

專業 讓 保險 更 保險
Empower your insurance by expertise



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