PICC 中国人民保险集团股份有限公司

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

Stock Code：1339

Annual Report 2017

Company Profile

Founded in October 1949, The People's Insurance Company (Group) of China Limited (the "Company") is the first nation-wide insurance company in the People's Republic of China (the "PRC") and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking the 114th in the List of Fortune Global 500 (2017) published by the Fortune magazine.

The Company operates its property and casualty ("P&C") insurance business in the PRC through PICC Property and Casualty Company Limited ("PICC P&C", listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), stock code: 02328) and in Hong Kong through The People's Insurance Company of China (Hong Kong), Limited ("PICC Hong Kong"), in which the Company holds approximately 68.98% and 75.0% equity interests, respectively. The Company operates its life and health insurance businesses through PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), in which the Company, directly and indirectly, holds 80.0% and approximately 95.45% equity interests, respectively. The Company centrally and professionally manages most of its insurance assets through PICC Asset Management Company Limited ("PICC AMC"), in which the Company holds 100% of equity interest, and holds a 100% equity interest in PICC Investment Holding Co., Ltd ("PICC Investment Holding") which is a professional investment company specializing in real estate investments. The Company carries out non-transactional businesses such as equity and debt investments in insurance and non-insurance capital within and outside the Group through PICC Capital Investment Management Company Limited ("PICC Capital") in which it holds a 100% equity interest. The Company takes PICC Financial Services Company ("PICC Financial Services") as a professional platform for the layout of Internet finance in which the Company holds 100% of equity interest. The Company operates reinsurance business within and outside the Group through PICC Reinsurance Limited ("PICC Reinsurance ") in which the Company, directly and indirectly, holds 100% of equity interest. The Company engages in corporate annuities and occupational annuities businesses through PICC Pension Company Limited ("PICC Pension") in which the Company holds 100% of equity interest and has also made strategic investments in non-insurance financial businesses such as banking and trust.

The Company's principal competitive strengths include:

- We are the first nation-wide insurance company of the PRC, the pioneer and trailblazer of the PRC insurance industry, possessing a well-recognized brand with the longest history in the industry;
- We are an integrated insurance financial group focusing on our core business and insist on the development strategy of customer-oriented to achieve co-development of various business segments;
- We have diversified institutions and service network based in cities and towns and spread over the country, as well as extensive and solid customer base, contributing to our ability to seize the tremendous opportunities on the potential market of medium- and small-sized cities and counties;
- We have an internationally first-class and Asia's leading P&C insurance company with obvious advantages in scale, cost and service as well as outstanding profitability;
- We have a life insurance company with a layout throughout the country, rapid growth, continuous profitability and sound operating platform as well as with great potentials in business transformation and value creation;
- We have the first nation-wide professional health insurance company to actively seize the development opportunity and create a featured healthy endowment ecosystem;
- We have an industry-leading asset management platform characterized by steady investment and proven performance;
- We serve for people's livelihood, safeguard the economy, fulfill social responsibilities, grasp policy opportunities and explore new business model with an overall plan;
- We have advanced and applicable information technology to define a layout in technological finance area, and have outstanding ability and potential advantages in data mining, customer migration and value recreation;
- We have shareholders offering continuous and strong support, an experienced and insightful management team and a high-calibre professional staff team.

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Financial Highlights

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

Unit: in RMB million, except for percentages

	2017	2016	% change	2015	2014	2013
Group consolidation						
Total assets	**987,906**	932,149	6.0	843,468	782,221	755,319
Total liabilities	**801,025**	761,155	5.2	686,273	656,644	660,518
Total equity	**186,881**	170,994	9.3	157,195	125,577	94,801
Gross written premiums	**476,447**	439,874	8.3	388,387	349,169	306,421
Net profit	**23,051**	20,681	11.5	27,665	18,715	12,055
Net profit attributable to equity holders of the Company	**16,099**	14,245	13.0	19,542	13,109	8,121
Earnings per share (RMB)(1)	**0.38**	0.34	13.0	0.46	0.31	0.19
Net assets value per share (RMB)(1)	**3.24**	2.97	9.1	2.74	2.18	1.69
Weighted average return on equity (%)	**12.2**	11.8	Increase of 0.4 pt	18.7	16.0	11.9

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

Mr. Miao Jianmin
Chairman

Dear shareholders,

In 2017, under the complex circumstances of deleveraging in economy, changes in regulatory policies and increasingly fierce market competition, we adhered to the keynote of seeking progress while maintaining stability, forged ahead, overcame difficulties and achieved new satisfactory results in various business segments by thoroughly learning and applying Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the Communist Party of China's 19th National Congress ("19th CPC National Congress"), and earnestly meeting the requirements of the National Financial Work Conference and the national conference for state-owned enterprises on the construction of the Communist Party at the time of successful convening the 19th CPC National Congress.

Firstly, stable growth in business. The Group achieved gross written premiums ("GWPs") of RMB476.447 billion, representing an increase of 8.3% compared to the corresponding period last year. Total assets reached RMB987.906 billion, representing an increase of 6.0% compared to the corresponding period last year. Net assets reached RMB186.88 billion, representing an increase of 9.3% compared to the corresponding period last year. PICC P&C achieved GWPs of RMB350.314 billion, representing an increase of 12.6% compared to the corresponding period last year. PICC Life achieved GWPs of RMB106.298 billion. PICC Health achieved GWPs of RMB19.250 billion.

Secondly, enhancement of the quality of business structure. GWPs for motor vehicle insurance of PICC P&C increased by 10.5%, with an incremental market share surpassing that of main competitors. PICC Life focused on value-oriented regular premiums business and achieved first-year regular premiums of RMB20.294 billion, representing an increase of 26% compared to the corresponding period last year. First-year regular premiums of commercial health insurance segment of PICC Health increased by 57.1% compared to the corresponding period last year. PICC Health provided health management services for 32.17 million persons, representing an increase of 118% compared to the corresponding period last year.

Thirdly, improvement of profitability. As to the Group, the profit before tax was RMB30.831 billion, representing an increase of 21.8% compared to the corresponding period last year; the net profit was RMB23.051 billion, representing an increase of 11.5% compared to the corresponding period last year; ROE was 12.2%, representing an increase of 0.4 percentage point compared to the corresponding period last year. PICC P&C achieved net profit of RMB19.808 billion, representing an increase of 9.9% compared to the corresponding period last year. The underwriting profit was RMB9.295 billion. The combined ratio was 97.0%, representing a decrease of 1.1 percentage points compared to the corresponding period last year. PICC Life and PICC Health continuously made profits. The Group achieved total investment income of RMB48.352 billion with a total investment yield of 5.9%, higher than average level of the industry.

Fourthly, expanded areas of service for the real economy. We kept firmly in mind the bounden duty of finance to serve real economy and played a leading role in agricultural insurance, poverty alleviation through insurance, social medical insurance and liability insurance areas. We vigorously promoted new model of poverty alleviation through insurance, continued to improve the new model of "inclusive finance, supporting agriculture and small enterprises" and achieved contracted financing for agriculture of RMB20.2 billion. We firmly pushed forward the coverage, product offerings and protection level of agricultural insurance, and proactively provided services for emerging agricultural operating entities to achieve GWPs for agricultural insurance of RMB22.09 billion, with a market share of 45.6% and ranking first in the industry. We actively participated in new projects such as medical assistance and social nursing services. The critical illness insurance business served over 460 million people. We made more efforts to develop liability insurance business associated with production safety, food safety and environmental pollution, and achieved GWPs of RMB17.085 billion from liability insurance business, representing an increase of 23.4% compared to the corresponding period last year.

Fifthly, pragmatic reform and innovation initiatives. In order to meet the requirements of technological change, we proactively promoted the reform of the Group's IT system, completed the third-party assessment of IT system construction and accelerated the promotion and application of the Group's unified clients sharing platform. We strengthened the resource integration of key areas, pushed forward the pilot integration of social medical insurance business, defined the position of PICC Reinsurance as the professional risk management platform for reinsurance and established PICC Pension. We deepened the construction of business coordination mechanism and further constructed the coordination committee platform for the construction of the Communist Party. The Group achieved a total written premiums ("TWPs") of RMB26.403 billion from coordinated businesses, contributing 5.4% to the Group's TWPs. In order to improve the innovation management mechanism of the Group, we set up an innovation base to explore cross-sector and cross-subsidiary innovative cooperation models, and facilitate the promotion and application of innovation achievements. We promoted the reform of the overall budget management and performance appraisal system to boost the transformation and development of each member of the Group with specific guidance.

Sixthly, strict internal control and risk management. We strengthened the risk prevention and control, insisted on prevention as priority, and addressed both the symptoms and the root causes of risks and stuck to the bottom line where no systematic risk occured. We strictly complied with the regulatory requirements to improve the grassroots internal control system, and promoted the insurance subsidiaries to optimize their internal control framework and conduct assessment and grading for agencies at provincial, municipal and country level. We strictly prevented and controlled risks and strengthened the prevention of potential risks in key areas such as agricultural insurance, critical illness insurance, liquidity risk, and credit risk. We intensified efforts in the construction of a comprehensive risk management system, established a unified risk appetite management mechanism, set up an asset and liability management system, built a comprehensive evaluation system for audit classification supervision, and refined the risk prevention system and mechanism basis.

At present, as socialism with Chinese characteristics has entered a new era, China's economic development has entered a stage of high-quality development. Meanwhile, the insurance industry will experience a transformation period in which regulatory policies will become more stringent, market cyclical downtrend will be in play, and cross-sector competition will be intensified. We are clearly aware that in view of the unprecedented determination of the central government to resolve financial risks, strict supervision will become the "normal" policy for the current and future period. As the insurance industry is during the bottoming process of the transformation from the old cycle to the new cycle, in order to take the lead and turn the challenge into opportunities, we should have a full understanding of the cyclical change laws of the market, and accelerate the quality, efficiency, and momentum reforms. Moreover, the rapid development of Internet technologies, especially fintech, is overturning the traditional competitive landscape of the financial and insurance industry, with ever-changing new technologies, new types of business and new models. Facing opportunities and challenges in the new era, we will be guided by Xi Jingping Thought on Socialism with Chinese Characteristics for a New Era, adhere to the principle of seeking progress while maintaining stability, stick to the new development concept, focus on changes in the principal contradiction facing Chinese society, and serve national major strategies and supply-side structural reform in accordance with the requirements of high quality development. In addition, we will comprehensively promote steady growth, reform, structural adjustment, value creation and risk prevention, vigorously implement innovation-driven development strategies, continuously push forward the integration process, and accelerate the quality, efficiency, and momentum reforms to make solid progress on serving real economy, preventing and resolving risks, and deepening reforms, strive to develop PICC Group into a bigger, better and stronger company, and create more values for our shareholders.

We will optimize core business and achieve excellence in professionalism, and we will closely focus on adjusting the business mode, structure, and driving force according to requirements of quality and efficiency. In the P&C insurance sector, we will engage in the integration of policy-based business and commercial business, and the integration of business model reform and technology reform. We will adhere to developing business in an effective way and by market benchmarking to solidify our leading position in the P&C insurance market. In the life insurance sector, we will further promote the transition from the extension type to the intensive type, from the pursuit of business scale to the pursuit of value, and the shift from the bancassurance business to the individual insurance business, and build a development model that adapts to those changes. In the health insurance sector, we will provide professional, innovative and featured services, and make great efforts to deepen reforms and explore to build a sustainable development models in accordance with the principles of professionalism, efficiency, and competency. In the investment sector, we adhere to the principle of professionalism, firmness, prudence and trustworthiness, enhancement of management, and keeping the bottom line, to better serve the insurance industry.

We will pay close attention to the essence of insurance and return to the origin of protection. We will closely focus on serving the real economy and national major strategies, and further promote the supply-side structural reform of the insurance business of the Group and explore its development potential. We will firmly stick to serving the strategy of rejuvenating the countryside, accelerate the transformation and upgrading of the Group's insurance business for agriculture, rural areas and farmers, and fully promote the development of "Big Agriculture Insurance". We are firmly committed to serving poverty alleviation in a targeted way, integrate the poverty alleviation with insurance, financing and the industry, optimize poverty alleviation products, and create distinctive service models. We will resolutely serve the construction of a healthy China and the social security system, consolidate the market position of social medical insurance business such as critical illness insurance, pool the efforts of the entire group to expand the annuity market, and explore an effective model for the construction of a pension healthcare industry chain of the Group. We will steadfastly serve the implementation of the national regional development strategy, organically combine the construction of Xiong'an New District with the innovative development of the Group, facilitate the international development of the Group leveraging on the national "Belt and Road" initiative, to create innovative insurance financial services. Moreover, we will insist on fulfilling our social responsibility against environment pollution, accelerate the development of green finance and green insurance.

We will strive for resource integration and coordinated development, closely focus on maximizing the overall interests of the Group and further promote the integrated construction. We will accelerate the implementation of digital strategy of the Group, follow the implementation guideline of "effectively unified, reasonably diversified, combination of centralization and decentralization and scientific development", fully promote the informatization construction, synchronously promote the transformation of the Group's digital operation, and strive to solidify the integrated development foundation of the Group by resource integration. We will streamline our lines of business to give full play to the overall competitiveness of the Group in accordance with the three principles of "maintaining the overall interests, eliminating internal competition, and achieving resource sharing within the Group".

We will be bold to reform and innovate, and will firmly treat innovation as the first driving force for development to promote the reform in quality, efficiency, and momentum. In order to promote innovation through professionalism, we will focus on building a professional and innovative management system, a professional and innovative talent team, and a professional and innovative incentive mechanism, so that innovators will be rewarded and encouraged. In order to promote innovation through differentiation, we will adopt differentiated assessment policies, resource allocation, and treatment for senior management, etc., to create competitive advantages in the regional market. In order to promote innovation through refinement, we will advocate the spirit of craftsmanship, reduce management costs and improve management efficiency.

We will focus on risk prevention and control, stick to the bottom line, fully meet the requirements of the central government and actual situation of the Company to effectively prevent and resolve major risks. We will strengthen risk awareness and risk restriction, attach great importance to the implementation of the requirements of the "China Risk Oriented Solvency System" ("Solvency II"), promote the establishment of risk appetite system and risk limitation system in various business units and business processes, strengthen risk performance assessment and accountability, and deepen system and mechanism reforms and the construction of informatization system in risk, law and audit, and reinforce risk management responsibilities at all levels to prevent potential risks of the Group, such as legal compliance risk, cash flow risk, stakeholder risk, and counterparty risk.

We trust that facing the historical opportunities in the new era, with the unremitting efforts of the management and all the staff, and with the full support of all clients and shareholders, The People's Insurance Company (Group) of China Limited will be able to properly respond to changes in internal and external environment, open a new chapter of the development of the Company in the new era, create greater success with high-quality development and return all shareholders, employees and the society with outstanding achievements.

Miao Jianmin
Chairman

Beijing, the PRC
23 March 2018

Honors and Awards

1. Ranked the 114th in the List of Fortune Global 500

   In August 2017, the Company ranked the 114th in the list of Fortune Global 500 published by the Fortune magazine in the US, 5 ranks higher than in the year 2016 and 257 ranks higher than in the year 2010.

2. Ranked the 23th in the list of Top 500 Enterprises of China

   In August 2017, the Company ranked the 23th in the list of Top 500 Enterprises of China in 2017. The Company also ranked the 12th in the list of Top 500 Service Industry Enterprises of China in 2017.

3. PICC P&C was awarded the "Most Trustworthy Insurance Company in 2017"

   In July 2017, PICC P&C was awarded the "Most Trustworthy Insurance Company in 2017" in the selection of the "Ark Prize in Chinese Insurance Industry in 2017" jointly organized by the Securities Times and the Insurance Asset Management Association of China.

4. PICC P&C was granted the highest rating of service evaluation for insurance companies

   In November 2017, the CIRC published the results of service evaluation for insurance companies in 2017. PICC P&C and other four property insurance companies were granted "AA" rating, the highest rating of service evaluation for insurance companies.

5. PICC P&C was awarded "Outstanding Award for Insurance Brand of the Year"

   In December 2017, PICC P&C was awarded "Outstanding Award for Insurance Brand of the Year" in the eighth session of "Golden Fortune" selection organised by Shanghai Securities News.

6. PICC P&C was awarded the "Best Property Insurance Company of the Year"

   In December 2017, PICC P&C was awarded the "Best Property Insurance Company of the Year" in 2017 at the appraisal of the "List of China's Best Financial Institution" organised by the Financial Times.

7. PICC P&C was awarded the "Best Property Insurance Company in Asia in 2017"

   In December 2017, PICC P&C ranked first in the "Ranking of Competitiveness of Insurance Enterprises in Asia" and was awarded the "Best Property Insurance Company in Asia in 2017" organised by the 21st Century Business Herald and the Financial Research Center of the 21st Century Research Institution.

8. PICC Life was awarded the "Outstanding Life Insurance Company in Asia in 2017"

   In December 2017, PICC Life was awarded the "Outstanding Life Insurance Company in Asia in 2017" at the twelfth session of 21st Century Annual Financial Summit of Asia organised by the 21st Century Business Herald.

9. PICC Life was awarded the "China Social Responsibility Outstanding Enterprise Award of 2017"

   In December 2017, PICC Life was awarded the "China Social Responsibility Outstanding Enterprise Award of 2017" at the Enterprise Social Responsibility Welfare Event of 2017 organised by Xinhuanet.com and the Research Center for Corporate Social Responsibility Chinese Academy of Social Sciences.

10. PICC Life was awarded the "Outstanding Prize for Security Insurance Product of the Year"

    In December 2017, the "Critical Illness Insurance for Carefree Life" of PICC Life was awarded the "Outstanding Prize for Security Insurance Product of the Year 2017" of "Golden Fortune" at the "2017 China Wealth Management Summit" organised by Shanghai Securities News.

11. PICC Life was awarded the "Most Competitive Insurance Company of the Year"

    In December 2017, PICC Life was awarded the "Most Competitive Insurance Company of the Year" of the "List of China's Financial Institutions in 2017" at the Financial Times Annual Conference 2017 organised by the Financial Times.

12. PICC Health was awarded the "Best Event Award", "July 8th Contribution Award for Public Welfare and Poverty Alleviation", "Award of Popularity in WeChat" and "Special Support Award"

    In November 2017, PICC Health was awarded the "Best Event Award", "July 8th Contribution Award for Public Welfare and Poverty Alleviation", "Award of Popularity in WeChat" and "Special Support Award" at the commendation conference of July 8th National Insurance Education and Publicity Day organised by the Insurance Association of China.

13. PICC Health was awarded the "Award for Health Security Product of the Year"

    In December 2017, the entrusted management contract with intimate service (People's Health Smart Card) of PICC Health was awarded the "Award for Health Security Product of the Year" at the appraisal of the "Insurance Security Pioneer of 2017" organised by the International Financial News.

14. PICC Health was awarded the "Best Health Insurance Company of the Year"

    In December 2017, PICC Health was awarded the "Best Health Insurance Company of the Year" by virtue of its specialized advantages at the 2017 Financial Times Annual Conference cum Gold Medal Award Ceremony of China's Financial Institutions organised by the Financial Times.

15. PICC AMC was awarded the "Best Insurance and Asset Management Company"

    In June 2017, PICC AMC was awarded the "Best Insurance and Asset Management Company" in the appraisal of "Evergreen Award" cum the First session of CAIJING's Best Financial Institutions of the Year organised by the CAIJING.

16. PICC AMC was awarded the "Most Influential Insurance and Asset Management Company in 2017" and the "Asset Management Company with Best Social Responsibility Practice in 2017"

    In July 2017, PICC AMC was awarded the "Most Influential Insurance and Asset Management Company in 2017" and the "Asset Management Company with Best Social Responsibility Practice in 2017" at the appraisal of the "Golden Shell Prize for China's Asset Management in 2017" organised by the 21st Century Business Herald.

17. PICC AMC was awarded the "Award for Institution LP with the Most Popular Equity Investment Plan"

    In August 2017, PICC AMC was awarded the "Award for Institution LP with the Most Popular Equity Investment Plan" at the first session of the selection of the "Golden Bull Equity Investment in China" jointly organised by China Securities Journal and China Fortune Academy.

18. PICC AMC was awarded the "Top Award for Annual Asset Management of Golden Fortune"

    In December 2017, PICC AMC was awarded the "Top Award for Annual Asset Management of Golden Fortune" at the eighth session of Golden Fortune organised by Shanghai Securities News.

19. PICC AMC was awarded the "Annual Outstanding Comprehensive Insurance Asset Management Company" and "Annual Outstanding New Fund Company"

    In December 2017, PICC AMC was awarded the "Annual Outstanding Comprehensive Insurance Asset Management Company" and "Annual Outstanding New Fund Company" in the selection of "China Outstanding Financial Prize in 2016-2017" organised by the Economic Observer.

The Group divides its three principal business lines of P&C insurance, life and health insurance and asset management into four operating segments for reporting purposes: P&C insurance business constitutes the P&C insurance segment and includes PICC P&C and PICC Hong Kong, in which the Company holds 68.98% and 75.0% equity interests, respectively; life and health insurance business constitutes two separate segments, including life insurance segment and health insurance segment,among which the life insurance segment includes PICC Life,in which the Company holds an 80.0% equity interest directly and indirectly, and the health insurance segment includes PICC Health, in which the Company holds a 95.45% equity interest directly and indirectly; and the asset management business constitutes the asset management segment and primarily includes PICC AMC, PICC Investment Holding, PICC Capital, and PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), in which the Company holds 100%. The Company also holds 100% equity interest in PICC Financial Services, directly and indirectly holds 100% equity interest in PICC Reinsurance and holds 100% equity interest in PICC Pension.

KEY OPERATING INDICATORS

(1) Key Operating Data

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Original Premiums Income			
PICC P&C	**349,290**	310,453	12.5
PICC Life	**106,238**	105,115	1.1
PICC Health	**19,250**	23,020	(16.4)
Combined ratio of PICC P&C (%)	**97.0**	98.1	Decrease of 1.1 pt
Value of one year's new business of PICC Life	**5,687**	4,131	37.7
Value of one year's new business of PICC Health	**468**	325	44.0
Total investment yield (%)	**5.9**	5.8	Increase of 0.1 pt

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
Market share [(1)]			
PICC P&C (%)	**33.1**	33.5	Decrease of 0.4 pt
PICC Life (%)	**4.1**	4.8	Decrease of 0.7 pt
PICC Health (%)	**0.7**	1.1	Decrease of 0.4 pt
Embedded Value of PICC Life	**61,909**	57,558	7.6
Embedded Value of PICC Health	**7,831**	7,118	10.0

	As of 31 December 2017	As of 31 December 2016	(% of change)
Comprehensive solvency margin ratio (%)			
PICC Group	**299**	284	Increase of 15 pt
PICC P&C	**278**	287	Decrease of 9 pt
PICC Life	**219**	177	Increase of 42 pt
PICC Health	**396**	215	Increase of 181 pt
Core solvency margin ratio (%)			
PICC Group	**235**	220	Increase of 15 pt
PICC P&C	**229**	232	Decrease of 3 pt
PICC Life	**192**	149	Increase of 43 pt
PICC Health	**257**	200	Increase of 57 pt

(1) The market share was based on the statistics and measurement of the Original Premiums Income in the PRC (excluding Hong Kong, Macau and Taiwan) published by the China Insurance Regulatory Commission (the "CIRC"), and the market share of PICC P&C represents its market share among all P&C insurance companies, and the market share of PICC Life and PICC Health represents their respective market share among all life and health insurance companies.

In 2017, by closely following the general tone of "making progress while maintaining stability", the Group reinforced the efforts on reform and innovation, enhanced the agglomeration effect, continued to promote customer-oriented transformation and built up leading service capabilities. The Group has shown a steady growth in its business and its structure continued to be optimized. In 2017, the market share of PICC P&C in the P&C insurance market was 33.1%, the market share of PICC Life in life and health insurance market was 4.1% and the market share of PICC Health in life and health insurance market was 0.7%. In terms of the TWPs, in 2017, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB349,290 million, RMB116,799 million, RMB25,702 million and HKD207 million, respectively. The Group proactively pushed for the unification in the development of the Group, standing firmly for the new development idea. By actively facilitating the spirit of "1+4" series documents issued by regulatory authority, the Group shifted its focus back on the origin of insurance which was providing protection and propelled the Group for a high quality development and transformation. Affected by the proactive adjustment of business structure and the reduction in short and medium-term product scale, the TWPs generated by cross-selling & synergy among the Group's business lines dropped by 16.9% to RMB26,403 million in 2017 from RMB31,791 million in 2016, among which, TWPs of first-year regular premiums business amounted to RMB715 million, increased by 95.9% on a year-on-year basis.

(2) Key Financial Indicators

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Gross written premiums	**476,447**	439,874	8.3
P&C Insurance	**350,898**	311,306	12.7
Life Insurance	**106,299**	105,548	0.7
Health Insurance	**19,250**	23,020	(16.4)
Profit before tax	**30,831**	25,319	21.8
Net profit	**23,051**	20,681	11.5
Net profit attributable to equity holders of the Company	**16,099**	14,245	13.0
Earnings per share (RMB)	**0.38**	0.34	13.0
Weighted average return on equity (%)	**12.2**	11.8	Increase of 0.4 pt

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
Total assets	**987,906**	932,149	6.0
Total liabilities	**801,025**	761,155	5.2
Total equity	**186,881**	170,994	9.3
Net assets per share (RMB)	**3.24**	2.97	9.1
Gearing ratio[1] (%)	**81.1**	81.7	Decrease of 0.6 pt

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

The Group's capital base has been further strengthened, in which total equity grew by 9.3% to RMB186,881 million as of 31 December 2017 from RMB170,994 million as of 31 December 2016. The Group's GWPs increased by 8.3% to RMB476,447 million in 2017 from RMB439,874 million in 2016. The net profit increased by 11.5% to RMB23,051 million in 2017 from RMB20,681 million in 2016. Profit attributable to equity holders of the Company increased by 13.0% to RMB16,099 million in 2017 from RMB14,245 million in 2016. The weighted average return on equity of the Group increased by 0.4 percentage point to 12.2% in 2017 from 11.8% in 2016.

The net assets per share of the Group increased by 9.1% to RMB3.24 as of 31 December 2017 from RMB2.97 as of 31 December 2016. The Group's earnings per share increased by 13.0% to RMB0.38 in 2017 from RMB0.34 in 2016. The Group's gearing ratio decreased by 0.6 percentage point to 81.1% as of 31 December 2017 from 81.7% as of 31 December 2016.

P&C INSURANCE BUSINESS

In 2017, with a continuous supply side structural reform in China, the new situation of economic and social development stimulated the release of demand for insurance, accelerated the market reform process of insurance industry, guided the transformation and upgrading of insurance industry, and boosted business structure optimization. Meanwhile, it also posed new challenges for the core part of the industry in respect of business model innovation, product supply upgrading, real economy development support, risk prevention and control ability improvement. Facing opportunities and challenges arising from the development of the times and the changes in the market, P&C insurance segment deepened the five development ideas, namely innovation, coordination, go green, openness and sharing, and proactively promoted the five strategies, namely macro service, globalization, internet, value chain and platformization, so as to accelerate the comprehensive transformation and upgrading, deepen structural reform, complete operation and channel layout, strengthen market bench-marking appraisal, positively perform social responsibility, continuously upgrade service quality, thus realized stronger development motivation, formed more balanced development situation and solidified our leading position.

(1) Analysis by Product

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Motor vehicle insurance	**249,249**	225,877	10.3
Commercial property insurance	**12,755**	12,562	1.5
Liability insurance	**17,085**	13,840	23.4
Accidental injury and health insurance	**30,646**	23,433	30.8
Cargo insurance	**3,238**	2,999	8.0
Agricultural insurance	**22,090**	19,535	13.1
Other P&C insurance	**15,529**	13,060	18.9
Total	**350,592**	311,306	12.6

GWPs for the P&C insurance segment increased by 12.6% to RMB350,592 million in 2017 from RMB311,306 million in 2016. The overall steady growth was largely driven by the development in the motor vehicle insurance, accidental injury and health insurance, liability insurance, agricultural insurance and credit insurance businesses.

GWPs for motor vehicle insurance increased by 10.3% to RMB249,249 million in 2017 from RMB225,877 million in 2016. In 2017, the P&C insurance segment, on one hand, continued to reinforce the construction and consolidation of sales channels, strengthen construction of sales pricing capacity, improve resource allocation capacity and enhance incremental business acquiring capacity; on the other hand, strictly controlled key indicators of renewal insurance, continued to prolong days of early renewal, promote development of the renewal insurance business, strengthen the control over existing business, promote the year-on-year increase of number of motor vehicle insurance, which effectively offset the reduced premiums per car, and boosted the rapid development of motor vehicle insurance business.

GWPs for commercial property insurance increased by 1.5% to RMB12,755 million in 2017 from RMB12,562 million in 2016. In 2017, the P&C property insurance segment actively responded to the adverse effects of falling premium rates caused by competition in market and explored all property insurance, machine damage insurance and business interruption insurance, which promoted the steady growth of the overall business of commercial property insurance.

GWPs for liability insurance increased by 23.4% to RMB17,085 million in 2017 from RMB13,840 million in 2016. In 2017, the P&C liability insurance segment actively served the overall interests of economic and social development and accurately grasped policy opportunities. Employer liability insurance, safety production liability insurance, first major technological equipment insurance, export product liability insurance, government rescue insurance and other types of insurance showed well development trend. Meanwhile, the P&C liability insurance segment made full use of the advantages of network nodes and facilitated channel cooperation to carry out marketing promotion programs. Motor vehicle extended maintenance insurance, online shopping shipment fee loss insurance and other innovative types of insurance have become our new business growth point for the segment.

GWPs for accidental injury and health insurance increased by 30.8% to RMB30,646 million in 2017 from RMB23,433 million in 2016. In 2017, the P&C insurance segment actively connected with “Healthy China” Strategy to consolidate advantages of critical illness insurance and accelerated the development of new areas such as basic medical insurance management, social medical insurance nursing and poverty alleviation. It also set up a “one-stop” service platform, explored health management services, accelerated secondary development of customers, and rapidly developed health insurance business, intensified the promotion of mobile phone sales systems, accelerated the exploration of the potential of car dealership channels, and renewal insurance business of private cars, and enriched the insurance methods of traditional businesses. While promoting the rapid development of emerging businesses such as accidental injury insurance of auto driver and passengers, it also maintained the steady growth of traditional business such as corporate businesses insurance and student and infant insurance.

GWPs for cargo insurance increased by 8.0% to RMB3,238 million in 2017 from RMB2,999 million in 2016. In 2017, China’s economy maintained a stable and positive operation, and both enterprise production and investment activities steadily recovered, while volumes and prices of goods, such as metal raw materials, minerals and building materials grew, drove the growth of related traditional insurance products such as imports, waterways, and land and water transport insurances. At the same time, the P&C insurance segment continued to expand its individual decentralized business, and carry-on baggage with vehicles and people insurance business developed rapidly.

GWPs for agricultural insurance increased by 13.1% to RMB22,090 million in 2017 from RMB19,535 million in 2016. In 2017, in face of increasingly fierce market competition, the P&C insurance segment has increased resources investment and efforts on performance appraisal. While stabilizing the existing business, efforts were made to expand the breeding insurance business. It also actively developed index-type innovation insurance products such as agricultural product prices and weather, new agricultural main products, poverty alleviation insurance and local agricultural insurance, etc, which created new energy for agricultural insurance business development.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 18.9% to RMB15,529 million in 2017 from RMB13,060 million in 2016. In 2017, personal credit loan guarantee insurance and performance guarantee insurance business realized rapid growth in the P&C insurance segment, boosted the rapid development of credit guarantee insurance business; meanwhile, special risk insurance, engineering insurance and family property insurance services also achieved rapid development.

(2) Analysis by Channel

The following table sets forth a breakdown of Original Premiums Income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage. In 2017, PICC P&C completed the top-down design for channel, primarily constructed a channel strategic management frame system, forming a multi-channel development pattern.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December				
	2017			2016	
	Amount	**(% of total)**	**(% of change)**	Amount	(% of total)
Insurance agents	**246,610**	**70.6**	**19.2**	206,904	66.7
Among which:					
Individual insurance agents	**124,548**	**35.7**	**14.2**	109,044	35.1
Ancillary insurance agents	**57,705**	**16.5**	**1.8**	56,681	18.3
Professional insurance agents	**64,357**	**18.4**	**56.3**	41,179	13.3
Direct sales	**82,859**	**23.7**	**(5.8)**	87,968	28.3
Insurance brokerage	**19,821**	**5.7**	**27.2**	15,581	5.0
Total	**349,290**	**100.0**	**12.5**	310,453	100.0

(3) Financial Analysis

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**309,552**	270,783	14.3
Investment income	**15,901**	15,280	4.1
Other income	**2,025**	1,579	28.2
Total income	**336,852**	297,733	13.1
Net claims and policyholders' benefits	**192,586**	172,087	11.9
Handling charges and commissions	**59,754**	46,578	28.3
Finance costs	**2,000**	1,208	65.6
Other operating and administrative expenses	**60,137**	59,530	1.0
Total benefits, claims and expenses	**314,919**	278,988	12.9
Profit before tax	**29,496**	24,921	18.4
Income tax expense	**(7,315)**	(4,439)	64.8
Net profit	**22,181**	20,482	8.3

Net earned premiums

Benefiting from the steady development in the businesses of motor vehicle insurance, accidental injury and health insurance, liability insurance, agricultural insurance and credit insurance, net earned premiums of the P&C insurance segment increased by 14.3% to RMB309,552 million in 2017 from RMB270,783 million in 2016.

Investment income

Investment income of the P&C insurance segment increased by 4.1% to RMB15,901 million in 2017 from RMB15,280 million in 2016. This was primarily due to the fact that the Company took advantage of the increase in the yield of the fixed income products, increased the allocation as well as seized the investment opportunities in equity markets.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the P&C insurance segment increased by 11.9% to RMB192,586 million in 2017 from RMB172,087 million in 2016, of which the loss ratio of PICC P&C decreased by 1.2 percentage point to 62.3% in 2017 from 63.5% in 2016. In 2017, the business structure of motor vehicle insurance in P&C insurance segment further enhanced. After the deregulation of premium rate of commercial motor vehicle insurance, the percentage of customers with no record of reported claims increased, and the valid claim reports and frequency witnessed an obvious decrease. The loss ratio of motor vehicle insurance decreased on a year-on-year basis.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 28.3% to RMB59,754 million in 2017 from RMB46,578 million in 2016. The increase in handling charges and commissions were mainly due to steady increase in business scale, increased investment in quality business and more intense market competition.

Finance costs

Finance costs of the P&C insurance segment increased by 65.6% to RMB2,000 million in 2017 from RMB1,208 million in 2016. The increase in finance costs was mainly due to the increase in interest expenses relating to subordinated debts, capital supplementary bonds and financial assets sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the P&C insurance segment increased by 8.3% to RMB22,181 million in 2017 from RMB20,482 million in 2016.

LIFE AND HEALTH INSURANCE

(1) Life insurance

In 2017, the macro economy in China maintained the stability with a positive trend, while major economic indicators performed better than estimation, and effective financial risk control became the core of financial regulation. Life and health insurance regulatory authorities successively issued series of regulatory policies, guiding the industry towards the direction of protection and risk prevention. The industry focused on business restructuring and transformation, and the growth of premiums slowed down. Facing complex market environment and competing situation, the Group's life insurance segment insisted in the general tone of "making progress while maintaining stability", and firmly implemented the transformation strategy of "Stabilizing growth, emphasizing value, strengthening the foundation". The premium income remained stable, regular premiums business increased steadily, the business structure was continuously refined, and the transformation and development achieved significant results. In 2017, the Group's life insurance segment recorded TWPs of RMB116,799 million; the TWPs of first-year regular premiums increased by 25.6% as compared to that for the previous year, and its percentage to first year TWPs increased by 6.75 percentage points, while the value of one year's new business increased by 37.7% as compared to the previous year.

1. *Analysis by Product*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Life insurance				
General life insurance	68,078	64.1	74,667	71.0
Participating life insurance	20,199	19.0	16,595	15.8
Universal life insurance	106	0.1	91	0.1
Health insurance	15,827	14.9	11,953	11.4
Accident insurance	2,028	1.9	1,809	1.7
Total	106,238	100	105,115	100

In terms of TWPs, in 2017, the TWPs of general life insurance, participating life insurance, universal life insurance amounted to RMB68,078 million, RMB21,307 million and RMB9,540 million, respectively. TWPs of health insurance and accidental injury insurance amounted to RMB15,846 million and RMB2,028 million, respectively. The Company actively reduced existing short and medium-term business, while achieved a positive increase of TWPs, demonstrating notable results for transformation and development. High value business and renewal premium of general and participating life insurance both increased dramatically.

2. *Analysis by Channel*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Bancassurance	52,785	59,166	(10.8)
First-year business of long-term insurance	44,313	55,622	(20.3)
Single premiums	38,273	49,421	(22.6)
First-year regular premiums	6,040	6,201	(2.6)
Renewal business	8,366	3,413	145.1
Short-term insurance	106	132	(19.7)
Individual Insurance	42,796	35,559	20.4
First-year business of long-term insurance	25,452	25,226	0.9
Single premiums	11,401	15,555	(26.7)
First-year regular premiums	14,051	9,671	45.3
Renewal business	16,379	9,306	76.0
Short-term insurance	965	1,027	(6.0)
Group Insurance	10,656	10,389	2.6
First-year business of long-term insurance	8,670	8,683	(0.1)
Single premiums	8,467	8,454	0.2
First-year regular premiums	203	229	(11.4)
Renewal business	220	8	2650.0
Short-term insurance	1,766	1,698	4.0
Total	106,238	105,115	1.1

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB54,511 million, RMB46,712 million and RMB15,576 million, respectively, for 2017.

In the life insurance segment, the individual insurance agent channel became the main channel in contributing the value. Such insurance channel focused on regular premiums business and the increase in quantity and quality of sales persons. The first-year TWPs of regular premiums business reached RMB14,050 million, increased by 45.3% on a year-on-year basis. As of the end of 2017, the number of sales agents for the life insurance segment was 255,908. The first-year TWPs per capita from sales agent amounted to RMB4,728 and the number of new life insurance policies per capita was 1.29 per month. The bancassurance channel accelerated the pace of value transformation, and improved sales capacity of regular premiums business, with a significant increased proportion of regular premiums business. The group insurance sales channel focused on legal persons' business and high-value business, and its efforts on customer development increased while short-term premium remained steadily.

3. *Persistency Ratios of Premiums*

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

	For the Year Ended 31 December	
Item	**2017**	2016
13-month premium persistency ratio [1] (%)	**93.8**	91.3
25-month premium persistency ratio [2] (%)	**88.7**	85.3

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

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

4. *Financial Analysis*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**105,428**	105,162	0.3
Investment income	**17,320**	15,720	10.2
Other income	**754**	621	21.4
Total income	**123,775**	121,736	1.7
Net claims and policyholders' benefits	**108,162**	109,187	(0.9)
Handling charges and commissions	**8,369**	6,900	21.3
Finance costs	**2,122**	1,752	21.1
Other operating and administrative expenses	**7,725**	6,972	10.8
Total benefits, claims and expenses	**126,563**	124,637	1.5
Profit before tax	**439**	447	(1.8)
Income tax expense	**(285)**	5	–
Net profit	**154**	452	(65.9)

Net earned premiums

Net earned premiums for the life insurance segment increased by 0.3% to RMB105,428 million in 2017 from RMB105,162 million in 2016, mainly due to benefiting from business transformation measures of the Company, and achieving satisfactory results from stabilizing the growth and adjusting the structure, resulting in the steady increase in premiums income and slight increase in the scale.

Investment income

Investment income of the life insurance segment increased by 10.2% to RMB17,320 million in 2017 from RMB15,720 million in 2016. This was primarily due to the fact that the Company took advantage of the increase in the yield of fixed income products, increased the allocation and seized the investment opportunities in equity markets.

Other income

Other income of the life insurance segment increased by 21.4% to RMB754 million in 2017 from RMB621 million in 2016, mainly due to the commission income from business synergy increased RMB158 million, representing an increase of 62.74% year-on-year.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the life insurance segment decreased by 0.9% to RMB108,162 million in 2017 from RMB109,187 million in 2016, mainly due to the fact that the Company transformed effectively, adjusted the business structure of stabilizing growth and emphasizing value, and reduced significantly the scale of short and medium-term product businesses, while policyholders' benefits decreased.

Handling charges and commissions

Handling charges and commissions of the life insurance segment increased by 21.3% to RMB8,369 million in 2017 from RMB6,900 million in 2016, under the condition that premium income grew steadily and optimization of business structure, regular premium products increased significantly as compared to the same period of last year.

Finance costs

Finance costs of the life insurance segment increased by 21.1% to RMB2,122 million in 2017 from RMB1,752 million in 2016, which was mainly due to the significant increase in interest expenses of financial assets sold under the agreements to repurchase compared to last year to achieve better investment asset allocation.

Net profit

As a result of the foregoing reasons and dilution of equity interest in associates, the net profit of the life insurance segment decreased by 65.9% to RMB154 million in 2017 from RMB452 million in 2016.

(2) Health Insurance

In 2017, the construction of "Healthy China" accelerated, reform of the medical and health system and construction of multi-level medical security system continuously deepened, policy bonus and demand bonus for health insurance released rapidly, the potential of health insurance has been increasing explored. Under the guidance of "Develop through innovation and speed up transformation" and based on the operational strategy of "Profession with feature, transformation with effectiveness, turnaround with results", the health insurance segment of the Group actively responded to the revolution of policies and market changes, took strengthening value creation and accelerating transformation and upgrading as the principal line to seize development opportunities to make overall efforts to facilitate each work, which vigorously promoted the co-development of the three major business segments, namely government commission insurance business, commercial health insurance business and health management insurance business, steadily increasing business scale, continuously improving profitability and prominent specialized features. The health insurance segment actively adjusted and optimized business structure and reduced short and medium-term product businesses to promote the rapid growth of business with high embedded value. First-year regular premium of individual insurance agent channel increased by 68.6% as compared to the previous year; The short-term insurance premiums of group insurance sales channel increased by 10.4% as compared to the previous year; The value of the year's new business increased by 44.0% as compared to the same period in the previous year, which indicates a continuously enhancing value creation capabilities.

1. *Analysis by Product*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2017		2016	
Health insurance products	**Amount**	**% of total**	Amount	% of total
Illness insurance	**842**	**4.4**	544	2.4
Medical insurance	**8,538**	**44.3**	7,831	34.0
Disability losses insurance	**89**	**0.5**	85	0.4
Nursing care insurance	**8,800**	**45.7**	13,660	59.3
Accidental injury insurance	**646**	**3.4**	535	2.3
Participating endowment insurance	**335**	**1.7**	366	1.6
Total	**19,250**	**100.0**	23,020	100.0

In terms of TWPs, in 2017, the TWPs of illness insurance, medical insurance, disability losses insurance, nursing care insurance, accidental injury insurance and participating endowment insurance amounted to RMB842 million, RMB12,609 million, RMB89 million, RMB11,181 million, RMB646 million and RMB335 million, respectively. The health insurance segment has adhered to the value-oriented direction, solidly promoted the tasks, optimized continuously the business structure, and the value creation ability continued to be improved. In 2017, with actively reducing short and medium-term product businesses, it achieved the TWPs of RMB25,702 million. In addition, the health insurance segment has also actively developed government commission processing business, and the medical insurance fund size under management was RMB12,299 million.

2. *Analysis by Channel*

Income of the health insurance segment by distribution channel for the purpose of Original Premiums Income for the reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Bancassurance	**5,305**	11,006	(51.8)
First-year business of long-term insurance	**5,003**	10,724	(53.3)
Single premiums	**4,856**	10,599	(54.2)
First-year regular premiums	**147**	125	17.6
Renewal business	**281**	276	1.8
Short-term insurance	**21**	6	250.0
Individual Insurance	**4,376**	3,220	35.9
First-year business of long-term insurance	**3,468**	2,662	30.3
Single premiums	**2,797**	2,265	23.5
First-year regular premiums	**671**	398	68.6
Renewal business	**784**	461	70.1
Short-term insurance	**124**	97	27.8
Group Insurance	**9,569**	8,794	8.8
First-year business of long-term insurance	**98**	218	(55.0)
Single premiums	**93**	217	(57.1)
First-year regular premiums	**5**	1	400.0
Renewal business	**9**	4	125.0
Short-term insurance	**9,462**	8,571	10.4
Total	**19,250**	23,020	(16.4)

In terms of TWPs, in 2017, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB5,393 million, RMB4,648 million and RMB15,661 million respectively.

In the health insurance segment, individual insurance agent channel focused on developing its sales team to drive the development of regular premiums business. By the end of 2017, the number of sales agents for the health insurance segment was 35,427. The first-year TWPs of new insurance policies amounted to RMB2,127 per sales agent per month and the monthly new insurance policies were 0.62 per sales agent per month. The bancassurance channel actively promoted the implementation of "1+4" series documents issued by the relevant regulatory authorities to accelerate the transformation of business structure, continuously improve professional skills and consolidate the channel development foundation. The group insurance sales channel expanded in relation to government commission insurance business and its TWPs recorded rapid growth. Basic medical insurance processing business achieved a breakthrough. With regard to the commercial group insurance business, it put more efforts to expand the project and strengthen the features of health insurance, achieving the improvement of both the team size and sales capacity.

3. *Persistency Ratios of premiums*

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

	For the Year Ended 31 December	
Item	**2017**	2016
13-month premium persistency ratio [(1)] (%)	**84.7**	81.2
25-month premium persistency ratio [(2)] (%)	**76.9**	72.7

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

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

4. *Financial Analysis*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**17,997**	20,925	(14.0)
Investment income	**2,008**	1,782	12.7
Other income	**121**	93	30.1
Total income	**20,219**	22,995	(12.1)
Net claims and policyholders' benefits	**17,182**	20,479	(16.1)
Handling charges and commissions	**796**	666	19.5
Finance costs	**543**	456	19.1
Other operating and administrative expenses	**1,689**	1,322	27.8
Total benefits, claims and expenses	**20,212**	22,921	(11.8)
Profit before tax	**7**	74	(90.5)
Income tax expense	**–**	(71)	–
Net profit	**7**	3	133.3

Net earned premiums

Net earned premiums of the health insurance segment decreased by 14.0% to RMB17,997 million in 2017 from RMB20,925 million in 2016, mainly due to its active promoting of the business transformation and upgrading, concentrating on the growth of protection business and initiative shrinking of the scale of short and medium-term product businesses.

Investment income

Investment income from the health insurance segment increased by 12.7% to RMB2,008 million in 2017 from RMB1,782 million in 2016, primary due to the fact that the Company took advantage of the increase in fixed income products yield, with the stable growth in re-investment income, as well as seized the opportunities of equity market.

Other income

Other income from the health insurance segment increased by 30.1% to RMB121 million in 2017 from RMB93 million in 2016. This was mainly due to the increase in corresponding management fee income generated from government commission processing business and the increase in the commission income from business synergy within the Group.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the health insurance segment decreased by 16.1% to RMB17,182 million in 2017 from RMB20,479 million in 2016, mainly due to the shrinking scale of short and medium-term product businesses as a result of the adjustment of business structure and a decrease in withdrawal of premium reserves.

Handling charges and commissions

Handling charges and commissions of the health insurance segment increased by 19.5% to RMB796 million in 2017 from RMB666 million in 2016. This was mainly attributable to the increase in scale of traditional long-term regular premiums business and short-term commercial insurance business as a result of the adjustment of business structure.

Finance costs

Finance costs from the health insurance segment increased by 19.1% to RMB543 million in 2017 from RMB456 million in 2016, primarily due to the increase in interest expenses of capital supplementary bonds and securities sold under the agreements to repurchase.

Net profit

Mainly due to the factors mentioned above, the health insurance segment increased by 133.3% to RMB7 million in 2017 from RMB3 million in 2016.

Analysis of Original Premiums Income by Region

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

Unit: in RMB million

	For the Year Ended 31 December	
	2017	2016
Jiangsu Province	**40,993**	39,278
Guangdong Province	**39,963**	36,552
Zhejiang Province	**33,430**	30,219
Shandong Province	**28,431**	28,410
Sichuan Province	**26,189**	24,791
Hebei Province	**25,601**	25,285
Beijing Municipal	**21,791**	23,507
Hubei Province	**18,258**	16,024
Liaoning Province	**17,962**	16,041
Fujian Province	**17,765**	16,379
Other regions	**204,395**	182,102
Total	**474,778**	438,589

Asset management business

In 2017, the Group's asset management segment overcame certain adverse factors, such as tightening of market liquidity, narrow fluctuation in stock market and frequent occurrence of credit risk. It actively seized the opportunities in A Share market and H Share market and increased the investments in fixed income products, such as debt securities, trust scheme and equity scheme. On the basis of developing traditional equity and debt products, it actively promoted the innovations of financial products such as inclusive finance and agriculture and SME support and coordinated the development of major insurance business which helped maintain a stable investment return and effectively reduced investment risk. The equity and debt products of the asset management segment had a registered scale of RMB46,200 million, of which the registered debt products amounted to RMB33,200 million and the registered equity products amounted to RMB13,000 million. As of 31 December 2017, the scale of entrusted third-party and the issued insurance assets management products of the asset management segment amounted to RMB308,636 million.

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

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Investment income	**452**	452	–
Other income	**1,618**	1,316	22.9
Total income	**2,070**	1,768	17.1
Finance costs	**4**	2	100.0
Other operating and administrative expenses	**1,301**	1,039	25.2
Total expenses	**1,306**	1,040	25.6
Profit before tax	**763**	733	4.1
Income tax expense	**(199)**	(190)	4.7
Net profit	**564**	543	3.9

Investment income

Investment income from the asset management segment was RMB452 million, the same as that for the last year.

Other income

Other income of the asset management segment increased by 22.9% to RMB1,618 million in 2017 from RMB1,316 million in 2016, mainly due to the increase in management fee income as a result of the substantial increase in the size of the third-party asset under management.

Finance costs

Finance costs for the asset management segment increased by 100.0% to RMB4 million in 2017 from RMB2 million in 2016, primarily due to the increase in interest expenses of securities sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the asset management segment increased by 3.9% to RMB564 million in 2017 from RMB543 million in 2016.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

(1) Investment Portfolio

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

Unit: in RMB million, except for percentages

Investment assets	As of 31 December 2017 Carrying amount	(% of total)	As of 31 December 2016 Carrying amount	(% of total)
Cash and cash equivalents	72,819	8.5	46,729	5.8
Fixed-income investments	553,673	64.9	511,927	63.4
Term deposits	70,706	8.3	91,884	11.4
Treasury bonds	18,493	2.2	14,597	1.8
Financial bonds	105,595	12.4	96,906	12.0
Corporate bonds	150,273	17.6	129,028	16.0
Long-term debt investment scheme	105,290	12.3	95,002	11.7
Other fixed-income investments (1)	103,316	12.1	84,510	10.5
Fund and equity securities investments at fair value	92,869	10.9	132,866	16.4
Fund	54,045	6.3	94,027	11.6
Equity securities	38,824	4.6	38,839	4.8
Other investments	134,039	15.7	116,216	14.4
Investment in associates and joint ventures	97,740	11.5	85,834	10.6
Others (2)	36,299	4.2	30,382	3.8
Total investment assets	853,400	100.0	807,738	100.0

(1) Other fixed-income investments primarily consist of subordinated debts, wealth management products, capital guarantee deposits, policy loans, trust products and asset management products.

(2) Others primarily consist of investment properties, equity investment scheme, reinsurance arrangements classified as investment contacts, non-listed equity investments and derivative financial assets.

(2) Investment income

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

Unit: in RMB million, except for percentages

Item	For the Year Ended 31 December 2017	2016
Cash and cash equivalents	**1,066**	581
Fixed-income investments	**27,111**	26,534
Interest income	**27,117**	25,963
Profits and losses of disposal of financial instruments	**99**	554
Profits and losses of fair value changes	**(105)**	17
Impairment	**–**	–
Fund and equity securities investments at fair value	**7,335**	4,534
Dividends and bonus income	**3,303**	4,507
Profits and losses of disposal of financial instruments	**4,724**	1,621
Profits and losses of fair value changes	**195**	(432)
Impairment	**(887)**	(1,162)
Other investment	**12,840**	11,812
Investment income in associates and joint ventures	**12,674**	10,386
Other profits and losses	**166**	1,426
Total investment income	**48,352**	43,461
Net investment income(1)	**45,324**	42,639
Total investment yield(2) (%)	**5.9**	5.8
Net investment yield(3) (%)	**5.5**	5.7

(1) Net investment income = total investment income – gains and losses from the disposal of investment assets – gains and losses on fair value changes of investment assets – impairment losses of investment assets

(2) Total investment yield = (total investment income – interest expenses on securities sold under agreements to repurchase)/(the total investment assets as of the beginning of the period – the amount of financial assets sold under agreement to repurchase as of the beginning of the period + the total investment assets as of the end of the period – the amount of financial assets sold under agreement to repurchase as of the end of the period) x 2

(3) Net investment yield = (net investment income – interest expenses on securities sold under agreements to repurchase)/(the total investment assets as of the beginning of the period – the amount of financial assets sold under agreement to repurchase as of the beginning of the period + the total investment assets as of the end of the period – the amount of financial assets sold under agreement to repurchase as of the end of the period) x 2

SPECIFIC ANALYSIS

(1) Liquidity Analysis

1. *Liquidity Analysis*

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

Since the Group generally collects premiums before the payment of insurance claims or benefits, the cash flow from operating activities of the Group generally records a net inflow. At the same time, the Group maintained a certain proportion of assets with high liquidity to meet liquidity requirements. In addition, the Group could also obtain additional liquidity from the arrangements of securities sold under agreement to repurchase, interbank borrowings and other financing methods.

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

2. *Statement of Cash Flows*

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net cash flows from operating activities	**(2,025)**	23,831	–
Net cash flows from investing activities	**23,270**	(32,683)	–
Net cash flows from financing activities	**5,041**	5,447	(7.5)

(2) Solvency

The Group calculated and disclosed the actual capital, core capital, minimum capital, comprehensive solvency margin ratio and core solvency margin ratio in accordance with relevant CIRC requirements.

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
PICC Group			
Actual capital	**251,983**	222,890	13.1
Core capital	**198,075**	172,358	14.9
Minimum capital	**84,323**	78,518	7.4
Comprehensive solvency margin ratio (%)	**299**	284	Increase of 15 pt
Core solvency margin ratio (%)	**235**	220	Increase of 15 pt
PICC P&C			
Actual capital	**154,590**	140,793	9.8
Core capital	**127,326**	113,864	11.8
Minimum capital	**55,552**	49,071	13.2
Comprehensive solvency margin ratio (%)	**278**	287	Decrease of 9 pt
Core solvency margin ratio (%)	**229**	232	Decrease of 3 pt
PICC Life			
Actual capital	**54,010**	46,380	16.5
Core capital	**47,192**	39,257	20.2
Minimum capital	**24,631**	26,263	(6.2)
Comprehensive solvency margin ratio (%)	**219**	177	Increase of 42 pt
Core solvency margin ratio (%)	**192**	149	Increase of 43 pt
PICC Health			
Actual capital	**10,930**	6,695	63.3
Core capital	**7,099**	6,200	14.5
Minimum capital	**2,763**	3,107	(11.1)
Comprehensive solvency margin ratio (%)	**396**	215	Increase of 181 pt
Core solvency margin ratio (%)	**257**	200	Increase of 57 pt

As of 31 December 2017, the comprehensive solvency margin ratio of the Group was 299%, representing an increase of 15 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 235%, representing an increase of 15 percentage points as compared to that as of 31 December 2016.

As of 31 December 2017, the comprehensive solvency margin ratio of PICC P&C was 278%, representing an decrease of 9 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 229%, representing an decrease of 3 percentage points as compared to that as of 31 December 2016; the comprehensive solvency margin ratio of PICC Life was 219%, representing an increase of 42 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 192%, representing an increase of 43 percentage points as compared to that as of 31 December 2016; the comprehensive solvency margin ratio of PICC Health was 396%, representing an increase of 181 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 257%, representing an increase of 57 percentage points as compared to that as of 31 December 2016.

PROSPECTS

(1) Market Environment

In 2017, China's insurance market achieved a steady and favourable development. The industry sped up in returning to origin and its capability to serve the real economy strengthened significantly. According to data published by the CIRC, the Original Premiums Income of the Chinese insurance industry in 2017 amounted to RMB3.7 trillion, representing an increase of 18.2% as compared to the same period last year. This means that the industry continued to maintain a rapid growth. The Original Premiums Income of the P&C insurance companies and life and health insurance companies recorded increases of 13.8% and 20.0% respectively as compared to the same period last year. By the end of 2017, the total assets of the insurance industry in China amounted to RMB16.7 trillion, representing an increase of 10.8% from the beginning of the year.

2018 is the beginning year of implementing the spirit of the 19th CPC National Congress. It is the 40th anniversary of reform and opening-up and a crucial transitional year for securing a decisive victory in building a moderately prosperous society in all respects and for continuing to implement the 13th Five-Year Plan. From the perspective of macro-environment, as the 19th CPC National Congress specifically highlighted that China's economy has transformed from a rapid growing stage to a high quality development stage, we must put quality first and give priority to effectiveness. We should pursue economic development through reform of quality, efficiency and momentum. The National Financial Work Conference specifically demanded that we should take serving the real economy as the starting point and goal of our financial work and implement the new development philosophy and establish the concept of giving priority to quality and efficiency. From the perspective of policy directions, the 19th CPC National Congress proposed a range of new strategies and new initiatives which will provide new room for the insurance industry to serve the real economy's development. For example, for the first time it put forward the "rural vitalization" strategy which is positive for the Company to accelerate the establishment of an integrated and comprehensive protection system for "agriculture, rural areas and farmers" including agricultural insurance, social protection and governance insurance, etc., to integrate policy business and commercial business and to strengthen protection against the risks in the whole agricultural industrial chain and supply chain as well as providing new opportunities for the development of inclusive finance for rural areas. Another example is that the 19th CPC National Congress specifically put forward that we should resolutely carry out targeted poverty alleviation which gives rise to new policy opportunities for the Company to deepen the integration of poverty alleviation through insurance, finance and industrial development, to enhance and extend "inclusive + preferential" products and services for poverty alleviation through insurance and to establish a range of insurance products under the category of poverty alleviation. Furthermore, the Healthy China initiative and a range of policies related to health, medical and pension are proposed which opens up new room for the Company to reinforce and enhance its market position in the social medical insurance business such as critical illness insurance, to grasp the window period in the development of occupational annuity and to speed up the establishment of pension and health industrial chain. The implementation of the "Belt and Road" initiative and regional development strategy such as the construction of the Xiong'an New Area will provide new source of insurance business and plenty of investment opportunities for the Company. From the perspective of regulatory policies, pursuant to the decision of the central government in the prevention and defusing major risks, regulators give risk control and prevention a higher priority, continue to deepen the implementation of the "1+4" series documents, drive the insurance industry to return to its origin and accelerate the pace of transformation of the industry towards high quality development. From the perspective of market cycle, the insurance industry is at the "trough-forming" stage between the transition from the old cycle to a new cycle. This means the market is at the dawn before the rise of a new round of development opportunities. We must fully recognise the cyclical pattern of market changes and accelerate reforms in terms of quality, efficiency and momentum, so as to have the upper hand and turn risks into opportunities. From the perspective of industry competition, the rapid development of internet technology, especially financial technology, is overturning the traditional competition landscape of the financial and insurance industries, and new technologies, new industrial forms and new models emerge every day. The greatest threat to the Group in the future may not come from entities within the financial and insurance industries or from traditional competitors, but instead from the "dimensionality reduction attack" by large internet enterprises in cross-industry competition.

(2) Key Tasks

In 2018, the Company will adhere to the general tone of making progress while maintaining stability and uphold the new development philosophy. We will closely align with changes in the principal contradictions of China's society and serve key strategies and supply-side structural reform of the country based on the requirement of achieving high quality development. We will coordinate and implement the tasks of stabilising growth, promoting reform, adjusting structure, creating value and preventing risks; vigorously implement innovation-driven development strategy and push ahead integrated development and reforms of quality, efficiency and momentum; and pursue concrete progress in serving the real economy, preventing and defusing risks and deepening reform in an effort to become stronger, better and bigger. The Company will try to excel in its principal business and refine special business, change the form of business, optimise structure and renew momentum while insisting quality first and giving priority to effectiveness. It will return to the industry's origin and base its business on protection while focusing on serving the real economy and major strategies of the country. We will deepen the Group's supply-side structural reform in insurance and expand the space for the Group's development. Resources will be integrated and development coordinated in an effort of maximizing the interest of the Group as a whole, and integrated development will be further deepened. The Company will be brave in reform and innovation and take innovation as the top driver to lead development and promote the realization of quality, efficiency and momentum reforms. We will focus on prevention and control, hold the bottom line and concretely carry out the tough battle of prevention and defusing major risks in accordance with the requirements of the central government and the actual situation of the Company.

In 2018, the subsidiaries of the Company will seek to differentiate, accomplish bright spots and secure competitiveness in their principal and special businesses based on their own positioning. PICC P&C will promote "two integrations" including the integration of policy business and commercial business and the integration of business model reform and technological reform. It will adhere to benchmarking against the market and cost effective development, and consolidate its leading position in the P&C insurance market. It will take motor vehicle insurance as the top business for its transformation and development and disintermediate, lower costs, improve services and strengthen customer stickiness. It will treat non-motor vehicle insurance as a key driver for fostering new momentum; seize the opportunities of business expansion in agricultural insurance, critical illness insurance and liability insurance; reinforce and develop industrial business and business of key customers; accelerate development of internet business; deepen the sharing of policy customers and promote individual and retail business. PICC Life will focus on sustainable development and "pattern changing", consolidate the foundation for systematic transformation, further deepen the change from extensive to intensive development, from scale driven to value driven and from primarily bancassurance to primarily individual insurance business. Focusing on "structure optimisation", it will deepen profit source analysis and promote structural adjustment of products, maturity, profit and assets. Focusing on "changing momentum", it will strengthen the building of the individual insurance team, and promote systematic and professional operation. PICC Health will demonstrate its professionalism, realise innovativeness and offer special features. Based on the philosophy of being professional, efficient and capable, it will pursue a path of professional and flattening development, and strengthen its capability in health management services and reinforce the foundation of health insurance customers and data. The investment segment will proactively and effectively respond to policy changes in financial regulation and serve the principal insurance business. It will always bear in mind the obligation of trust, and abide by the principles of "always be professional and diligent, care and sincere, strong in management, uphold bottom line and serve third parties when having extra capacity." PICC Financial Services will focus on and serve our principal business, develop innovation in financial technology applications and play a complementary and activating role for our principal business, helping the Group to implement its innovation-driven strategy. Being the only window for the Group's domestic inward reinsurance business, PICC Reinsurance will thoroughly explore the potential of our outward reinsurance. PICC Pension will speed up the obtaining qualification for occupational annuity, standardise the establishment of provincial annuity centers and develop occupational annuity business with strong effort. PICC Hong Kong will maintain steady development of its local business while actively developing overseas business so as to play a pivotal role for the Group to advance its presence in the overseas market. Zhongsheng International Insurance Brokers Company Limited, a subsidiary of the Company, will deepen internal integration, restructuring and transformation to enhance business development ability and strengthen value creation.

CAPITAL EXPENDITURE

The capital expenditure of the Group primarily consists of property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure of the Group amounted to RMB3,125 million in 2017.

PLEDGE OF ASSETS

Certain subsidiaries of the Company sold and repurchased securities in the market for liquidity management. During the course of transaction, securities held by the Company's subsidiaries were pledged for such transactions. The carrying amount of relevant securities as at 31 December 2017 is set out in Note 32 to the consolidated financial statements.

BANK BORROWINGS

Besides the subordinated debts issued by the Group and the repurchase business disposed of in the investment business, the Group had no bank borrowings in 2017. Details of the subordinated debts are set out in Note 35 to the consolidated financial statements.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2017. The Company's management believes such litigation matters will not cause significant losses to the Group.

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

MAJOR ACQUISITIONS AND DISPOSALS

During the report period, the Group had no major acquisitions and disposals.

Major Risk Factors

Major risks and uncertainties faced by the Group are listed below. Besides those listed below, there may be other risks and uncertainties.

Macro environment risk

Internationally, with the complex and changing economic and financial situation, the global economy will be continuously impacted by the Dollar Plan and the reduction in the size of the quantitative easing in the Euro area. Domestically, the macro economy has entered into new normal cycle featuring long-term low growth rate and the supply side reform will be further intensified. Those changes in international and domestic economic situation will conduct to the insurance industry by various pipelines, which may affect the operations, management and investment of the Company. The Group attaches great importance to the study on macro policies and external economic conditions, actively conducts and responds to macro environment analysis, studies the impact on operations, management, investment and other aspects, and actively responds therefor.

Asset and liability matching risk

Under the current complex investment environment and competitive market condition, there is a contradiction between the significant fluctuation in the investment income of the insurance industry and rigidity of its liability costs, which will cause impacts on the matching of asset and liability and income and costs. The Group continues to promote the transformation and development of its life insurance business with the holding period of its liability segment increased, which requires the allocation of long-term high-quality assets to achieve periodic matching of asset and liability. The Group has been paying close attention to the asset and liability matching. We continue to strengthen asset allocation management, continuously optimize liability segment and strengthen asset segment to prevent the matching risk of income and cost of asset and liability; we enhance the analysis and forecast on cash flows of asset and liability to avoid the periodic matching risk of asset and liability.

Market risk

The fair value or future cash flows of a financial instrument held by the Group will fluctuate because of changes in market prices, which exposes us to market risk. Major market risks faced by us include interest rate risk, exchange rate risk and price risk. At present, the domestic capital market is facing uncertainties and continuously fluctuating interest rates and exchange rates. These factors will bring market risks for the Group. We use multiple methods to manage market risks, including the use of sensitivity analysis, Value-at-Risk (“VaR”), stress test, scenario analysis and other quantitative models to analyse market risks; the mitigation of market risks through a diversified investment portfolio; the implementation of investment risk budget management and tracking of risk control results. In addition, we control foreign exchange risk by controlling the foreign exchange balances, increasing the gain on investment in foreign currency assets etc. depending on the changes in exchange rates. We also manage and hedge against our interest rate risk by adjusting our portfolio composition, managing, to the extent possible, the average duration and maturity of our portfolio and using financial derivatives, such as interest rate swaps.

Credit risk

When the counterparty fails to perform or cannot perform its contractual obligations in a timely manner, or the adverse changes on the credit of the counterparty may result in unexpected losses, the Group may be exposed to credit risks. The steady implementation of cutting overcapacity and de-leverage process as well as financing pressures facing some enterprises may further release credit risks. We consistently strengthen credit risk management of investment business through intensifying risk warning and prevention of position-credit-products and developing a “white list” mechanism for counterparties in specific industries. We continuously improve the internal credit rating system, increase dynamic tracking and monitoring of credit risks and conduct specific inspection of credit risks from time to time. We increase the diversification of fixed income investment portfolios, reasonably control the subject, geographical and industrial concentration of the investment business and further enhance credit risk assessment level. In addition, we strictly control insurance receivables and losses on bad debts, strengthen the credit management on the counterparty to control credit risks.

Insurance risk

Insurance business is one of the main businesses operated by the group. The adverse deviations between the actual experiences and the expectations on the loss ratios, the happening of losses, the fees and the surrenders which result in insurance risks faced by the Group. Cost competition in the industry and occurrence of catastrophe may cause insurance risk for us. We assess and monitor insurance risks by using sensitivity analysis, stress test and other technologies. We also strengthen the management of the processes if the insurance business through the implementation of an effective product development and management system, a reasonable and sound assessment on reserves, prudent underwriting and claims handling processes, multi-layered reinsurance mechanisms, reasonable and prudent cost policies and other measures to control insurance risks.

Liquidity risk

For an enterprise primarily engaging in transact insurance business, the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. If it has insufficient funds or is unable to liquidate a position in a timely manner at a reasonable price to meet obligations as they become due, the Group will face liquidity risks. The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. The Group pays attention to the liquidity risk that may arise during the business transformation period and endeavors to continuously strengthen monitoring and analysis on cash flow, enhance liquidity risk assessment and take respond measures in advance. In addition, the Group manages liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its insurance policies, strengthen the management of client expectation and provide renewal and transfer of policies and other services to mature customers to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

Compliance risk

The CIRC, the People's Bank of China and other PRC governmental authorities will conduct examinations on our compliance with PRC laws and regulations. The regulators may impose penalties and/or sanctions on us for non-compliant operations and management activities of the Group and our staff, which exposes the Group to compliance risks. We constantly establish compliance management mechanisms, strengthen inspections on, training and publicity on compliance, the establishment of a compliance culture as well as the construction of internal control system of grassroots organisations. We conduct compliance self-inspection on a regular basis, strengthen audit and inspection and carefully carry out rectification to control compliance risks.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Miao Jianmin, aged 53, an alternate member of the 19th Central Committee of the Communist Party of China, is currently an Executive Director and the Chairman of the Company and a senior economist. From July 1995 to December 2005, he had served as deputy general manager of China Reinsurance (Hong Kong) Limited, deputy general manager of the Investment Department and assistant general manager of China Insurance H.K. (Holdings) Company Limited, executive director, assistant to general manger and deputy general manager of China Insurance Co. Ltd. (China Insurance H.K. (Holdings) Company Limited). Mr. Miao served as president of China Insurance International Holdings Company Limited (now known as China Taiping Insurance Holdings Company Limited, a listed company on the Stock Exchange of Hong Kong, Stock Code: HK.00966) from August 2000 to December 2005, and he was concurrently executive director and vice chairman from November 2004 to December 2005 and chairman of The Tai Ping Insurance Company Limited from November 2004 to December 2005. He served as vice president of China Life Insurance (Group) Company from December 2005 to October 2013 and as vice chairman and president of China Life Insurance (Group) Company from October 2013 to April 2017. Also, he served as director of China Life Asset Management Company Limited from December 2005 to April 2017 and as chairman from December 2005 to December 2013. He served as non-executive director of China Life Insurance Company Limited (a listed company on the Shanghai Stock Exchange, Stock Code: SH.601628; a listed company on the Stock Exchange of Hong Kong, Stock Code: HK.02628; a listed company on the New York Stock Exchange, Stock Code: NYSE.LFC) from October 2008 to April 2017. He also served as chairman of China Insurance Plaza Company Limited from March 2013 to April 2015, director of China Shimao Investment Company Limited and director of China World Trade Center Company Limited from April 2014 to April 2017, and chairman of China Life Pension Company Limited from March 2017 to April 2017. Mr. Miao was appointed as an Executive Director, Vice Chairman and President of the Company in April 2017, and the Chairman of the Board (ceased to be President and Vice Chairman) since January 2018. Mr. Miao is also the chairman of the board of directors of PICC P&C, PICC AMC, PICC Health and PICC Life since March 2018. Mr. Miao is currently the doctoral tutor of the Chinese Academy of Social Sciences and the master tutor of Tsinghua University PBC School of Finance, Peking University and Central University of Finance and Economics. He was the executive director of China Finance 40 Forum from July 2011 to May 2017 and executive director of the council of China Chamber of International Commerce since December 2015. He was awarded special allowance by the State Council since February 2009. Mr. Miao graduated from Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in August 1986 with a bachelor's degree in Economics, graduated from the Graduate Department of Financial Research Institute of the People's Bank of China in February 1989 with a master's degree in Economics, and graduated from Central University of Finance and Economics in July 2013 with a doctoral degree in Economics.

Mr. Xie Yiqun, aged 56, is an Executive Director and a Vice President of the Company and a senior economist. Mr. Xie joined the Company in April 1980 and has worked as the deputy general manager of Wenzhou branch, the general manager of the International Business Department of Zhejiang branch and the manager of Insurance Claim Settlement Agency in Marseille, France until January 1995. From January 1995 to December 2001, he worked as the general manager of China Insurance Company S.A. Luxemburg, the general manager of China Insurance Company (UK) Limited, the general manager of China Insurance Singapore branch and China Taiping Insurance Group Singapore branch and the director of the Singaporean Institutional Reorganisation Preparatory Committee. Mr. Xie worked as the Chairman of Taiping Life Insurance Co., Ltd. from December 2001 to November 2004. From August 2004 to May 2009, Mr. Xie worked as managing director and deputy general manager of China Insurance (Holdings) Company Limited and China Insurance H.K. (Holdings) Company Limited. From May 2009 to March 2015, Mr. Xie worked as deputy general manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he worked asmanaging director from May 2009 to March 2012 and executive director from June 2013 to March 2015. Meanwhile, he also worked as executive director and deputy general manager of China Taiping Insurance Holdings Company Limited (a company listed on the Stock Exchange of Hong Kong Limited, stock code: HK.00966), chairman of Taiping Assets Management (HK) Company Limited, chairman of CIC Holdings (Europe) Limited, chairman of Taiping Pension Co., Ltd., chairman of Taiping Asset Management Company Limited, chairman of Taiping Securities (HK) Company Limited, executive director and general manager of Taiping Senior Living Investments Company Limited, chairman of Taiping Financial Holdings Company Limited, chairman of Taiping Investment Holdings Company Limited and chairman of Shenzhen Taiping Investment Company Limited. Mr. Xie has been working as the Vice President of the Company since March 2015 and the Executive Director of the Company since October 2017. He also worked as chairman of PICC Hong Kong since June 2015 and chairman of PICC Financial Services since January 2017. Mr. Xie has been a vice chairman of National Internet Finance Association of China since September 2016 and the vice chairman of the Asian Financial Cooperation Association since July 2017.Mr. Xie graduated from Nankai University in July 1988 and from Middlesex University Business School, UK in June 2001 and obtained the degree of M.A.

Mr. Tang Zhigang, aged 53, is an Executive Director, a Vice President, the Responsible Compliance Officer and the Chief Risk Officer of the Company and a senior economist. Mr. Tang worked in the Agricultural Bank of China from July 1988 to July 1994 and served as a deputy director of restructuring commission of research office. From July 1994 to September 2013, Mr. Tang worked in the Agricultural Development Bank of China and served as a deputy director of research office of general administrative office, a deputy division director, director, assistant to the chief of Jiangsu branch, deputy officer of administrative office of headquarters, manager of the research division, chief of Jiangsu branch, head of the preparation committee of international business department of headquarters, general manager of the international business department and director of the office, and since February 2013, he worded as the assistant to the president and director of office of the Agricultural Development Bank of China. He has been appointed as a Vice President of the Company Since September 2013, an Executive Director of the Company since November 2017, the Responsible Compliance Officer and the Chief Risk Officer since December 2017. Mr. Tang served as chief of preparatory leading team for the PICC Pension Co., Ltd since January 2017 and Chairman of PICC Pension since October 2017. Mr. Tang graduated from Hunan Institute of Finance in July 1985 with a Bachelor's Degree in Economics and obtained a Master's Degree in Economics from Graduate Department of Finance Research Institute of People's Bank of China in July 1988.

NON-EXECUTIVE DIRECTORS

Mr. Wang Qingjian, aged 53, is a Non-executive Director of the Company. He joined the Ministry of Finance in August 1987 and worked successively in the Supplementary Budget Management Department, Comprehensive Planning Department and General Affairs and Reform Department. He worked in the Embassy of China in Malta from May 1997 to July 2000 as third-class secretary and second-class secretary (deputy director level). He has been working at the Ministry of Finance since July 2000. He served as a deputy director level committee member of the Department of Policy Planning from July 2000 to March 2001, assistant consultant and deputy director of the Paid Fund Office of General Department from March 2001 to September 2005, principal staff member (director level) of the Financial Bill Regulatory Center from September 2005 to November 2011 and has served as principal staff member (deputy director general level) of the Financial Bill Regulatory Center from November 2011 to July 2017. He served as a director appointed by Central Huijin Investment Company Limited and a Non-executive Director of the Company since July 2017.Mr. Wang held temporary positions as a member of Municipal Committee and Standing Committee and vice-mayor of Ji'an, Jiangxi Province from January 2014 to February 2016. Mr. Wang graduated from Zhongnan University of Finance and Economics in July 1987 with a bachelor's degree in Economics and graduated from Beijing Jiaotong University in April 2014 with a doctoral degree in Management.

Mr. Xiao Xuefeng, aged 47, is a Non-executive Director of the Company. Mr. Xiao worked in the Ministry of Finance from August 1995 to November 2011 and served as a staff member, senior staff member, principal staff member, deputy director of No. 1 Division, consultant and director of the Department of Treaty and Law. Mr. Xiao served as a deputy director general of the Department of Corporate of the Ministry of Finance in November 2011, deputy director general of the Department of Asset Management in August 2014 and deputy director general of the Department of Treaty and Law from September 2015 to October 2017. He served as a director appointed by Central Huijin Investment Company Limited and a Non-executive Director of the Company since October 2017. Mr. Xiao graduated from Peking University and obtained a Bachelor's Degree in Law in August 1995 and he graduated from China Europe International Business School and obtained a Master's Degree in Business Administration in July 2014.

Ms. Hua Rixin, aged 58, is a Non-executive Director of the Company and a senior economist. Ms. Hua started her career in September 1977. From April 1981 to August 2002, she worked in four departments in the Yunnan Provincial People's Government General Office for 21 successive years, during which she worked as staff member, deputy senior staff member and principal staff member of the reception department of the General Office, principal staff member of fourth secretary office (politics, laws and race division), principal staff member and assistant consultant of sixth secretary office (science, education, culture, health and sport division) and consultant of second secretary office (financial auditing, taxation and personnel of industry and commerce, economics and finance and tobacco division). From August 2002 to February 2004, she worked as the chief officer at the Yunnan branch office of China Development Bank. In February 2004, she worked in the Yunnan office of the CIRC and served successively as the director of general management bureau, chief officer of general office, member of CPC committee and assistant president, member of CPC committee and vice president, member of CPC committee, vice president and secretary of the disciplinary committee, deputy secretary to the CPC committee, president, secretary to the CPC committee and president. From May 2015 to January 2016, she has been working as a counsel of the general office of the CIRC. She served as a director appointed by Central Huijin Investment Company Limited since February 2016. Ms. Hua has been a Non-executive Director of the Company since October 2015. Ms. Hua graduated from the Adult College of Southwestern University of Finance and Economics in August 2004.

Ms. Cheng Yuqin, aged 56, is a Non-executive Director of the Company. Ms Cheng worked in the finance department of Central Iron & Steel Research Institute under the Ministry of Metallurgy as an accountant from July 1983 to December 1992. From December 1992 to June 1994, she worked in the Capital Checkup and Verification Steering Office under the State Council. From June 1994 to May 1998, she was the deputy director general of the Assessment Department of the State-owned Assets Administration Bureau. From May 1998 to June 2007, she worked in the Ministry of Finance as a consultant of the asset and capital verification division under the Assessment Department, and a consultant of general division of the Finance Department. From June 2007, she worked successively in the insurance and equity management department, non-bank department, securities institution management department/insurance institution management department in Central Huijin Investment Company Limited. From April 2012 to December 2016, she has been working as the chief officer of insurance institution and equity management division of the securities institution department/ insurance institution management department. Since June 2007, she served as a director appointed by Central Huijin Investment Company Limited. She was designated as a director of China Reinsurance (Group) Corporation from June 2007 to December 2014. Ms. Cheng has been a Non-executive Director of the Company since October 2015. Ms. Cheng graduated from Zhejiang Jiaxing College in July 1983 and graduated from the Graduate School of the Party School of Central Committee in July 2008.

Mr. Wang Zhibin, aged 50, is a Non-executive Director of the Company. He worked at the National Audit Office of the PRC from July 1994 to March 2001 and served as an assistant consultant of Secretary for Economy and Trade. He also worked at the National Council for Social Security Fund from March 2001 and successively served as the deputy director and director of the Risk Control Division of the Regulation and Supervision Department; served as deputy head of the Regulation and Supervision Department from December 2004; served as deputy head of the Investment Department from June 2007; served as a counsel and deputy head of the Investment Department from March 2011; served as a counsel and deputy head of the Securities Investment Department from August 2012; served as head of the Regulation and Supervision Department since March 2016 till now. Mr. Wang has been a Non-executive Director of the Company since August 2016. Mr. Wang graduated from Southwestern University of Finance and Economics with a Master's degree in Economics; attended trainings from July to September in 2012 and from October to November in 2013 in Australia and at Principal Financial Group in US, respectively; he graduated from Southwestern University of Finance and Economics with a Doctoral degree in Economics in July 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Hon Chuen, GBS, JP, aged 70, is an Independent Non-executive Director of the Company, honoured Great Bauhinia Medal and Justice of the Peace. He has been an Independent Non-executive Director of the Company since October 2012. He has been a solicitor of the High Court of Hong Kong since December 1971, and is a China-Appointed Attesting Officer and a Notary Public. Mr. Lau has been the senior partner of Messrs. Chu & Lau, Solicitors & Notaries since April 1978. Mr. Lau is currently an independent non-executive director of the following companies listed on the Hong Kong Stock Exchange: China Jinmao Holdings Group Limited (stock code: HK.00817), Glorious Sun Enterprises Limited(stock code: HK.00393), Yuexiu Transport Infrastructure Limited(stock code: HK.01052), Yuexiu Property Company Limited(stock code: HK.00123), Joy City Property Limited (Formerly known as COFCO Land Holdings Limited stock code: HK.00207), and Brightoil Petroleum (Holdings) Limited(stock code: HK.00933). Mr. Lau served as chairman of Central and Western District Council of Hong Kong from 1988 to 1994, the president of the Law Society of Hong Kong from 1992 to 1993, a member of the Bilingual Laws Advisory Committee from 1988 to 1997 and a member of the Legislative Council of Hong Kong from 1995 to 2004 (he was a member of the Provisional Legislative Council between 1997 and 1998). Mr. Lau was the standing committee member of the 10th, 11th and 12th National Committee of the Chinese People's Political Consultative Conference. Mr. Lau graduated from the University of London in July 1969 with a Bachelor of Laws Degree.

Mr. Xu Dingbo, aged 54, is an Independent Non-executive Director of the Company. From 1986 to 2003, Mr. Xu was a teaching assistant at the University of Pittsburgh and the University of Minnesota, an assistant professor at the Hong Kong University of Science and Technology, and an adjunct professor at Peking University from April 1999 to April 2009. He joined the China Europe International Business School in January 2004, where he currently serves as the school's Essilor chair Professor of Accounting, associate dean of Academic Affairs. Mr. Xu has been an Independent Non-executive Director of the Company since September 2009, and was an independent non-executive director and chairman of the audit committee of Sanjiang Shopping Club Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: SH.601116) from December 2009 to November 2011. Mr. Xu was an independent non-executive director and chairman of the audit committee of Dongyi Risheng Home Decoration Group Limited Company (listed on Shenzhen Stock Exchange, stock code: SZ.002713) from December 2010 to July 2017. Mr. Xu is currently an independent director and chairman of audit Committee of Shanghai Shyndec Pharmaceutical Co., Ltd (listed on the Shanghai Stock Exchange, stock code: SH.600420), Sany Heavy Industry Co., Ltd (listed on the Shanghai Stock Exchange, stock code: SH.600031), China Cinda Asset Management Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: HK.01359), Kweichow Moutai Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: SH.600519). and as an independent director, chairman of the audit committee and connected transactions committee of Societe Generale (China) Co., Ltd. Mr. Xu graduated from Wuhan University in July 1983 with a Bachelor's Degree in Mathematics, and obtained a Master's Degree in Economics in October 1986. Mr. Xu graduated from the University of Minnesota in August 1996 with a Doctoral Degree in Accounting.

Mr. Luk Kin Yu, Peter, aged 77, is an Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute and Faculty of Actuaries in UK, the Institute of Actuaries of Australia and the Society of Actuaries in the United States of America, respectively. Mr Luk was previously the chief actuary of American International Assurance Company, Limited, the chief financial officer of the Pacific-Asia Division of Manulife Insurance Co., Ltd., the appointed actuary of Australian Casualty and Life Insurance Co., Ltd., the senior actuary of Mercer, Campbell, Cook & Knight, and an executive director and the chief financial officer of Pacific Century Insurance Holdings Limited. Mr Luk was the president of the Actuarial Society of Hong Kong when it was founded and the President of the society for a considerable number of sessions. Mr Luk was a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong and the chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the chief executive officer of Plan-B Consulting Limited, an independent non-executive director and a member of audit committee and chairman of risk committee of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited. From April 2005 to Januray 2015, Mr. Luk served as an independent non-executive director of PICC P&C and he has been appointed as the Independent Non-executive Director of the Company since July 2015.

Mr. Lin Yixiang, aged 54, is an Independent Non-executive Director of the Company and a Senior Economist. From September 1989 to June 1994, he joined the Stock Department at Caisse des Dépôts and engaged in providing stock investment and analysis services. From August 1993 to June 1994, Mr. Lin served as a senior expert of the China Securities Regulatory Commission ("CSRC"). From August 1993 to June 1996, he served as a deputy general director of the Research Information Department and the head of the securities trading surveillance system at the CSRC. From June 1996 to February 2001, he served as the vice president of Huaxia Securities Co., Ltd. Since March 2001 till now, he has served as the chairman and general manager of TX Investment Consulting Co., Ltd and some of its subsideries. From 2001 to July 2015, he served as an independent director of a dozen of companies listed at home and abroad, such as, Taikang Asset Management Co., Ltd., Huarong Securities Co., Ltd. Yingda Asset Management Co., Ltd.,Shanxi Taigang Stainless Steel Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: SZ.000825), Guohe Fund Management Co., Ltd., Mr. Lin is currently an independent director of Financial Street Holdings Co., Ltd. (a listed company on Shenzhen Stock Exchange, stock code: SZ.000402), CITIC Trust Co., Ltd and Credit Agricole Corporate & Investment Bank. Mr. Lin served as director of Securities Analysts and Investment Advisers Committee of China from July 2000 to February 2018 and the vice chairman of the Securities Association of China from July 2002 to June 2017. He has served as a qualification evaluation expert in the former Ministry of Labor and Social Security Annuity Fund Management Institution since November 2004. He served as a committee member of the Expert Committee of China Securities Index from February 2006 to May 2017, the chairman of the Expert Committee on Shenzhen Stock Exchange Index from September 2009 to September 2015, and the chairman of the Association of Certified International Investment Analysts from June 2013 to June 2015. He has served as a supervisor of the board of Supervisor of the Securities Association of China since June 2017, a postgraduate instructor at the School of Finance of Central University of Finance & Economics Since 2004, a adjunct professor at the School of Economics of Peking University from January 2012, a postgraduate instructor of Tsinghua University PBC School of finance since May 2012, a postgraduate instructor at the Business School of Beijing Language & Culture University since 2016, a adjunct professor and director of Board of Business School of the China University of Political Science & Law since 2017 and a research analyst at the Dong Fureng Econmics & Social Dvelepment School of Wuhan University since January 2018. Mr. Lin has been an Independent Non-executive Director of the Company since September 2015. In July 1983, Mr. Lin graduated from Peking University and obtained a bachelor's degree in Economics; in July 1985, he graduated from the Pierre Mendès-France University with a master's degree in Economics; and in October 1989, he graduated from the Paris West University Nanterre La Défense in France and received a Doctoral degree in Economics.

Mr. Chen Wuzhao, aged 48, is an Independent Non-executive Director of the Company. Mr. Chen Worked in Zhonghua Accounting Firm from August 1995 to October 1998, his positions were certified public accountant and project manager. Since October 1998, he has been the lecturer and associate professor of the School of Economics and Management, Tsinghua University. From July 2007 to January 2017, he served successively as an independent director of Integrated Electronic Systems Lab Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: SZ.002339), Shenzhen Development Bank Co., Ltd. (renamed as Ping An Bank Co., Ltd.,a listed company on the Shenzhen Stock Exchange, stock code: SZ.000001), CITIC 21CN Company Limited (renamed as Alibaba Health Information Technology Limited,a listed company on the Hong Kong Stock Exchange, stock code: HK.00241), Beijing Highlander Digital Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: SZ.300065), Nsfocus Information Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: SZ.300369), Beijing Huelead Audiovisual Technology Co., Ltd. (a listed company on the National Equities Exchange and Quotations, stock code: NEEQ.835078), Beijing Miteno Communication Industrial Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code:SZ.300038. He also served as independent director of GigaDevice Semiconductor (Beijing) Inc. (a listed company on the Shanghai Stock Exchange, stock code: SH.603986), Guizhou Broadcasting & TV Information Network Co., Ltd. (a listed company on the Shanghai Stock Exchange, stock code: SH.600996), Beijing Andawell Science & Technology Company Ltd (a listed company on the Shenzhen Stock Exchange, stock code: SZ.300719). Mr. Chen was the adjunct professor of Beijing National Accounting Institute from September 2010 to September 2012 and has been the committee member of the Enterprise Accounting Standards Professional Board of the Accounting Society of China since January 2009. Mr. Chen has been an Independent Non-executive Director of the Company since March 2017.Mr. Chen graduated from Zhongnan University of Finance and Economics (renamed as Zhongnan University of Economics and Law) with a Bachelor's degree in Economics in July 1992, graduated from the Finance Science Institute of the Ministry of Finance (remained Chinese Academy of Fiscal Sciences) with a Master's degree in Economics in July 1995, and graduated from the School of Economics and Management, Tsinghua University with a Doctorate in Management in July 2004. Mr. Chen is a non-practicing member of the Chinese Institute of Certified Public Accountants, and he holds the international certificate for certified internal auditor as well as the professional qualification certificate for self-assessment on internal control.

SUPERVISORS

Mr. Lin Fan, aged 58, is a Supervisor and the Chairman of the Board of Supervisors of the Company, and a senior economist. Mr. Lin joined the Company in September 1980 and until July 1999, served successively as deputy general manager of the Guangzhou branch and general manager of the Shenzhen branch. Mr. Lin served as deputy general manager of China Insurance Company, Limited from July 1999 to August 2002. From August 2002 to May 2009, Mr. Lin served successively as managing director, vice chairman of the board of directors, deputy general manager, general manager and chairman of the board of directors of China Insurance (Holdings) Company Limited. Mr. Lin served as the chairman of the board of directors of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited from May 2009 to March 2012. Meanwhile, Mr. Lin served consecutively as chairman of the Board of The Ming An Insurance Co. (H.K.) Ltd., chairman of the board of directors of The Ming An (Holdings) Company Limited and chairman of the board of directors of China Taiping Insurance Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: HK.00966). Mr. Li has been a Supervisor and Chairman of the Board of Supervisors of the Company since March 2012. Mr. Lin graduated from the University of South Australia with a Master's Degree in Business Administration.

Mr. Xu Yongxian, aged 54, is a shareholder representative Supervisor of the Company and a senior economist. Mr. Xu joined the MOF in August 1990 and until December 2009, served successively as deputy director of the General Division of the Taxation Department, deputy director of the General Division of the Taxation Regulation Department, director of the General Division and director of Local Tax Division I of the Taxation Department, and deputy department level cadre of the Taxation Department of the MOF from September 2009 to December 2009. Mr. Xu has been a Supervisor of the Company since September 2009. Mr. Xu did not hold any directorship in any listed companies in the last three years. Mr. Xu graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1987 with a Bachelor's Degree in Taxation and a Master's Degree in Finance in July 1990.

Mr. Jing Xin, aged 60, is an Independent Supervisor of the Company, a Professor and a doctorial tutor. Since his graduation from the Renmin University of China as a graduate student in July 1986, Mr. Jing stayed at the university to teach. Mr. Jing worked as the teaching assistant of the Faculty of Finance, lecturer, associate professor and professor of the Faculty of Accounting, director of the teaching and research department of Faculty of Finance, assistant to faculty director and assistant director. Mr. Jing was the commissioner of the audit commission, Renmin University of China from December 2002 to December 2005, the secretary of party committee and the associate dean of the Business School of Renmin University of China from December 2005 to December 2014, and has been the professor of the Faculty of Accounting in the Business School of Renmin University of China from July 1997 to July 2017. He was an independent director of Aeolus Tyre Co., Ltd. (a listed company on the Shanghai Stock Exchange, stock code: SH.600469) from November 2007 to October 2013, an independent director of Advanced Technology & Materials Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: SZ.000969) from March 2008 to February 2014, and has been an independent director of Bank of China Investment Management Co., Ltd. since July 2011. Mr. Jing has been the consultant the Government Accounting Standards Board of the Ministry of Finance since December 2015. Mr. Jing has been a Supervisor of the Company since March 2017. Mr. Jing graduated from the Renmin University of China with a Bachelor's degree in Economics in July 1983, graduated from the Renmin University of China with a Master's degree in Economics in July 1986 and graduated from the Renmin University of China with a Doctoral degree in Economics in July 1995.

Mr. Wang Dajun, aged 50, is a Supervisor representative of employees of the Company, a senior economist and senior enterprise risk manager. Mr. Wang joined The Company in August 1993 and once served as the deputy director of its general office for the agricultural insurance department; served as the assistant to the head of its communist party union working department in December 2000, the deputy secretary of its communist youth league committee in April 2001, the deputy head of its communist party union working department and the deputy secretary of the communist youth league committee in February 2003. Mr. Wang also served as the deputy general manager of the customer service management department of the PICC P&C in July 2003, the deputy general manager of its individual insurance marketing and management department in March 2004 and the deputy general manager of its accident and health insurance department in March 2006. In September 2007, he served as the deputy general manager of the business development department of the Company. In January 2008, he re-designated as the deputy general manager and deputy secretary of the communist party group of The People's Insurance Company of China (Hong Kong), Limited. In July 2009, he served as the deputy general manager of the risk management/legal and compliance department. Mr. Wang has been serving as the general manager of the risk management department of the Company since August 2013. Mr. Wang has been the Supervisor representative of the employees of the Company since March 2016. Mr. Wang did not hold any directorship in any listed companies in the last three years. He graduated from Northeast Agricultural Institute(now known as Northeast Agricultural University)in August 1993 with a Master's degree in Agricultural Science and graduated from Tsinghua University in December 2005 with a Master's degree in Business Administration.

Mr. Ji Haibo, aged 54, is a Supervisor representative of employees of the Company.He started working in September 1979 and joined the Company in August 2002. He had served as the deputy head of the safety certification and management department of the e-commerce division and the head of the project management department of the information technology division of PICC P& C (also served as the vice mayor of Ji'an County,Jiangxi Province from December 2004 to December 2005). He served as the head of the network and website management department of the information technology division/statistics analysis division and senior manager of the operation and maintenance department of the Company since March 2006. He served as the assistant of the general manager of the information technology division and senior manager of the operation and maintenance department in January 2010, deputy general manager of the information technology division in July 2012 and general manager of the affairs division of the labour union since March 2017. Mr. Ji graduated from the PLA Information Engineering University in July 1983 with a bachelor's degree in science and graduated from the PLA Information Engineering University in January 1991 with a master's degree in military.

SENIOR MANAGEMENT

Ms. Zhuang Chaoying, aged 59, is the Secretary for Discipline Inspection of the Company and a Deputy Editor and senior enterprise risk manager. Ms. Zhuang worked at the Organization Department of the CPC Central Committee from July 1985 to December 2006, serving successively as deputy division director of the Party's Foreign Affairs Cadres Bureau, director of the Editorial Office II and deputy chief editor (deputy bureau level) of the Party Building Books Publishing House, deputy inspector of the Cadres Bureau IV and deputy director of the Cadres Bureau IV in August 2003. Ms. Zhuang has been a deputy general manager (vice president) of the Company from December 2006 to July 2016 and an Executive Director from March 2014 to July 2016.She has been the Secretary for Discipline Inspection of the Company from December 2006 to September 2009 and since March 2012. She also served as chairman of the board of supervisors of PICC Life from August 2007 to April 2016. Ms. Zhuang has also been a director of The Insurance Institute of China from November 2011 to September 2016 and a vice chairman from January 2014 to September 2016. Ms. Zhuang graduated from Shandong University in January 1982 with a Bachelor's Degree in Philosophy and obtained a Master of Business Administration Degree from the China Europe International Business School in September 2010.

Mr. Xie Yiqun. Please refer to the section titled "Executive Directors" for the biography of Mr. Xie Yiqun.

Mr. Tang Zhigang. Please refer to the section titled "Executive Directors" for the biography of Mr. Tang Zhigang.

Mr. Sheng Hetai, aged 47, is a Vice President of the Company and a senior economist. Mr. Sheng joined the Company in July 1998 and until September 2007, served successively as deputy director of the Product Development Center, deputy general manager (in charge of daily operations) of the Research and Development Department, general manager of the Equity Management Department/Risk Management Department. Mr. Sheng has served as general manager of the Strategic Planning Department of the Company from September 2007 to March 2017, senior expert from May 2008 to May 2010, Assistant to the President since March 2010 and Vice President since June 2014. He has also served as a supervisor of PICC P&C since August 2006 to June 2015. He has been the chairman of Zhongsheng International Insurance Brokers Co., Ltd since November 2013, and appointed as the chairman of PICC Reinsurance since November 2016. Mr. Sheng has served as a director of The Insurance Institute of China since September 2004 and executive director since January 2014 and vice chairman since August 2017. Mr. Sheng graduated from Peking University in July 1998 with a Doctoral Degree in Economics.

Mr. Han Kesheng, aged 52, is an Assistant to the President, the Responsible Audit Officer and a senior economist. Mr. Han joined the National Ministry of Supervision in July 1991, the CPC Central Commission for Discipline Inspection in January 1993 and until May 2001, served successively as deputy division level inspector, division level inspector and supervisor of the General Office. Mr. Han joined the Company in May 2001 and served successively as assistant to the general manager and deputy general manager of the Human Resources Department of the Company, deputy general manager of the Human Resources Department of PICC P&C and general manager of the Supervisory Department/ Auditing Department of PICC P&C. Mr. Han has served as general manager of the Human Resources Department of the Company since September 2007 to January 2015 and Assistant to the President since March 2010 and Responsible Aduit Officer since December 2017. Mr. Han graduated from Anhui Normal University in July 1985 with a Bachelor of Arts Degree and from Nankai University in July 1991 with a Master's Degree in Literature.

Mr. Li Tao, aged 51, is the Secretary to the Board and a senior economist. Mr. Li's career began in July 1985. Mr. Li joined the Company in July 1998, and served successively as director of the Policy Research Office of the Research and Development Center and deputy director of the Research and Development Center of the Company, deputy director and director of the secretariat of the board of directors of PICC P&C, general manager of the Development and Reform Department and director of the Policy Research Office of the Company from March 2006 to September 2007, and senior expert from September 2007 to January 2010. Mr. Li served as the deputy director of the Share Transformation Office of the Company from February 2008 to September 2009 and has been the Secretary to the Board since September 2009. He has been the secretary to the Board/general manager of the office of the Board of Supervisors from January 2010 to March 2017 and standing deputy director of the listing office since May 2011. He has served as a non-executive director of PICC P&C since November 2006 and chairman of the board of supervisors of PICC Life since March 2017. Mr. Li graduated from Renmin University of China in July 1993 with a Master's Degree in Philosophy and from the Party School of the Central Committee in July 1998 with a Doctoral Degree in Economics.

Mr. Zhao Jun, aged 57, is the Chief Information Technology Officer and general manager of the Information Technology Department of the Company, and a senior engineer. Mr. Zhao joined the Company in November 1993 and until July 2003, served successively as deputy general manager and general manager of the Information Technology Department. Mr. Zhao served as general manager of the Information Technology Department of PICC P&C from July 2003 to June 2005, general manager of the Statistics and Information Department of the Company from June 2005 to March 2006, general manager of the Information Technology Department/Statistical Analysis Department in March 2006, Chief Information Technology Officer since September 2007, general manager of the South Information Center from January 2010 to March 2015 and general manager of the Information Technology Department since March 2015. Mr. Zhao was awarded the Special Government Allowance by the State Council in February 2007. Mr. Zhao graduated from Hunan University in December 1981 with a Bachelor's Degree in Engineering and from the University of Bradford in November 1993 with a Master's Degree in Science.

Mr. Zhou Houjie, aged 53, is the Financial Responsible Officer and Chief Financial Officer of the Company, and an accountant. Mr. Zhou served as a teacher in Xinjiang Finance School (currently known as Xinjiang University of Finance and Economics) from July 1984 to May 1992; he served as the deputy division director and the head of accounting department of the Bank of China (Xinjiang Branch) from May 1992 to March 2002. Mr. Zhou served successively as deputy general manager and general manager of the Finance Department of China Union Pay Company Limited, general manager of its Shanghai branch and general manager of its Banking Service Department from March 2002 to July 2008. Mr. Zhou served as vice president of China Huawen Investment Holding Company Limited and vice president of Shanghai Xin Huawen Investment Company Limited from July 2008 to July 2010 and has served as the Financial Responsible Officer and Chief Financial Officer of the Company since January 2010. He has served as a non-executive director of Shanghai New Huang Pu Real Estate Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: SH.600638) from September 2008 to September 2010 and a non-executive director of PICC Capital from March 2014 to April 2017. Mr. Zhou has served as chairman of Financial & Accounting Committee of insurance association of China since June 2016. Mr. Zhou graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in June 1991 with a Bachelor's Degree in Economics and the Shanghai National Accounting Institute in June 2005 with an Executive Master of Business Administration Degree.

Corporate Governance Report

OVERVIEW

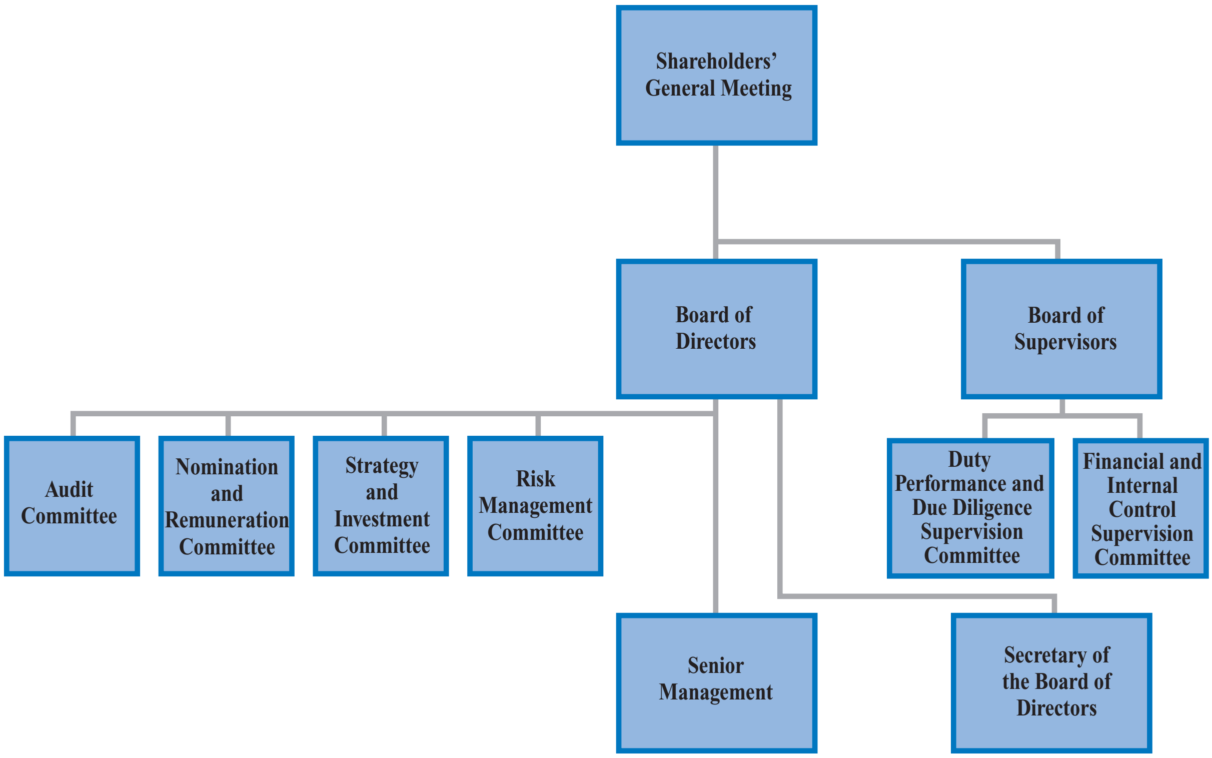
The Company always abides by the relevant laws such as the Company Law of the People's Republic of China, the Insurance Law of the People's Republic of China, earnestly performed the requirements of the regulatory systems of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Guided Opinion on Standardizing the Corporate Governance Structure of Insurance Companies (Trial) and the Articles of Association, insists on the principles of keeping good corporate governance, strives for enhancing the corporate governance standard continuously to ensure the stable development of the Company and to enhance shareholders' value.

In 2017, save for not in compliance with the requirement of "Each Director shall retire from office by rotation at least once every three years" specified in A.4.2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company had complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, adopted recommended best practices under appropriate circumstances and continued to perfect its corporate governance structure. The general meeting, Board, Board of Supervisors and senior management independently performed their respective rights and obligations pursuant to the Articles of Association, which is in compliance with laws and regulatory requirements.

The terms of directorship of the second session of the Board expired on 4 March 2017. According to the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, the Directors shall serve consecutive terms if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of Directors results in the number of Directors being less than the statutory requirement. Accordingly, the second session of the Board will continue to serve as Directors until the newly elected Director commences his/her term of office.

In order to comply with the requirement of A.4.2 of the Corporate Governance Code, the Company held a Board meeting on 1 March 2018, at which Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang were nominated to be the executive director candidates of the third session of the Board, Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin and Mr. Wang Zhibin to be the non-executive director candidates of the third session of the Board, and Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Luk Kin Yu, Mr. Lin Yixiang and Mr. Chen Wuzhao to be the independent non-executive director candidates of the third session of the Board, which will be considered at the extraordinary general meeting to be held on 19 April 2018.

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



SHAREHOLDERS' GENERAL MEETING

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

During the reporting period, the Company convened five general meetings. Majors issues for approval included:

- Considered and approved the report of the Board of Directors and the report of the Board of Supervisors of the Company for the year 2016.
- Considered and approved the final account statement of the Company for the year 2016.
- Considered and approved the profit distribution plan of the Company for the year 2016.
- Considered and approved the fixed assets investment budgets of the Company for the year 2017.
- Considered and approved the resolution on the engagement of auditor for 2017 financial statement.
- Considered and approved the resolution on the election of Mr. Miao Jianmin, Mr. Xie Yiqun, Mr. Wang Qingjian and Mr. Xiao Xuefeng as the Directors of the second session of the Board of Directors.
- Considered and approved the resolution on the general mandate to issue shares.
- Considered and approved the resolution on the A Share offering and related matters.
- Considered and approved the resolution on the amendments to the Articles of Association and the procedural rules for the shareholders' general meeting.
- Considered and approved the resolution on the issuance of capital supplementary bonds.
- Considered and approved the resolution on the 2017 interim profit distribution.

SHAREHOLDERS' GENERAL MEETING *(Continued)*

- Considered and approved the resolution on the 2016 remuneration settlement scheme for Directors and Supervisors of the Company.

- Received the performance reports of the Directors and the performance reports of the Independent Directors of the Company for the year 2016.

- Received the reports on the Company's related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2016.

- Received the report on the solvency of the Group for year 2016.

In addition, the conditions for the renewal of the liability insurances for Directors, Supervisors and senior management of the Company from 2016 to 2017 were received at the general meetings.

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

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

Methods of Convening Extraordinary General Meetings

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

Procedures for Proposing Resolutions at General Meetings

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

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

THE BOARD

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

THE BOARD *(Continued)*

Composition

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

The Board of Directors of the Company comprises the following directors:

Name	Position(s)	Date of Appointment
Executive Directors		
Miao Jianmin	Chairman, Executive Director	13 July 2017
Xie Yiqun	Executive Director	13 October 2017
Tang Zhigang	Executive Director	1 November 2017
Non-executive Directors		
Wang Qingjian	Non-executive Director	13 July 2017
Xiao Xuefeng	Non-executive Director	13 October 2017
Hua Rixin	Non-executive Director	24 October 2015
Cheng Yuqin	Non-executive Director	24 October 2015
Wang Zhibin	Non-executive Director	5 August 2016
Independent Non-executive Directors		
Lau Hon Chuen	Independent Non-executive Director	19 October 2012
Xu Dingbo	Independent Non-executive Director	28 September 2009
Luk Kin Yu, Peter	Independent Non-executive Director	31 July 2015
Lin Yixiang	Independent Non-executive Director	25 September 2015
Chen Wuzhao	Independent Non-executive Director	2 March 2017

Save as disclosed in the 2016 annual report, the changes in Directors of the Company during the reporting period were as follows:

On 19 April 2017, the Board of the Company appointed Mr. Miao Jianmin as the President of the Company, nominatd him as an Executive Director of the Company and elected him as the Vice Chairman of the second session of the Board of the Company, whose term of office commenced on the day of his obtaining the approval of qualification for serving as a Director from the CIRC. On 23 June 2017, the 2016 annual general meeting of the Company elected Mr. Miao Jianmin as an Executive Director to serve the second session of the Board of the Company. The qualification for Mr. Miao Jianmin serving as a Director of the Company had been approved by the CIRC on 13 July 2017.

On 27 December 2017, the Board of the Company elected Mr. Miao Jianmin as the Chairman of the second session of the Board of the Company. The qualification for Mr. Miao Jianmin serving as the Chairman of the Company had been approved by the CIRC on 30 January 2018, and at the same time, Mr. Miao no longer served as Vice Chairman and President of the Company.

On 23 June 2017, the 2016 annual general meeting of the Company elected Mr. Wang Qingjian as a Non-executive Director of the second session of the Board of the Company. The qualification for Mr. Wang Qingjian serving as the Director of the Company had been approved by the CIRC on 13 July 2017, and at the same date, Mr. Yao Zhiqiang resigned as a Non-executive Director of the Company and a member of the Audit Committee and the Strategy and Investment Committee of the Board due to his ages with immediate effect.

THE BOARD *(Continued)*

Composition *(Continued)*

On 8 September 2017, the 2017 second extraordinary general meeting of the Company elected Mr. Xie Yiqun and Mr. Tang Zhigang as Executive Directors and elected Mr. Xiao Xuefeng as a Non-executive Director to serve the second session of the Board of the Company. The qualification for Mr. Xie Yiqun and Mr. Xiao Xuefeng serving as Directors of the Company had been approved by the CIRC on 13 October 2017, and at the same date, Mr. Wang Qiao resigned as the Non-executive Director of the Company and a member of the Nomination and Remuneration Committee and the Risk Management Committee of the Board due to his ages with immediate effect. The qualification for Mr. Tang Zhigang serving as the Director of the Company had been approved by the CIRC on 1 November 2017.

On 8 December 2017, due to work arrangements, Mr. Wu Yan resigned as the Chairman, the Executive Director and the chairman of the Strategy and Investment Committee of the Board of the Company.

For details of their biographies, see the "Directors, Supervisors, Senior Management and Employees" in the 2016 annual report of the Company.

Duties and Responsibilities

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

THE BOARD *(Continued)*

Summary of Work Undertaken

During the reporting period, the Directors' attendance records of the shareholders' general meetings, the meetings of the Board and the meetings of committees under the Board were as follows:

Attendance in person/attendance by proxy/scheduled attendance

	General Meeting		The Board		Board Committees			
Directors	General Meeting	Attendance	The Board	Attendance	Audit Committee	Nomination and Remuneration Committee	Strategy and Investment Committee	Risk Management Committee
Executive Directors								
Miao Jianmin *(Chairman)*	3/4	75%	6/6	100%	–	–	1/0/1	–
Xie Yiqun	2/2	100%	3/3	100%	–	–	1/0/1	–
Tang Zhigang	1/1	100%	2/2	100%	–	–	–	–
Non-executive Directors								
Wang Qingjian	4/4	100%	6/6	100%	2/0/2	–	1/0/1	–
Xiao Xuefeng	2/2	100%	3/3	100%	–	2/0/2	–	–
Hua Rixin	5/5	100%	12/12	100%	–	–	–	5/0/5
Cheng Yuqin	5/5	100%	12/12	100%	–	–	9/0/9	–
Wang Zhibin	1/5	20%	7/12	58%	–	–	–	3/2/5
Independent Non-executive Directors								
Lau Hon Chuen	3/5	60%	11/12	92%	9/0/9	–	–	5/0/5
Xu Dingbo	5/5	100%	11/12	92%	9/0/9	8/0/8	–	–
Luk Kin Yu, Peter	0/5	0%	9/12	75%	8/1/9	7/1/8	–	–
Lin Yixiang	3/5	100%	9/12	75%	–	8/0/8	9/0/9	–
Chen Wuzhao	5/5	100%	10/11	91%	–	6/1/7	–	–
Resigned Directors								
Wu Yan	4/4	100%	11/11	100%	–	–	8/0/8	–
Yao Zhiqiang	1/1	100%	5/6	83%	3/1/4	–	4/04	–
Wang Qiao	3/3	100%	9/9	100%	–	5/0/5	–	4/0/4
Du Jian	–	–	1/1	100%	–	–	–	–

During the reporting period, the Board convened five shareholders' general meetings on which 27 resolutions were submitted for consideration and approval with four reports presented; convened twelve Board meetings on which 106 resolutions were reviewed and approved and seven reports were received. The main tasks accomplished by the Board included:

- Convened five general meetings;
- Considered and approved the operation plan and investment budget for fixed assets of the Company for the year 2017 and the year 2018;
- Considered and approved the three-year rolling planning proposal of strategic asset allocation of PICC Group for 2017-2019 and capital planning (2017-2019);
- Considered and approved the audit plan of PICC Group for the year 2017;

THE BOARD *(Continued)*

Summary of Work Undertaken *(Continued)*

- Considered and approved the resolutions concerning the financial report and the profit distribution plan for the year 2016 and 2017 interim profit distribution;
- Considered and approved the resolution concerning the annual report and annual result announcement for the year 2016, the "Solvency II" solvency report for the year 2016 as well as the 2017 interim report and interim result announcement and the "Solvency II" solvency report for the first half of 2017;
- Considered and approved the statement on risk appetite for the year 2017;
- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company;
- Considered and approved the Company's self-assessment report on internal control, risk evaluation report, compliance report, corporate governance report and assessment report on the implementation of business plan as well as the evaluation and audit report of internal control on the insurance capital use for the year 2016;
- Considered and approved the resolution on adjustments to the organisation structure of the Company;
- Considered and approved the amendments to the Articles of Association, amendments to the procedural rules for the shareholders' general meeting, the amendments to the procedural rules for the Board meetings and compliance policies of The People's Insurance Company (Group) of China Limited;
- Considered and approved the Administrative Measures on Capital of PICC Group, the Administrative Measures on Liquidity Risk of PICC Group (Temporary) and the Administrative Measures on Liquidity Risk of The People's Insurance Company (Group) of China Limited (Temporary);
- Elected the Chairman, Vice Chairman and appointed the President, Responsible Compliance Officer, Chief Risk Officer and Responsible Audit Officer;
- Nominated the candidates of Executive Directors, Non-executive Directors and Independent Non-Executive Directors for the second session of the Board;
- By-elected members of the Audit Committee and the Nomination and Remuneration Committee, chairman and members of the Strategy and Investment Committee and members of the Risk Management Committee for the second session of the Board;
- Considered and approved the resolution on the audit results report for Director and senior management of Comrade Li Yuquan, the ex-executive director and vice-president;
- Considered and approved the 2016 remuneration scheme for the Company's responsible officers, the 2016 performance evaluation and incentive scheme and the 2016 remuneration settlement scheme for Directors and Supervisors;
- Considered and approved the resolution on the engagement of auditor for 2017 financial statement;
- Considered and approved the resolution on grant of general mandate to issue shares;
- Considered and approved the resolution on A Share offering and related matters;
- Considered and approved the resolution on capital increase in PICC Hong Kong and PICC Reinsurance;
- Considered and approved the resolutions on the issuance of capital supplementary bonds by the Company, transfer of the undistributed profits of PICC AMC to the registered capital, the issuance of capital supplementary bonds by PICC Health and the issuance of capital supplementary bonds by PICC Life;

THE BOARD *(Continued)*

Summary of Work Undertaken *(Continued)*

- Considered and approved the resolutions on recommendation of candidates to the Board and Supervisory Committee of related subsidiaries, amendment to the articles of association of PICC Property and Casualty Company Limited, amendments to the articles of association of PICC Asset Management Company Limited, amendments to the articles of association of PICC Health Insurance Company Limited, amendments to the articles of association of PICC Life Insurance Company Limited, amendments to the articles of association of PICC Investment Holding Company Limited and profit distribution of related subsidiaries;

- Considered and approved the resolution on signing the Overall Entrustment Contract for Property Management with PICC Property and related party transactions under corresponding agreement, the resolution on renewal of the related party transactions under the package of service agreement of the South Information Center signed with PICC P&C and PICC Life and the resolution on the related party transactions under the framework agreement signed by PICC Life and Industrial Bank; and

- Received the performance reports of the Directors of the Company for the year 2016, performance report of the Independent Directors of the Company for the year 2016, reports on the Company's related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2016, report on specific auditing results of related party transactions for the year 2016, the internal audit work report for the first half of 2017 and report on the implementation of No.88 specific budget for the year 2016.

DIRECTORS

Responsibility with respect to Financial Statements

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

Securities Transactions

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

Independence of Independent Non-executive Directors

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

Training of Directors

All Directors are actively involved in continuing professional development, and participated in various kinds of training activities relating to corporate governance and the Listing Rules which were organised by the shareholding organizations, regulators, industry organizations and the Company, so as to provide them with comprehensive and relevant information to develop and update their knowledge and skills and improve their performance ability, with an aim of making positive contributions to the Board.

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

DIRECTORS *(Continued)*

Training of Directors *(Continued)*

Xie Yiqun: attended arious trainings and meetings related to the performance of duties by directors organised by the Group, Party School of the Central Committee and China Executive Leadership Academy Jinggangshan and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

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

Wang Qingjian: attended various trainings and meetings related to the performance of duties by directors organised by the Ministry of Finance, the CIRC, the Hong Kong and Macau research centre of the Hong Kong and Macau Affairs Office of the State Council, China Investment Corporation, the Hong Kong Institute of Chartered Secretaries and the Group.

Xiao Xuefeng: attended various trainings and meetings related to the performance of duties by directors organised by the Ministry of Finance, the CIRC, the Hong Kong and Macau research centre of the Hong Kong and Macau Affairs Office of the State Council, China Investment Corporation, the Hong Kong Institute of Chartered Secretaries, Davis Polk & Wardwell and the Group.

Hua Rixin: attended various trainings and meetings related to the performance of duties by directors organised by the Ministry of Finance, the Hong Kong and Macau research centre of the Hong Kong and Macau Affairs Office of the State Council, China Investment Corporation, the Hong Kong Institute of Chartered Secretaries and the Group.

Cheng Yuqin: attended various trainings and meetings related to the performance of duties by directors organised by the Ministry of Finance, the CIRC, the Hong Kong and Macau research centre of the Hong Kong and Macau Affairs Office of the State Council, China Investment Corporation, Central Huijin Investment Company Limited, the Hong Kong Institute of Chartered Secretaries and the Group.

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

Lau Hon Chuen: attended five lectures held by the Association of China-Appointed Attesting Officers for its members and various trainings and meetings related to the performance of duties by directors organised by Hong Kong Monetary Authority, Hong Kong Association of Banks, Hong Kong Academy of Law, Nanyang Commercial Bank Limited.

Xu Dingbo: paid continuous attention to and conducted research on macro economy and corporate governance, hosted and participated in several academic seminars, and completed the trainings on relevant accounting standards, laws and regulations to be accepted by directors.

Luk Kin Yu, Peter: attended the quarterly trainings held by a bank for independent directors and the quarterly trainings held by an accounting firm for independent directors on topics of accounting, taxation, laws, compliance, information disclosure, duties and responsibilities of directors of listed companies, etc., mainly relating to issues in mainland China and Hong Kong and laws and regulations of the United States of America and Europe.

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

Chen Wuzhao: attended the training related to the performance of duties by directors organised by the CIRC and the Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

DIRECTORS *(Continued)*

Chairman/Vice Chairman/President

The Chairman of the Company is Mr. Miao Jianmin as at the date of this report. The Chairman is responsible for providing leadership to the Board, determining and approving the agenda for each Board meeting, ensuring the Company has good corporate governance practices and procedures, and maintaining the effective operation of the Board. The Vice Chairman will perform the duties of the Chairman if the Chairman cannot or does not perform his duties.

At the date of this report, the Vice Chairman of the Company is vacant until the election by the Board.

At the date of this report, the President of the Company is vacant until the appointment by the Board. The president is responsible for leading the operation management of the Company, implementing Board resolutions, organizing the implementation of annual operation plans and investment proposals, formulating the internal management organization plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of other senior management. The Company's senior management team is the Company's execution body and assumes responsibilities to the Board. The powers Board and the senior management team are provided in accordance with the Company's articles of association. The senior management team's powers in relation to operation, management and decision-making are under the Board authorisation. Details of the duties and responsibilities of the Chairman, Vice Chairman and president are set out in the Articles of Associations.

BOARD COMMITTEES

There are four committees under the Board, namely the Audit Committee, the Nomination and Remuneration committee, the Strategy and Investment Committee and the Risk Management Committee. Each committee provides advices and suggestions to the Board with respect to the matters within their scopes of responsibilities. The duties and operation process are explicitly stipulated in the terms of reference of each committee.

Audit Committee

As at the end of the reporting period, the Audit Committee of the Board comprised four Directors including three Independent Non-executive Directors and one Non-executive Director, and an Independent Non-executive Director served as the Chairman. On 13 July 2017, Mr. Yao Zhiqiang resigned as a member of the Audit Committee. On 13 October 2017, Mr. Wang Qingjian was elected as a member of the Audit Committee.

Composition

Chairman: Xu Dingbo (Independent Non-executive Director)

Members: Lau Hon Chuen (Independent Non-executive Director), Luk Kin Yu, Peter (Independent Non-executive Director), Wang Qingjian (Non-executive Director)

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Duties and Responsibilities

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

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

Auditor's fees

In 2017, total fee in respect of audit services provided to the Company and its subsidiaries by Deloitte Touche Tohmatsu CPA Limited (Special General Partnership)/Deloitte Touche Tohmatsu ("Deloitte") was RMB31.27 million for interim review and annual audit, and the fee in respect of special audit services such as the audit for IPO and internal control for insurance funds was RMB15.75 million in aggregation. In addition, Deloitte also provided non-audit services such as consulting of strategy and embedded value to the Company and its subsidiaries for a fee of RMB6.91 million.

Summary of Work Undertaken

During the year, the Audit Committee of the second session of the Board held nine meetings, of which 26 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Audit Committee included:

- Reviewed and considered the resolution on the 13th five-year plan of internal audit of PICC Group;

- Reviewed and considered the annual report, annual result announcement, internal control evaluation report, risk assessment report, and the evaluation and audit report of internal control on the insurance capital use for the year 2016, 2017 interim report and interim result announcement;

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the audit plan of PICC Group for the year 2017;
- Reviewed and considered the reports on the related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2016 and report on the specific audit of related party transaction for the Year 2016;
- Reviewed and considered the engagement of auditor for 2017 financial statements;
- Reviewed and considered the report on the audit work of PICC Group for the year 2016;
- Reviewed and considered the report on comprehensive analysis of audit findings and comprehensive analysis of corrective actions of PICC Group for the year 2016;
- Reviewed and considered the report on the audit work of PICC Group for the first half of 2017;
- Reviewed and considered the report on comprehensive analysis of audit findings and comprehensive analysis of corrective actions of PICC Group for the first half of 2017;
- Reviewed and considered the audit results report for Director and senior management of Comrade Li Yuquan, the ex-executive director and vice-president;
- Reviewed and considered the audit report concerning A Share offering and related financial specific report for the years of 2014, 2015 and 2016 and first half of 2017;
- Reviewed and considered the embedded value report as of the end of 2016 and as at 30 June 2017;
- Reviewed and considered the resolution on signing the Overall Entrustment Contract for Property Management with PICC Property and related party transactions under corresponding agreement;
- Reviewed and considered the internal control evaluation report and internal control audit report for the first half of 2017;
- Reviewed and considered renewal of the related party transactions under the package of service agreement of the South Information Center signed with PICC P&C and PICC Life;
- Reviewed and considered resolution on the related party transactions under the framework agreement signed by PICC Life and Industrial Bank;
- Reviewed and considered interim regulations on internal audit reconsideration of PICC Group (Trial);
- Reviewed and considered basic norms of internal audit of PICC Group;
- Reviewed and considered the quality control system for internal audit of PICC Group;
- Reviewed and considered the interim measures for off-site audit of PICC Group.

BOARD COMMITTEES *(Continued)*

Nomination and Remuneration Committee

As at the end of the reporting period, the Nomination and Remuneration Committee of the Company comprised five Directors including four Independent Non-executive Directors and one Non-executive Director, and an Independent Non-executive Director served as the chairman. On 13 October 2017, Mr. Wang Qiao resigned as a member of the Nomination and Remuneration Committee. On 31 October 2017, Mr. Xiao Xuefeng was elected as a member of the Nomination and Remuneration Committee.

Composition

Chairman:	Lin Yixiang (Independent Non-executive Director)
Members:	Xu Dingbo (Independent Non-executive Director), Luk Kin Yu, Peter (Independent Non-executive Director), Chen Wuzhao (Independent Non-executive Director), Xiao Xuefeng (Non-executive Director)

Duties and Responsibilities

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

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

BOARD COMMITTEES *(Continued)*

Nomination and Remuneration Committee *(Continued)*

Director Nomination

The Nomination and Remuneration Committee conducts a preliminary examination of the potential candidates for directorship of the Company according to laws, regulations, regulatory documents, regulatory requirements and the Articles of Association, and provides recommendation opinions to the Board for determining whether they are submitted to the general meeting for election. The Nomination and Remuneration Committee fully considers the board diversity (including but not limited to sex, age, cultural and educational background, expertise, experience, skills, knowledge and term of office) and its advantages, and focuses on the educational background and working experiences, in particular management and research experiences in finance and insurance industries of the candidates, and also pay special attention to the independence of the Independent Non-executive Directors. Therefore, the general meeting of the Company elected Mr. Miao Jianmin as an Executive Director, Mr Wang Qingjian as a Non-executive Director on 23 June 2017 and elected Mr. Xie Yiqun and Mr. Tang Zhigang as Executive Directors and elected Mr. Xiao Xuefeng as a Non-executive Director on 8 September 2017. Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang have extensive insurance industry experiences and Mr. Wang Qingjian and Mr. Xiao Xuefeng have extensive experiences in finance management, which will bring benefits to the business development of the Company.

Remuneration of Directors and Other Senior Management

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

For the remuneration of the senior management of the Company by band during the reporting period, please refer to Note 12 to the consolidated financial statements.

Summary of Work Undertaken

During the year, the Nomination and Remuneration Committee of the second session of the Board held eight meetings, of which 26 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Nomination and Remuneration Committee included:

- Reviewed and considered the matter in relation to the nomination of Mr. Miao Jianmin, Mr. Xie Yiqun, Mr. Tang Zhigang, Mr. Wang Qingjian and Mr. Xiao Xuefeng as Director candidates of the second session of the Board of the Company, with a recommendation made to and adopted by the Board;
- Reviewed and considered the matter in relation to the nomination of the chairman, president, vice chairman, responsible compliance officer, chief risk officer and responsible audit officer, with a recommendation made to and adopted by the Board;
- Reviewed and considered the matters in relation to the nomination of members of the Audit Committee, nomination of members of the Remuneration Committee, nomination of the chairman and members of the Strategy and Investment Committee of the second session of the Board and members of the Risk Management Committee of the second session of the Board, with a recommendation made to and adopted by the Board;
- Reviewed and considered the implementation of the performance appraisal and incentive scheme of the Company for the year 2016;
- Reviewed and considered the compensation plan of the Company's responsible officers for the year 2016;
- Reviewed and considered the remuneration settlement scheme for Directors and Supervisors of the Company for the year 2016;

BOARD COMMITTEES *(Continued)*

Nomination and Remuneration Committee *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the resolution in relation to the recommendation of candidates of directors and supervisors of related subsidiaries;
- Reviewed and considered adjustments to the organization structure of the Company;
- Reviewed and considered the "Incentive and Restraint Mechanism" section of the corporate governance report for the year 2016;
- Reviewed the performance report of the Directors of the Company for the year 2016 and performance report of the Independent Directors of the Company for the year 2016.

Strategy and Investment Committee

As at the end of the reporting period, the Strategy and Investment Committee of the Company comprised five Directors, including two Executive Directors, two Non-executive Directors and one Independent Non-executive Director. Pursuant to the Articles of Association, the chairman of the committee should be served by the Chairman of the Board. On 31 October 2017, Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Wang Qingjian were elected as members of the Strategy and Investment Committee of second session of the Board. On 8 December 2017, Mr. Wu Yan resigned as the chairman of the Strategy and Investment Committee. The qualification for Mr. Miao Jianmin serving as the Chairman of the Company had been approved by the CIRC on 30 January 2018, and at the same time, Mr. Miao Jianmin served as the chairman of the Strategy and Investment Committee.

Composition

Chairman:	Miao Jianmin (Executive Director)
Members:	Xie Yiqun (Executive Director), Lin Yixiang (Independent Non-executive Director), Wang Qingjian (Non-executive Director), Cheng Yuqin (Non-executive Director)

Duties and Responsibilities

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

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

BOARD COMMITTEES *(Continued)*

Strategy and Investment Committee *(Continued)*

Summary of Work Undertaken

During the year, the Strategy and Investment Committee of the second session of the Board held nine meetings, of which 58 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Strategy and Investment Committee included:

- Reviewed and considered the operation plan, financial plan and fixed assets investment budget plan for the years of 2017 and 2018;
- Reviewed and considered the three-year rolling planning proposal of strategic asset allocation of PICC Group for 2017-2019;
- Reviewed and considered the first section of "Corporate Governance Operations" and the fifth section of "Corporate Governance Evaluation" under the corporate governance report of the Company;
- Reviewed and considered the report of the Board of Directors the Company for the year 2016;
- Reviewed and considered the corporate governance report of the Company for the year 2016;
- Reviewed and considered the 2016 final account report and 2016 profit distribution and related matters on 2017 interim profit distribution of the Company;
- Reviewed and considered the evaluation report for the implementation of PICC Group's planning for the year 2016;
- Reviewed and considered the matters of general mandate to issue shares;
- Reviewed and considered the resolution on the issuance of capital supplementary bonds by the Company, PICC Health and PICC Life;
- Reviewed and considered the resolution on the amendments to the Articles of Association of the Company, PICC P&C, PICC AMC, PICC Health, PICC Life and PICC Investment Holding, amendments to the procedural rules for the shareholders' general meeting and the amendments to the procedural rules for the Board meetings of the Company;
- Reviewed and considered the capital management measures of PICC Group and capital planning of PICC Group (2017-2019);
- Reviewed and considered the resolution on profit distribution of related subsidiaries;
- Reviewed and considered the resolution on capital increase in PICC Reinsurance and PICC Hong Kong;
- Reviewed and considered the resolution on transfer of the undistributed profits of PICC AMC to the registered capital;
- Reviewed and considered the resolution on the A Share offering and related matters;
- Reviewed and considered the report on the impacts of changes in regulatory policies on premiums income of life insurance Subsidiaries;
- Received the 2016 report on the implementation of No. 88 specific budget.

BOARD COMMITTEES *(Continued)*

Risk Management Committee

As at the end of the reporting period, the Risk Management Committee of the Company comprised five Directors, including one Executive Director, three Non-executive Directors and one Independent Non-executive Director, and the Independent Non-executive Director served as the Chairman. On 13 October 2017, Mr. Wang Qiao resigned as a member of the Risk Management Committee. On 31 October 2017, the Board of the Company elected Mr. Tang Zhigang and Mr. Xiao Xuefeng as members of the Risk Management Committee.

Composition

Chairman:	Lau Hon Chuen (Independent Non-executive Director)
Members:	Tang Zhigang (Executive Director), Xiao Xuefeng (Non-executive Director), Hua Rixin (Non-executive Director), Wang Zhibin (Non-executive Director)

Duties and Responsibilities

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

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

Summary of Work Undertaken

During the year, the Risk Management Committee of the second session of the Board held five meetings, of which 10 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Risk Management Committee included:

- Reviewed and considered the amendments to the compliance policy of the Company;
- Reviewed and considered the administrative measures on liquidity risk and measures for implementation;
- Reviewed and considered the resolution on the renewal of the liability insurances for the Directors, Supervisors and senior management;
- Reviewed and considered the compliance report of the Company for the year 2016;
- Reviewed and considered the risk evaluation report of the Company for the year 2016;
- Reviewed and considered the "Solvency II" solvency report for the year 2016;

BOARD COMMITTEES *(Continued)*

Duties and Responsibilities *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the "Solvency II" solvency report for the first half of 2017;
- Reviewed and considered the internal control evaluation report (being the 2016 corporate governance report: Part III Internal Control Evaluation);
- Reviewed and considered the internal control evaluation report and internal control audit report for the first half of 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company believes that good risk management and internal control play an important role in the operation of the Company. The risk management structure runs through the Board, the operation management and all functional departments and covers all business sectors and braches at all levels of the Group. The Board is ultimately responsible for the risk management, internal control, and compliance policy formulation of the Company. It makes decisions on risk management, internal control and compliance policies, approves the annual risk assessment report, internal control evaluation report and compliance report, and reviews the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. Under the Board, it established: (1) an audit committee responsible for the supervision and evaluation of all kinds of matters including risk management and internal control compliance. Meanwhile, the Company and all subsidiaries have established internal audit institutes responsible for the regular supervision and evaluation of the work results in risks management and internal control and compliance; (2) a risk management committee responsible for having a comprehensive understanding of significant risks faced by the Company and relevant risk management, as well as supervising the effectiveness of the operation of risk management system. The management of the Company organises and leads the daily operation of the risk management and internal control of the Company and is responsible for the design, implementation and monitoring of the risk management and internal control system. The Company has established a risk and compliance committee as a comprehensive coordination organization under the senior management, which is responsible for guiding, coordinating and supervising the development of risk management, internal control and compliance by the Company and all our subsidiaries. The business, finance, investment and other functional departments or operating units of the Company and all our subsidiaries assume primary responsibilities in their respective internal control systems; specialized organizations or departments such as the risk management department and the internal control and compliance department are responsible for planning risk management policies beforehand or at present when a situation arises and organizing its implementation, internal control and compliance; internal audit organizations or departments are responsible for supervising and carrying out periodically auditing in relation to the effectiveness of risk management, internal control and compliance, and investigating the accountability for any violation of requirements.

The Company devotes itself to the establishment of a complete risk management system and further proposed the overall target of advancing the establishment of an integrated risk management system. The integrated risk management system is mainly characterized by "three integrations", namely the integration of risk management policies, measurement instruments and the management and control platform within the Group. At the same time, in accordance with the regulatory requirements for "Solvency II", the Company continued to improve its risk management system, including the establishment of systems and mechanisms, the application of tools and methods and the conduction of risk management training and advocacy, to improve its risk management level and shift to risk-oriented business philosophy. For internal control, the Company established an internal control system with full coverage, key focuses, mutual restrictions, based on the actual conditions of the Company, cost efficiency and risk-oriented. The internal control system of the Company covers the whole process from decision-making, implementation to supervision across all businesses and matters of the Company and all subsidiaries of the Group. On such basis, it focuses on key business matters and industries with high risks. It conducts mutual restriction and supervision on the governance structure, the organization structuring, the division of powers and responsibilities as well as business processes while balancing the operation efficiency to adapt to the operation size, business scope, competition situation and risk standards of the Company. It also makes adjustments in time to achieve effective control with appropriate cost and effectively identify, appraise and manage risks and analyze, design and implement internal control. The purpose of the internal control of the Company is to reasonably guarantee the compliance of the operation and management, assets safety, the truthfulness and completeness of financial reports and relevant information, improve the operation efficiency and results and promote the realization of development strategies. Due to the inherent restrictions on the internal control, it can only provide reasonable guarantee to the realization of the above targets. The risk management and internal control systems of the Company are designed to manage rather than to eliminate the risk of failure to achieve business objectives.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Company has, pursuant to the requirements of risk management and internal control standards such as the Basic Guidelines for Internal Controls of Enterprises issued by the MOF, CSRC, the National Audit Office, CBRC and CIRC and its supporting guidance, the Principal Rules for the Internal Control of Insurance Companies issued by CIRC, the Guidelines for Risk Management of Insurance Companies (Trial) issued the CIRC and China Risk Oriented Solvency System Regulations and the Listing Rules of the Stock Exchange as well as other regulations on risk management and internal control, perfected the risk management and internal control system, executed risk management and internal control with governing documents such as the Internal Control Administration Measures, the Internal Control Manual, the Internal Control Evaluation Manual, the Provisional Measures for Risk Management, and guiding major subsidiaries to promote the construction of risk management and internal control systems in accordance with the foregoing supervisory regulations.

In 2017, the Company continued to strengthen risk management through risk appetite and economic capital tools. In terms of risk management environment, the Company promoted the implementation of the risk appetite system for the first time. The Company and related subsidiaries prepared the 2017 risk appetite statement which was made as an effective tool for integrating risk management policies within the whole group. In addition, the Company established daily operational mechanisms for the risk appetite system, including risk appetite preparation and updating, instruction and execution, monitoring and evaluation and re-inspection and adjustment, to promote the decomposition and transmission of risk appetite at different levels, enabling risk appetite system to be effectively implemented and play a role in constraining risk. In terms of assessment and analysis, the Company continued to carry out economic capital measurement and analysis and promoted the decomposition and implementation of risk responsibilities in major subsidiaries and related departments of the Company through the preparation of risk capital budget. In terms of information collection and reporting, the Company completed the second phase of basic data platform project, built a risk management information system, extended the risk appetite and requirements of model construction data of economic capital, expanded the scope of risk information and basic data collection, optimized the risk monitoring index system, increased the frequency of risk monitoring and improved the quality and effectiveness of risk monitoring.

In 2017, the Company continued to strengthen the risk management and internal control system and implemented the important deployment of the central government on strengthening the prevention and control of financial risks. The Company strictly implemented the spirit of “1+4” series of documents issued by CIRC through actively conducting risk prevention and control as well as supervision and actively meeting the regulatory requirements for “Solvency II” solvency of the CIRC with promoting implementation. The Company promoted the execution of specific risk management systems and working mechanisms through strengthening risk dynamic monitoring, assessment, early warning, response and reporting with more focusing on risk control to further promote the construction of risk management informatization and enhance risk data collection and management. The Company further promoted the establishment of internal control systems for grass-roots branches by organizing professional training in risk management and internal control and intensifying the training of professional teams and personnel to improve risk performance assessment and enhance the level of risk management and internal control throughout the Company. PICC P&C took various measures to improve its comprehensive risk management system, such as updating risk appetite system, conducting risk assessment and measurement in combination of risk investigation and rectification in key areas to strengthen daily control of major risks and continue self-evaluation of internal control. In addition, PICC P&C has established a compliance inspection mechanism to promote the establishment of internal control system in grass-roots branches and continuously improve the ability of internal control to effectively support business management. PICC AMC carried out various risk investigations and internal control inspections, strengthened risk prevention and control of alternative investment business and strived to improve the risk quantification measurement system to make the risk prevention more foresighted, effective and pertinent with strict adherence to the bottom line of the non-occurrence of systemic risks. PICC Health fully carried out risk prevention and control in combination of investigation, continued to promote the construction of a comprehensive risk management system with solvency as the core, improved the risk management system and risk appetite system, established risk indicator database. Furthermore, it initiated the second phase of risk management information system, improved risk performance appraisal, strengthened pre-event risk assessment and deepened the implementation of the internal control system of grass-roots branches. PICC Life actively strengthened the risk management system and mechanism, continuously promoted risk management and integration, conducted daily risk monitoring and customized training and advocacy on the basis of the “Solvency II” benchmarking of CIRC, risk investigation, risk appetite system and internal control system of grass-roots branches to promote the continuous improvement of risk management and internal control system. PICC Investment Holding established effective internal control in all aspects before, during and after the business operations, continuously improved its systems and procedures, strengthened risk control of various businesses and conducted in-depth comprehensive internal control risk investigations to effectively improve its professional risk management level. PICC Capital committed to improving corporate governance, continuously optimized decision-making mechanisms for investment and risk management and solidly constructed an integrated risk management system based on unified policies and standards with unified tools and methods to ensure the effectiveness of risk management and internal control. PICC Reinsurance established and improved its comprehensive risk management system, formulated business risk limit standards with focusing on strengthening catastrophe risk management and internal control.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Company fully conducted the risk appraisal and internal control assessment covering the whole Group in 2017. The Board believed that during the reporting period, relevant management and control measures are sufficient to guarantee the actual demands of the Company in risk management. For internal control, all of the risk management and internal monitoring system of the Company covering all key aspects, including financial monitoring, operation monitoring and compliance monitoring are sufficient and effective. There are no factors affecting the conclusion on the appraisal of the effectiveness of the internal control during the period from the base date of the internal control appraisal report to the publication date of the internal control appraisal report. The company was not aware of any matters may have direct effects on the quality of the operation activities or the achievement of the targets of financial reports and the operation of the internal control system of the Group is sufficient and effective.

In 2017, the risk management system of the Company was sound and effective and it did not identify any significant risks affecting the normal operation of the Company. The Company continued to strengthen the frequency and effectiveness of the dynamic risks monitoring and established the annual, quarterly and other regular risk appraisal mechanisms. The management of the Company continues to conduct analysis and appraisal on strategic risks, liquidity risks, insurance risks, market risks, credit risks, operation risks, reputation risks and unique risks of the Group as well as other key risks and consistently strengthened the frequency of risks monitoring. Besides the annual reporting to the Board, it conducts overall appraisal on significant risks every quarter and monitors sensitive risk indicators every month and collects, summarizes and reports significant risk matters every week. Meanwhile, the Company conducts special appraisal and reports on risks of overseas affiliates or branches and overseas investments. The Company has established a complete set of risk appraisal mechanism for the above risks, which will guarantee the effectiveness of risk management.

The internal audit institutions of the Company and its subsidiaries prepare the annual audit plans based on the regulatory requirements and risk appraisal results every year, form a unified annual audit plan of the whole Group after summarizing and submit it to the Board of the Group for deliberation and approval. The internal audit organizations of the Company report the implementation of the audit work and the implementation of the annual audit plan to the Board every half year and appropriately adjust the focus of the audit supervision based on the deliberation opinions of the Board. In 2017, in terms of the National Financial Work Conference and pursuant to the requirements of the "1+4" series of documents of CIRC, internal audit institutions of the Company and its subsidiaries conducted audit and supervision of managers of all levels of branches of the Group through specific inspections on important areas, such as documents and seals, large amount of procurement, policy-based agricultural insurance, critical illness insurance, use of the assessed company, quality control with loss-determined, maintenance resource management, application of insurance funds and information systems.

For information disclosure, the Company independently established the information disclosure office in 2013 based on the working requirements after listing and established a professional team leading the information disclosure work of the whole Group. It coordinated and established the information disclosure working team in all subsidiaries and the communication and coordination mechanism among relevant parties information disclosure. The Company developed the Significant Information Reporting and Disclosure Procedures, the Interim Measures on the Management of Information Disclosure Matters, the Interim Measures on the Management of Internal Reporting of Significant Information, the Interim Measures on the Management of the Registration and Filing of Persons Knowing Inside Information and relevant rules and systems on information disclosure covering the whole Group, specifying major contents, the responsibilities of all parties, the procedures for registration, filing and disclosure, discipline and other matters in the information disclosure by companies under the Group and requiring relevant persons to perform corresponding procedures in reporting the inside information to the information disclosure management departments of the Group in time prior to the publicity of inside information. After receiving the report on inside information, the information disclosure management departments of the Group shall study and analyze the information and make plans on information disclosure and officially submit to the stock exchange for publication after being reviewed by the secretary of the Board and approved by the leaders of the Company.

BOARD OF SUPERVISORS

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

BOARD OF SUPERVISORS *(Continued)*

Composition

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

Chairman:	Lin Fan
Supervisors:	Xu Yongxian (Shareholder Representative Supervisor), Jing Xin (Independent Supervisor), Wang Dajun (Employee Representative Supervisor), Ji Haibo (Employee Representative Supervisor)

The Board of Supervisors of the Company established the Duty Performance and Due Diligence Supervision Committee, and the Financial and Internal Control Supervision Committee. Mr. Lin Fan serves as chairman of the Duty Performance and Due Diligence Supervision Committee, and Mr. Xu Yongxian and Mr. Ji Haibo are members of such committee. Mr. Jing Xin serves as chairman of the Financial and Internal Control Supervision Committee, Mr. Xu Yongxian is vice chairman of such committee, and Mr. Wang Dajun is a member of such committee.

The changes in members of the Board of Supervisors of the Company during the reporting period were as follows:

On 17 July 2017, Ms. Yao Bo resigned as the Employee Representative Supervisor due to work arrangements.

Mr. Ji Haibo was elected as an Employee Representative Supervisor of the Company at the 10th meeting of the second session of the employee representative committee. His qualification was approved by the CIRC on 13 October 2017.

On 27 December 2017, Mr. Ji Haibo was elected as a member of the Duty Performance and Due Diligence Supervision Committee at the 26th meeting of the second session of the Board of Supervisors.

Duties and Responsibilities

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

The primary duties of the Board of Supervisors include the following: (1) report its work in the shareholders' general meeting; (2) examine the Company's financial conditions; (3) nominate the Independent Direcotrs; (4) supervise the conduct of the Directors and senior management in their performance of duties; propose the removal of Directors and senior management who have contravened any law, regulation, the Articles of Association or resolutions of the shareholders' general meeting; (5) demand rectification from a Director or any senior management when the acts of such persons are harmful to the Company's interest; (6) propose convening a shareholders' general meeting and to convene and preside over the shareholders 'general meeting when the Board fails to perform its duty of convening and presiding over the shareholders' general meeting; (7) propose resolutions at the shareholders' general meeting; (8) bring an action against a Director or senior management pursuant to the Company Law; (9) hold investigations when uncovering the Company's abnormal opeartions, and hire accounting firms, law firms or other professional organizations to assist if necessary, with the relevant expenses to be paid by the Company; and (10) exercise other powers specified under laws, regulations, regulatory documents, the Articles of Association and as granted by the shareholders' general meeting.

BOARD OF SUPERVISORS *(Continued)*

Summary of the Work Undertaken

During the year, the Board of Supervisors, pursuant to the relevant provisions of the Company Law and the Articles of Association, earnestly fulfilled its duties, and protected the interests of the Company, shareholders and employees. During the year, the Board of Supervisors convened nine meetings and considered, reviewed and received 76 resolutions. The Duty Performance and Due Diligence Supervision Committee convened four meetings, the Financial and Internal Control Supervision Committee convened seven meetings. The attendance of meetings was as follows:

Name	Lin Fan	Xu Yongxian	Jing Xin	Yao Bo	Wang Dajun	Ji Haibo
Attendance in person/scheduled attendance	9/9	9/9	8/8	2/5	9/9	1/1
Percentage of attendance in person	100%	100%	100%	40%	100%	100%
Attendance by proxies/scheduled attendance	0/9	0/9	0/8	3/5	0/0	0/1
Percentage of attendance by proxy	0%	0%	0%	60%	0%	0%

See the section “Report of the Supervisors” for the work of the Board of Supervisors for the year.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

On 16 May 2017, as the Company proposed to change its domicile and apply for initial public offering and listing of A Shares, amendments to the Articles of Association were approved at the 29th meeting of the second session of the Board. On 31 July 2017, relevant amendments were submitted to the 2017 first extraordinary general meeting for approval. On 12 September 2017, the amendments were approved by the CIRC.

On 25 August 2017, in order to fulfill the general requirements for the CPC Central Committee to incorporate party building work into the Company’s Articles of Association, amendments to the Articles of Association were approved at the 32nd meeting of the second session of the Board. On 31 October 2017, relevant amendments were submitted to the 2017 third extraordinary general meeting for approval. On 27 December 2017, the Company made amendments to its Articles of Association according to the relevant provisions concerning the leadership role of the Party Committee under Chinese Communist Party Constitution approved at the 19th CPC National Congress and the Guidelines on Insurance Companies’ Articles of Association of CIRC, taking into account its actual situation at the 36th meeting of the 2nd Board of Directors. On 1 March 2018, relevant amendments were submitted to the 2018 first extraordinary general meeting for approval. The above two amendments have yet to be approved by the regulatory authorities.

INVESTOR RELATIONSHIP

After publishing the results for the year 2016 and the interim results for the year 2017, the Company communicated with investors with respect to the Company’s operation result and trend of business development through press conferences and roadshows. Also, the Company invited certain shareholders to attend the Company’s annual work conference to understand the operation and development of the Company. The Company strengthened daily communication with investors through receiving visit of investors, participating in large investor forums, and timely replying telephone and email enquiries. The Company also establishes and maintains a good relationship with investors through the investor relations information on its website.

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

Report of the Board of Directors

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2017. During the reporting period, there have been no significant changes to the scope of the Company's principal activities.

BUSINESS REVIEW

A review of the Group's business during the year, description of future business development, and description of possible risks and uncertainties that the Group may face, are set out in Chairman's Statement and Management Discussion and Analysis of the Annual Report. The risk management policies of the Group are set out in Corporate Governance Report. Management Discussion and Analysis section also contains financial highlights of the Group, and using financial key performance indicators to analysis the Group's performance during the year. Events which happened subsequent to the balance sheet date and have significant effect to the Group set out in Note 51 "Events After the Reporting Period" to the Consolidated Financial Statements. In addition, relationship with major customers and employees and compliance with relevant laws and regulations which have significant effect to the Group, set out in Report of the Board of Directors and Significant Events of the Annual Report.

ENVIRONMENTAL ISSUES

During the reporting period, the Group continued to comply with and continuously promoted a number of related measures involving energy use, emission treatment and environmental changes. The Group has implemented various environmentally friendly policies, such as, efforts to reduce the consumption of paper, water and electricity resources; implementation of energy-saving management to reduce greenhouse gas emissions; following the principle of waste separation management through separated dispose of waste water, household waste and various types of waste generated during the office operation to achieve recycling of resources. In accordance with regulatory requirements, the Company issued 2017 social responsibility report, which specifies the Group's performance of social responsibilities (including environmental and social governance).

PRINCIPAL ACTIVITIES

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

RESULTS AND PROFIT DISTRIBUTION

The results of the Group for the year are set out on Consolidated Financial Statements and Notes.

The net profit of the Company for the year 2017 as presented in the audited financial statements amounted to RMB3,484 million. Pursuant to the Articles of Association and other relevant provisions, after appropriation of 10% of the net profit in the financial statements as statutory reserve, the distributable profit realized for the year was RMB3,135 million. The Board has recommended a payment of cash dividend of RMB 0.394 per 10 shares (inclusive of tax), calculated on the basis of a total share capital of 42.424 billion shares, amounting to a total of approximately RMB1,672 million. The above proposal will be put forward to a general meeting for consideration and approval. If approved at the general meeting, the final dividend is expected to be paid around 25 May 2018.

The above proposal will be put forward to the extraordinary general meeting to be held on 19 April 2018 for consideration and approval. For the specific arrangements regarding dividend and its distribution, please refer to the supplemental circular of the 2018 second EGM of the Company dated 3 April 2018.

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

Pursuant to the PRC Individual Income Tax Law, the Implementation Regulations of the PRC Individual Income Tax Law, the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348), the Announcement of Pubilishing the Administrative Measures on Preferential Treatment Entitled by Nonresidents Taxpayer under Tax Treaties (Announcement of State Administration of Taxation [2015] No. 60),other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay income tax on the dividends paid including individual income tax for the Overseas individual shareholders and enterprise income tax for non-resident enterprise shareholders in respect of the final dividend for the year 2017 to be distributed to them. For the details of withholding and paying income tax on the dividends paid for overseas individual shareholders and non-resident enterprise shareholders, please refer to the supplemental circular of the 2018 second EGM of the Company dated 3 April 2018.

FINANCIAL HIGHLIGHTS

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

BUILDINGS, EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property and equipment and investment properties of the Group during the year are set out in Note 27 and Note 26 to the consolidated financial statements respectively. As at 31 December 2017, 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 14.07 of the Listing Rules) exceed 5%.

SHARE CAPITAL

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

The total share capital of the Company had no change in 2017. The share capital of the Company as at 31 December 2017 was as follows:

Name of Shareholder	Class	Number of Shares	Percentage of registered capital
MOF	Domestic Shares	29,896,189,564	70.47%
NSSF	Domestic Shares	3,801,567,019	8.96%
	H Shares	526,827,000	1.24%
Other H-share shareholders	H shares	8,199,407,000	19.33%
Total		42,423,990,583	100.00%

PRE-EMPTIVE RIGHTS

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

REPURCHASE, DISPOSAL AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Company and its subsidiaries had not repurchased, disposed of or redeemed any listed securities of the Company and its subsidiaries.

RESERVES

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

DISTRIBUTABLE RESERVES

As of 31 December 2017, the distributable reserves of the Company amounted to RMB1,781 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2017 were RMB116.07 million, of which the donations made by the Company were RMB10.5 million.

EQUITY-LINKED AGREEMENT

During the reporting period, the Company did not enter into any equity-linked agreement.

MAJOR CUSTOMERS AND EMPLOYEES

During the reporting period, the Company had no individual customer with premium income exceeding 5% of the annual premium income of the Company and its subsidiaries. The contribution of the Company's business of any single customer is insignificant to the overall business of the Company. Premium income from the top five customers accounted for not more than 30% of the total premium income of the Company and its subsidiaries.

As at 31 December 2017, the Group had a total of 215,362 employees, including regular employees and labor dispatch employees. For the year 2017, salaries paid to the employees by the Company and its subsidiaries were approximately RMB39.026 billion in total, which mainly included fixed salaries, performance bonuses as well as contributions to insurance and benefit plans for employees in accordance with relevant PRC regulations. The salary of employees are determined in accordance with market levels, employees' performance and actual situation of Company. The Company and its subsidiaries enhance the performance and efficiency of employees by various measures such as providing career development channels, strengthening staff training and implementing performance review.

In order to ensure its stable development in the long run, the Company has attached great importance to its relationship with all customers and employees. The business and financial condition of the Company have not relied on particular customer(s) or employee(s).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

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

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

HIGHEST PAID INDIVIDUALS

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

INDEMNITY FOR DIRECTORS

During the reporting period and up to the date of this annual report, there had been no permitted indemnity provision nor permitted indemnity provision that remained effective for the benefits of Directors or directors of subsidiaries. For the period from December 2016 to December 2017, the Company had purchased insurance as appropriate for Directors against legal liabilities arising from performance of their duties. Such insurance policies are governed by PRC laws.

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

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

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

INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2017, Mr. Wang Dajun, a Supervisor of the Company, held 50,000 H shares of the Company. Save as disclosed above, no other Directors, Supervisors and senior management had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

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

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

As far as the Directors of the Company are aware, as at 31 December 2017, the following persons (other than the Directors, Supervisors and senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Sections 2 and 3 of Part XV of the SFO, or required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

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

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total issued H shares *(Note 5)*	Percentage of total issued shares *(Note 4)*
American International Group, Inc.	Beneficial owner	1,113,405,000	Long position	12.76%	2.62%
NSSF *(Note 1)*	Beneficial owner	526,827,000	Long position	6.04%	1.24%
BlackRock, Inc. ("BlackRock") *(Note 2)*	Interest of controlled corporation	499,178,771	Long position	5.72%	1.18%

Notes:

1. NSSF, as the beneficial owner, holds 524,279,000 H shares. In addition, it holds 67,000 H shares via Neuberger Berman, 2,231,000 H shares via Principal, 182,000 H shares via Blackrock, 68,000 H shares via Vanguard. Accordingly, NSSF is deemed to be interested in the aforementioned H shares.

2. BlackRock is deemed to be interested in 499,178,771 H shares through its controlled entities, namely, BlackRock Advisors, LLC BlackRock Financial Management, Inc.,BlackRock Investment Management, LLC, BlackRock Investment Management (Australia)Limited, BlackRock Investment Management (UK) Limited,BlackRock Institutional Trust Company, National Association, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Canada Limited, BlackRock Fund Advisors, BlackRock International Holdings, Inc., BlackRock Japan Co., Ltd..

3. As at 31 December 2017, the total issued domestic shares of the Company was 33,697,756,583 shares.

4. As at 31 December 2017, the total issued shares of the Company was 42,423,990,583 shares.

5. As at 31 December 2017, the total issued H shares of the Company was 8,726,234,000 shares.

Save as disclosed above, as of 31 December 2017, the Company is not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company, that is required to be entered into the register under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors as of the latest practicable date prior to the publication of this annual report, 19.33% of the issued share capital of the Company was held by the public. Since PICC Life established a joint venture with AIG APAC, AIG becomes a core connected person of the Company pursuant to Rule 1.01 of the Listing Rules as AIG is a close associate of the substantial shareholder of the joint venture. The Company made an application to the Hong Kong Stock Exchange which has exercised its discretion under Rule 8.08(1) of the Listing Rules to regard AIG as part of "the public" when considering whether the Company complies with the requirement of minimum public float of 18.44%. H shares held by NSSF are not deemed as the shares held by the public for the purposes of Rule 8.08(1) of the Listing Rules.

CONNECTED TRANSACTIONS

During the reporting period, the Company had no connected transactions required to be disclosed pursuant to Chapter 14A of the Listing Rules. Please refer to Note 47 to the consolidated financial statements "Related Party Disclosures" for particulars of the related party transactions defined under International Financial Reporting Standards; such transactions are not connected transactions or continuing connected transactions as defined under Chapter 14A of Listing Rules.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

AUDITORS

As reviewed and approved by 2016 annual general meeting, the Company engaged Deloitte Touche Tohmatsu CPA LLP and Deloitte Touche Tohmatsu as the auditor of the Company for the financial statements for the year ended 31 December 2017, prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards respectively. There are no changes in of the Company's auditors in the past three financial years.

By the order of the Board
Miao Jianmin
Chairman

Report of the Board of Supervisors

During the year, all members of the Board of Supervisors of the Company have, in accordance with the policies of the CPC Central Committee and the decisions of the CPC Committee of the Group, the requirements of laws, regulations and the Articles of Association, focusing on the overall work requirements, earnestly fulfilled duties of supervision and played the role of "facilitating supervision", which promoted the scientific development of the Company and effectively safeguarded the interests of the shareholders, the Company and the employees.

PERFORMANCE OF THE BOARD OF SUPERVISORS

Organizing and convening Supervisors' meetings in accordance with the law

During the year, the Board of Supervisors convened nine meetings and considered and received 76 resolutions and reports with details as follows:

- The 18th meeting of the second session of the Board of Supervisors was held on 17 January. At the meeting, the resolution of the 2016 Work Report of the Board of Supervisors and 2017 Annual Work Plan of the Board of Supervisors were reviewed and approved; and three resolutions on issuance of RMB Supplementary Bonds in 2017 by PICC Health, on 2016 Profit Distribution of PICC Investment Holding and on capital increase in PICC Hong Kong.

- The 19th meeting of the second session of the Board of Supervisors was held on 24 March. At the meeting, the resolution on selection of the chairman and members of Finance and Internal Control Supervision Committee under the second session of the Board of Supervisors, the resolution on the 2016 final account (including audited financial reports), the resolution on 2016 annual results announcement and annual report, the resolution on 2016 profit distribution, the resolution on the engagement of auditor for 2017 financial statement, the resolution on 2016 risk assessment report, the resolution on 2016 internal control evaluation report, the resolution regarding the 2016 evaluation and audit report on internal control of insurance funds were reviewed and approved; the resolution on 2017 business plan, the resolution on 2017 financial plan, the resolution on fixed assets investment budgets for the year 2017, the resolution on adjustment on rolling plan on strategic allocation of the asset for 2017 to 2019, the resolution on 2017 risk appetite statement, the resolution on2017 annual audit plan and the report on the implementation of No.88 specific budget for the year 2016 were received.

- The 20th meeting of the second session of the Board of Supervisors was held on 28 April. At the meeting, the resolution on the "Solvency II" solvency report for the year 2016, the resolution on the assessment report on the implementation of the 2016 development plan, the resolution on 2016 corporate governance report, the resolution on 2016 compliance report and the resolution on the 2016 assessment report on the performance of supervisors were reviewed and approved; the resolution on transfer of the undistributed profits of PICC AMC to the registered capital, the resolution on 2016 profit distribution plan of PICC Life, the resolution on the performance report of directors for the year 2016, the resolution on the performance report of independent directors for the year 2016,, the report on the Company's related party transactions and the implementation of its related party transactions management system for the year 2016 and internal transaction assessment and 2016 audit report on the status of related party transactions management were received.

- The 21st meeting of the second session of the Board of Supervisors was held on 16 May. At the meeting, the resolution on the initial public offering and listing of A Shares Scheme, the resolution on the use of proceeds from initial public offering and listing of A Shares, the resolution on plan of profit distribution for initial public offering of A Shares, the resolution on the use of proceeds from Pre-IPO and the resolution on the amendments to the Articles of Association of the People's Insurance Company (Group) of China Limited were reviewed and approved; the resolution on the three-year dividend return plan after initial public offering and listing of A Shares, the resolution on the stabilization of the Company's A Share price plan in three years after the initial public offering of A Shares listing, the resolution on the information disclosure regarding the initial public offering and listing of A Shares in the prospectus and the resolution on amortization of the current returns and measures to fill the initial public offering A Shares were received.

- The 22nd meeting of the second session of the Board of Supervisors was held on 23 June. At the meeting, the resolution on the capital increase in PICC Reinsurance, the resolution on the formulation of the capital administrative measures of PICC Group, the resolution on capital plan of PICC Group (2017-2019), the resolution on the issuance of capital supplementary bonds by PICC Group and the resolution on the audit results report for Director and senior management of Comrade Li Yuquan, the ex-executive director and vice-president were reviewed and approved; the resolution on 2016 profit distribution plan and the resolution on expenses plan on the listing of A Shares were received.

- The 23rd meeting of the second session of the Board of Supervisors was held on 31 July. At the meeting, the resolution on the issuance of capital supplementary bonds by PICC Life and the resolution on signing the Overall Entrustment Contract for Property Management with PICC Property and related party transactions under corresponding agreement were received.

- The 24th meeting of the second session of the Board of Supervisors was held on 25 August. At the meeting, the resolution on 2017 interim report and interim result announcement, the resolution on the "Solvency II" solvency report for the first half of 2017, the resolution on 2017 interim profit distribution and the resolution on the amendments on the Articles of Association of the People's Insurance Company (Group) of China Limited were reviewed and approved; the resolution on the audit report for the first half of 2017, the resolution on the risk management and internal control for the first half of 2017 and the resolution on the compliance management for the first half of 2017 were received.

- The 25th meeting of the second session of the Board of Supervisors was held on 12 September. At the meeting, the resolution on the audit report concerning A Share listing and related financial specific report for the years of 2014, 2015 and 2016 and first half of 2017, the resolution on the embedded value report as of the end of 2016 and as at 30 June 2017, the resolution on the prospectus (draft) on the initial public offering (A Shares), the resolution on the internal control evaluation report and internal control audit report for the fist half of 2017 and the resolution on the administrative measures on liquidity risk and measures for implementation were reviewed and approved.

- The 26th meeting of the second session of the Board of Supervisors was held on 27 December. At the meeting, the resolution on amendments to the Articles of Association, the resolution on the amendments to the procedural rules for the meeting of the Board of Supervisors, the resolution on the by-election of members of the Duty Performance and Due Diligence Supervision Committee for the second session of the Board, the resolution on detailed rules on duty performance of Supervisors, the resolution on detailed rules for the supervision of the Board of Supervisors on finance and internal control, the resolution on guiding opinions on the standard operation and coordinated work of the Supervisory Committee of PICC Group and the resolution on working rules of the Supervisory Committee Office were reviewed and approved; the resolution on 2018 business plan, the resolution on 2018 financial plan, the resolution on fixed asset investment budget for the year of 2018, the resolution on capital increase in PICC Hong Kong, the resolution on Four Systems regarding audit informatization standardization of the Company, the data and information research report of PICC Group, the specific capital management report of PICC Group and the specific report on the North Center Planning were received.

When studying the deliberations and reviewing relevant resolutions, the Board of Supervisors seriously discussed the matters of concern and formed opinions and suggestions and gave feedback to the Board and management. During the year, in accordance with the requirements of the responsibilities, the Duty Performance and Due Diligence Supervision Committee under the Board of Supervisors held four meetings and the Financial and Internal Control Supervision Committee held seven meetings to recommended on the relevant resolutions and report to the Board of Supervisors. The Board of Supervisors also convened three special communication meetings to communicate with external auditors and related functional departments on related issues.

Attending Shareholders' General Meetings and relevant meetings of the Board and Management

During the year, the Supervisors attended five shareholders' meeting, twelve Board meetings on-site and five meetings of Board committees as well as participated in 15 resolution communication meetings. The Supervisors also attended operation management meetings, such as the annual work meeting and semi-annual work meeting, quarterly "One-to-one" operational trend analysis meeting and bi-weekly meeting. Through attending and participating in such meetings, it conducted effective supervision on relevant decision-making process and the performance of duties by the Board and the management, proposed monitoring opinions in time and gave full display to the functions of the Board of Supervisors in corporate governance.

Perform Duties such as Performance Supervision, Financial Supervision and Development Planning Supervision

During the year, the Board of Supervisors actively carried out performance supervision, financial supervision, development planning supervision, internal control supervision, compliance management supervision, risk management supervision, internal audit supervision and related party transactions management supervision in accordance with laws and regulations, policy spirit, regulatory requirements of the CIRC and the Articles of Association with focusing on major risks to promote the sustainable and healthy development of the Company.

Performance supervision. The Board of Supervisors supervised the performance of directors and senior management personnel mainly through attending and participating in relevant meetings of the Board and management. While continuing doing daily supervision work, it conducted research and exploration on how to carry out annual performance evaluations of the Board and management.

Financial supervision. The Board of Supervisors reviewed or received resolutions relating to the company's finances and put forward opinions and suggestions on issues such as capital planning, assessment of the use of capital of subsidiaries and solvency management; and communicated with external auditors and financial management departments on annual results audit and interim results review.

Development planning supervision. The Board of Supervisors continued to pay attention to the implementation of "13th Five-Year" Plan in the Group, communicated with the Strategic Planning Department for the annual business plan and paid attention to the cohesion of the annual business plan and the "13th Five-Year" Plan and matching the annual business plan and the financial budget.

Internal control supervision. The Board of Supervisors continued to understand and pay attention to the effectiveness of the Company's internal control by reviewing the Company's 2016 internal control evaluation report, relevant special internal control assessment report and listening to the semi-annual internal control report.

Risk management supervision. The Board of Supervisors paid close attention to the Company's major risks and the effectiveness of risk management and put forward recommendations. In considering and studying the relevant resolutions, it called attention to major risks in a timely manner with focusing on the relevant risks that the regulatory policy changes may bring to the Company.

Internal audit supervision. The Board of Supervisors received the analysis reports on the findings of internal audits and rectification, on audit work for the "13th Five-Year" Plan and on relevant systems for auditing standardization information with focusing on the issues concerning the rectification of audit findings and the reform of the audit management system and provided opinions and suggestions.

Compliance management supervision. The Board of Supervisors kept abreast of the performance of compliance management responsibilities of the Board and the management and the major compliance risks faced by the Company with paying attention to the relevant requirements of the A Share listing for corporate governance compliance operations and the revision of the Company's compliance policy and provided opinions and suggestions.

Related party transactions management supervision. The Board of Supervisors received the Company's annual related party transactions, specific audit report on related party transactions and related resolutions on related party transactions to understand the Company's related party transactions and management and recommended that the Company pay attention to the different regulatory requirements on related party transactions of domestic and foreign securities regulatory agencies and the CIRC to strengthen related party transactions management.

Conduct Specific Research and Supervision

During the year, according to the integration construction and customer-based transformation requirements of the Group, the Board of Supervisors united with the related functional departments of the Group to conduct investigation in PICC Life, PICC Health, PICC P&C, PICC Financial Services, South Center and North Center. Based on the Group's "13th Five-Year Plan" development plan, the research group proposed relevant suggestions on promoting the integration of the Group, improving the professionalism in all sectors, enhancing system execution and building a solid data foundation through taking the Group's data information as the pointcut and conducting in-depth analysis on its strategic and operational management problems.

During the year, the Board of Supervisors carefully streamlined the key issues and recommendations made in recent years and carried out specific supervision on the Group's capital management and the planning and construction of the North Center to prepare a supervision report. In addition, the Board of Supervisors also appointed relevant supervisors to participate in the joint investigation team comprising of the Company's directors and supervisors to the branches in Jiangsu and Hunan provinces of PICC Life and PICC Health and PICC Capital, PICC Reinsurance and PICC Pension to investigate and get the operation and management and business development of subsidiaries and grass-roots branches and made relevant suggestions accordingly.

Reinforcing the Construction of the Board of Supervisors

During the year, the Board of Supervisors continued to strengthen its own organization, system and capacity building to make its performance of duties more standard and professional and enhance the effectiveness of performance.

- To strictly implement the corporate governance procedures, information disclosure of the replacement of selected supervisors and by-election of members of the Board of Supervisor in accordance with laws, regulations and regulatory requirements.

- To formulate the Detailed Rules for the Supervision of the Board of Supervisors on Finance and Internal Control and Detailed Rules for the Performance of Responsibilities of Supervisors to further improve the working system of the Board of Supervisors.

- To formulate the Guiding Opinions on the Coordination of Normative Operation and Work of the Supervisory Committee of PICC Group and organize a joint meeting of the supervisory committee of the Group to explore the establishment of a business guidance and coordination supervision mechanism between the supervisory committee of the Company and the supervisory committee of subsidiaries.

- To attach importance to the supervisors' ability to perform their duties and encourage supervisors to actively participate in trainings organized by external institutions such as the CIRC, the Hong Kong Stock Exchange, the Hong Kong Institute of Chartered Secretaries and the China Association of Listed Companies to improve their performance levels.

PERFORMANCE OF THE SUPERVISORS

Based on the attendance of all members of the Board of Supervisors in the shareholders' general meeting, meetings of the Board of Supervisors and the meetings of committees under it, their attendance in the Board meetings and its committees, the participation in specific meetings, communication meetings, specific investigation and research organised by the Board of Supervisors, provision of advice and recommendations on such resolutions and matters, the Board of Supervisors is of the view that during the year 2017, the performance of all members of the Board of Supervisors has met expectations and the requirements of laws and regulations, such as the Company Law and the Articles of Association. The Board of Supervisors also believes that members are able to perform the duties as Supervisors earnestly and diligently to actively facilitate the scientific development of the Company and effectively safeguard the interests of the shareholders, the Company and employees.

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

Operation of the Company in accordance with law

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

Facts about the financial statements

The annual financial statements of the Company are a true and objective presentation of the financial position and operating results of the Company. The financial statements of the Company for the year 2017 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu respectively in accordance with the corresponding independent auditing standards, which have issued audit reports with standard and clean opinions.

Material investments, issuance of bonds and acquisitions of assets

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

Connected transactions

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

Review of internal control report

During the reporting period, the management of the Company attached great importance to the construction of an internal control system. The Company established a complete, reasonable and effective internal control system, which enhanced the level of internal control management. The Board of Supervisors had considered the Internal Control Evaluation Report of the Company for the year 2017, and had no objection to such report.

Implementation of resolutions adopted at the shareholders' meetings and resolutions of the Board and the Board of Supervisors

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

MAJOR CONNECTED TRANSACTIONS

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

MATERIAL CONTRACTS AND THEIR PERFORMANCES

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

OTHER MATERIAL CONTRACTS

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

OTHER SIGNIFICANT EVENTS

(I) Application for A Share Listing

On 31 July 2017, the resolution regarding the Company's initial public offering of A Share and its listing on the Shanghai Stock Exchange ("A Share Offering") plan and other resolutions in relation to the A share offering have been reviewed and approved at the Company's 2017 first extraordinary general meeting. The Company has submitted the application materials, including the A Share prospectus, to the CSRC, and received a letter of acceptance issued by the CSRC (No. 171991) on 26 September 2017 with respect to the Company's application for the A Share Offering. At present, A Share Offering is in progress.

(II) Application for Issuance of Capital Replenishment Bonds

On 8 September 2017, the issuance of capital replenishment bonds in the national inter-bank bond market by the Company was reviewed and approved at the Company's 2017 second extraordinary general meeting. The total principal amount of bond issued is no more than RMB 20 billion with the term of 10 years (the Company has the right to redeem the bonds at the end of the fifth year) and the issue interest rate determined by a market-oriented approach. The issuance of capital replenishment bonds has yet to be approved by the CIRC and the People's Bank of China.

(III) Issuance of Capital Replenishment Bonds by PICC Health

As approved by the regulatory authorities, PICC Health, a subsidiary of the Company, successfully issued capital supplementary bonds publicly on the national inter-bank bond market on 12 September 2017. The total principal amount of the bonds issued is RMB3.5 billion with the term of 10 years (PICC Health has the right to redeem the bonds at the end of the fifth year) and the interest rate determined by a market-oriented approach.

(IV) Capital Increase in PICC Reinsurance

On 30 August 2017, the Company entered into an agreement with PICC P&C, a subsidiary of the Company, to increase capital in PICC Reinsurance, a subsidiary of the Company, pursuant to which the Company contributed RMB 1.02 billion and PICC P&C contributed RMB 980 million. On 28 September 2017, the CIRC approved the capital increase in PICC Reinsurance. At present, the follow-up issues, including transaction payment and change in industrial and commercial registration have been completed. After the capital increase was completed, the shareholding of the Company and PICC P&C remained unchanged with 51% and 49% held by the Company and PICC P&C respectively.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company had complied with relevant laws and regulations which had significant impact on businesses and operations of the Company in all material aspects.

Embedded Value

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

Embedded value does not include the economic value of future new business. The value of one year's new business provides an indication of the value created for investors by new business activity based on the assumptions used and hence the potential of the business.

Deloitte Consulting (Shanghai) Co. Ltd. Beijing Branch, independent consulting actuaries, have prepared actuarial consultants' review reports on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 31 December 2017, and the value of one year's new business of PICC Life and PICC Health, respectively, in respect of our new life and health insurance businesses written for the 12 months ended 31 December 2017, on a range of assumptions. Copies of Deloitte's reports are included in our annual report. These reports do not constitute an audit opinion of the financial information used in the report.

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

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

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED

PICC Life Insurance Company Limited ("PICC Life") has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to prepare the consulting actuary's report on matters related to its embedded value as of 31 December 2017. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

1. Scope of Work

Our scope of work is to prepare an embedded value report which covers:

- The methodology of the embedded value and value of one year's new business as of 31 December 2017;
- The assumptions of the embedded value and value of one year's new business as of 31 December 2017;
- The various embedded value results as of 31 December 2017, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2016 to 31 December 2017, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- The breakdown of value of one year's new business as of 31 December 2017 by distribution channels.

2. Basis of Preparation, Reliance and Limitation

We carried out our work based on"Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", which was issued by China Association of Actuaries ("CAA") in November 2016.

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

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Many of these assumptions are not entirely controlled by PICC Life. They are affected by internal and external factors. Hence the actual experience may deviate from these assumptions.

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

3. Definition and Methodology

3.1 Definition

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

- **Embedded Value ("EV"):** this is the sum of the adjusted net worth and value of in-force business as at the valuation date;
- **Adjusted Net Worth ("ANW"):** this is the fair value of the assets attributable to shareholders in excess of liabilities of the business as at the valuation date;
- **Value of In-Force Business ("VIF"):** this is the present value of future cash flows attributable to shareholders arising from the in-force business and the corresponding assets as at the valuation date. The assets contributing to the cash flows are those supporting the corresponding liabilities of in-force business;

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

3. Definition and Methodology *(Continued)*

3.1 Definition *(Continued)*

- **Cost of Required Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date and the present value of future movements of such capital (end of period value less start of period value), and the calculation should take into account the after-tax investment earnings on the assets backing such required capital;

- **Value of One Year's New Business ("V1NB"):** this is equal to the present value as at the policy issue dates of the future cash flows from the policies issued in the specified one year period and the corresponding assets. The assets contributing to the cash flows are those supporting the corresponding liabilities of new policies. The value associated with top-up premium not expected from the in-force business is included in the value of one year's new business; and

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

3.2 Methodology

In 2016, the China Risk Oriented Solvency System ("C-ROSS") became effective. Meanwhile, CIRC terminated the use of "Guidance on Life Insurance Embedded Value Report Preparation" (CIRC [2005] No. 83). China Association of Actuaries ("CAA") issued "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" in November 2016. We have calculated the embedded value and the value of one year's new business based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance".

The method adopted in this report is the commonly used embedded value approach in the industry. Both value of in-force business and value of one year's new business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the embedded value and value of new business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

4. Results Summary

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

4.1 Overall Results

Table 4.1.1 Embedded Value of PICC Life as at 31 December 2017 and 31 December 2016 (Unit: in RMB million)

	31/12/2017	31/12/2016
Risk Discount Rate	10.0%	10.0%
Adjusted Net Worth	39,467	39,076
Value of In-Force Business before CoC	28,469	21,949
Cost of Required Capital	(6,027)	(3,468)
Value of In-Force Business after CoC	22,442	18,481
Embedded Value	61,909	57,558

Note: figures may not add up to total due to rounding.

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

4. Results Summary *(Continued)*

4.1 Overall Results *(Continued)*

Table 4.1.2 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2017 and 31 December 2016 (Unit: in RMB million)

	31/12/2017	31/12/2016
Risk Discount Rate	**10.0%**	10.0%
Value of One Year's New Business before CoC	**7,655**	5,943
Cost of Required Capital	**(1,967)**	(1,812)
Value of One Year's New Business after CoC	**5,687**	4,131

Note: Figures may not add up to total due to rounding.

4.2 Results by Distribution Channels

The results of the value of one year's new business split by distribution channel are illustrated in this section. The results of the value of one year's new business by distribution channel as of 31 December 2017 and 31 December 2016 are summarized in the table below.

Table 4.2.1 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2017 and 31 December 2016 by Distribution Channel (Unit: in RMB million)

Risk Discount Rate			**10.0%**		
Distribution Channel	**Bancassurance**	**Individual insurance agent**	**Group sales**	**Reinsurance**	**Total**
Value of One Year's New Business after CoC (2017)	**403**	**4,844**	**440**	**0**	**5,687**
Value of One Year's New Business after CoC (2016)	134	3,403	592	2	4,131

Note: Figures may not add up to total due to rounding.

The expense assumptions represent the expected long-term expense level in the future in the calculation of the value of in-force business and value of one year's new business. The business scale has not reached the expected level given the short duration of the business. Therefore, the expense breakeven is only able to be achieved in future years. The expense overrun is the expenses over breakeven level. The present value of future maintenance expense overrun has been deducted from the value of in-force business in accordance with the guidelines of CAA. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

5. Assumptions

The assumptions below are used for the valuation of the embedded value and value of one year's new business as of 31 December 2017.

5.1 Risk Discount Rate

A 10% risk discount rate has been used to calculate the embedded value and value of one year's new business.

5.2 Rate of Investment Return

A 5.25% p.a. investment return assumption has been used.

5.3 Policy Dividend

The expected level of participating policy dividend is based on the participating policy of PICC Life. The impact on the value of in-force business and value of one year's new business, which may be caused by the change in the level of participating policy dividend, is listed in the sensitivity test results.

5.4 Mortality and Morbidity

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

5.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on PICC Life's own experience. They are in the range from 38% to 72% of gross premium depending on the lines of business.

5.6 Lapse Rates

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

5.7 Expenses and Commissions

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

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

5.8 Tax

The corporate income tax rate is assumed to be 25% of the taxable income. Income on government bonds other than capital gains/losses, dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

6. Sensitivity Tests

The results of sensitivity tests on the value of in-force business and value of one year's new business are illustrated in this section. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. For the investment return assumption scenarios, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 6.1 and 6.2.

Table 6.1 Value of In-Force Business of PICC Life as at 31 December 2017 under Alternative Assumptions (Unit: in RMB million)

Scenarios	Before CoC	After CoC
Base Scenario	28,469	22,442
Risk Discount Rate at 9%	31,137	25,389
Risk Discount Rate at 11%	26,245	19,993
Rate of investment return increased by 50 bps	33,974	28,173
Rate of investment return decreased by 50 bps	23,107	16,854
Expenses increased by 10%	27,888	21,862
Expenses decreased by 10%	29,050	23,023
Lapse rate increased by 10%	27,487	21,851
Lapse rate decreased by 10%	29,523	23,036
Mortality increased by 10%	28,000	22,021
Mortality reduced by 10%	28,947	22,869
Morbidity increased by 10%	28,096	22,074
Morbidity reduced by 10%	28,844	22,813
Short-term business claim ratio increased by 10%	28,426	22,399
Short-term business claim ratio decreased by 10%	28,512	22,485
Participating Ratio (80/20)	27,919	21,586

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

Table 6.2 Value of One Year's New Business for the 12 months up to 31 December 2017 of PICC Life under Alternative Assumptions (Unit: in RMB million)

Scenarios	Before CoC	After CoC
Base Scenario	7,655	5,687
Risk Discount Rate at 9%	8,631	6,825
Risk Discount Rate at 11%	6,839	4,730
Rate of investment return increased by 50 bps	9,830	7,985
Rate of investment return decreased by 50 bps	5,525	3,438
Expenses increased by 10%	7,039	5,071
Expenses decreased by 10%	8,271	6,303
Lapse rate increased by 10%	7,229	5,408
Lapse rate decreased by 10%	8,114	5,972
Mortality increased by 10%	7,519	5,556
Mortality reduced by 10%	7,793	5,820
Morbidity increased by 10%	7,468	5,503
Morbidity reduced by 10%	7,843	5,874
Short-term business claim ratio increased by 10%	7,540	5,572
Short-term business claim ratio decreased by 10%	7,770	5,803
Participating Ratio (80/20)	7,433	5,348

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

CONSULTING ACTUARY'S REPORT FOR PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

7. Movement Analysis

Table 7.1 shows the analysis of embedded value movement from 31 December 2016 to 31 December 2017.

Table 7.1 Analysis of Embedded Value Movement from 31 December 2016 to 31 December 2017 (Unit: in RMB million)

Item	Description	Amount
1	Embedded Value as at 31 December 2016	57,558
2	New Business Contribution	5,965
3	Expected Return	4,761
4	Investment Return Variance	483
5	Other Experience Variance	(1,278)
6	Model and Assumption Modification	(3,693)
7	Capital Change and Market Value Adjustment	(1,684)
8	Others	(201)
9	Embedded Value as at 31 December 2017	61,909

Explanations on items 2 to 8 above:

2. The contribution of new business sold in 2017 to the embedded value at 31 December 2017;

3. The expected return in 2017 arising from the in-force business and adjusted net worth as at 31 December 2016;

4. Change in embedded value arising from variances between the actual investment return and the related investment return assumption in 2017;

5. Change in embedded value arising from variances between the actual experiences and assumptions other than the related investment return in 2017;

6. The impact on embedded value due to model enhancement and the changes in assumptions during 2017;

7. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2017;

8. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 31 December 2016 to 31 December 2017.

On behalf of Deloitte Consulting (Shanghai) Co. Ltd., Beijing Branch

Paul Sheng
FSA

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED

PICC Health Insurance Company Limited ("PICC Health") has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to prepare the consulting actuary's report on matters related to its embedded value as of 31 December 2017. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

1. Scope of Work

Our scope of work is to prepare an embedded value report which covers:

- The methodology of the embedded value and value of one year's new business as of 31 December 2017;
- The assumptions of the embedded value and value of one year's new business as of 31 December 2017;
- The various embedded value results as of 31 December 2017, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2016 to 31 December 2017, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- The breakdown of value of one year's new business as of 31 December 2017 by distribution channels.

2. Basis of Preparation, Reliance and Limitation

We carried out our work based on"Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", which was issued by China Association of Actuaries ("CAA") in November 2016.

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

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Many of these assumptions are not entirely controlled by PICC Health. They are affected by internal and external factors. Hence the actual experience may deviate from these assumptions.

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

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

3. Definition and Methodology

3.1 Definition

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

- **Embedded Value ("EV"):** this is the sum of the adjusted net worth and value of in-force business as at the valuation date;
- **Adjusted Net Worth ("ANW"):** this is the fair value of the assets attributable to shareholders in excess of liabilities of the business as at the valuation date
- **Value of In-Force Business ("VIF"):** this is the present value of future cash flows attributable to shareholders arising from the in-force business and the corresponding assets as at the valuation date. The assets contributing to the cash flows are those supporting the corresponding liabilities of in-force business;
- **Cost of Required Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date and the present value of future movements of such capital (end of period value less start of period value), and the calculation should take into account the after-tax investment earnings on the assets backing such required capital;
- **Value of One Year's New Business ("V1NB"):** this is equal to the present value as at the policy issue dates of the future cash flows from the policies issued in the specified one year period and the corresponding assets. The assets contributing to the cash flows are those supporting the corresponding liabilities of new policies. The value associated with top-up premium not expected from the in-force business is included in the value of one year's new business; and
- **Expense Overrun:** the amount of actual expenses in excess of the assumed expenses.

3.2 Methodology

In 2016, the China Risk Oriented Solvency System ("C-ROSS") became effective. Meanwhile, CIRC terminated the use of "Guidance on Life Insurance Embedded Value Report Preparation" (CIRC [2005] No. 83). China Association of Actuaries ("CAA") issued "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" in November 2016. We have calculated the embedded value and the value of one year's new business based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance".

The method adopted in this report is the commonly used embedded value approach in the industry. Both value of in-force business and value of one year's new business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the embedded value and value of new business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

4. Results Summary

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

4.1 Overall Results

Table 4.1.1 Embedded Value of PICC Health as at 31 December 2017 and 31 December 2016 (Unit: in RMB million)

	31/12/2017	31/12/2016
Risk Discount Rate	**10.0%**	10.0%
Adjusted Net Worth	**5,897**	5,687
Value of In-Force Business before CoC	**2,165**	1,755
Cost of Required Capital	**(231)**	(324)
Value of In-Force Business after CoC	**1,934**	1,430
Embedded Value	**7,831**	7,118

Note: figures may not add up to total due to rounding.

Table 4.1.2 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2017 and 31 December 2016 (Unit: RMB Million)

	31/12/2017	31/12/2016
Risk Discount Rate	**10.0%**	10.0%
Value of One Year's New Business before CoC	**536**	446
Cost of Required Capital	**(68)**	(121)
Value of One Year's New Business after CoC	**468**	325

Note: Figures may not add up to total due to rounding.

4.2 Results by Distribution Channels

The results of the value of one year's new business split by distribution channel are illustrated in this section. The results of the value of one year's new business by distribution channel as of 31 December 2017 and 31 December 2016 are summarized in the table below.

Table 4.2.1 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2017 and 31 December 2016 by Distribution Channel (Unit: in RMB million)

Risk Discount Rate		**10.0%**			
Distribution Channel	**Bancassurance**	**Individual insurance agent**	**Group Group sales**	**Reinsurance**	**Total**
Value of One Year's New Business after CoC (2017)	**25**	**403**	**41**	**–**	**468**
Value of One Year's New Business after CoC (2016)	13	284	28	–	325

Note: Figures may not add up to total due to rounding.

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

4. Results Summary *(Continued)*

4.2 Results by Distribution Channels *(Continued)*

The expense assumptions represent the expected long-term expense level in the future in the calculation of the value of in-force business and value of one year's new business. The business scale has not reached the expected level given the short duration of the business. Therefore, the expense breakeven is only able to be achieved in future years. The expense overrun is the expenses over breakeven level. The present value of future maintenance expense overrun has been deducted from the value of in-force business in accordance with the guidelines of CAA. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

5. Assumptions

The assumptions below are used for the valuation of the embedded value and value of one year's new business as of 31 December 2017.

5.1 Risk Discount Rate

A 10% risk discount rate has been used to calculate the embedded value and value of one year's new business.

5.2 Rate of Investment Return

A 5.25% p.a. investment return assumption has been used.

5.3 Policy Dividend

The expected level of participating policy dividend is based on the participating policy of PICC Health. The impact on the value of in-force business and value of one year's new business, which may be caused by the change in the level of participating policy dividend, is listed in the sensitivity test results.

5.4 Mortality and Morbidity

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

5.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on PICC Health's own experience. They are in the range from 36% to 94% of gross premium depending on the lines of business.

5.6 Lapse Rates

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

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

5. Assumptions *(Continued)*

5.7 Expenses and Commissions

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

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

5.8 Tax

The corporate income tax rate is assumed to be 25% of the taxable income. Income on government bonds other than capital gains/losses, dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

6. Sensitivity Tests

The results of sensitivity tests on the value of in-force business and value of one year's new business are illustrated in this section. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. For the investment return assumption scenarios, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 6.1 and 6.2.

Table 6.1 Value of In-Force Business of PICC Health as at 31 December 2017 under Alternative Assumptions (Unit: in RMB million)

Scenarios	Before CoC	After CoC
Base Scenario	2,165	1,934
Risk Discount Rate at 9%	2,317	2,112
Risk Discount Rate at 11%	2,034	1,779
Rate of investment return increased by 50 bps	2,498	2,286
Rate of investment return decreased by 50 bps	1,826	1,576
Expenses increased by 10%	2,076	1,834
Expenses decreased by 10%	2,259	2,040
Lapse rate increased by 10%	2,121	1,909
Lapse rate decreased by 10%	2,212	1,961
Mortality increased by 10%	2,153	1,920
Mortality reduced by 10%	2,176	1,947
Morbidity increased by 10%	2,107	1,868
Morbidity reduced by 10%	2,209	1,984
Short-term business claim ratio increased by 5%	1,571	1,339
Short-term business claim ratio decreased by 5%	2,789	2,560
Participating Ratio (80/20)	2,161	1,930

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

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

6. Sensitivity Tests *(Continued)*

Table 6.2 Value of One Year's New Business for the 12 months up to 31 December 2017 of PICC Health under Alternative Assumptions (Unit: in RMB million)

Scenarios	Before CoC	After CoC
Base Scenario	536	468
Risk Discount Rate at 9%	586	527
Risk Discount Rate at 11%	493	417
Rate of investment return increased by 50 bps	650	591
Rate of investment return decreased by 50 bps	422	345
Expenses increased by 10%	460	392
Expenses decreased by 10%	611	544
Lapse rate increased by 10%	525	460
Lapse rate decreased by 10%	548	477
Mortality increased by 10%	533	465
Mortality reduced by 10%	539	471
Morbidity increased by 10%	520	451
Morbidity reduced by 10%	553	486
Short-term business claim ratio increased by 5%	261	192
Short-term business claim ratio decreased by 5%	811	745
Participating Ratio (80/20)	535	467

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

7. Movement Analysis

Table 7.1 shows the analysis of embedded value movement at the risk discount rate of 10% from 31 December 2016 to 31 December 2017.

Table 7.1 Analysis of Embedded Value Movement from 31 December 2016 to 31 December 2017 (Unit: in RMB million)

Item	Description	Amount
1	Embedded Value as at 31 December 2016	7,118
2	New Business Contribution	513
3	Expected Return	371
4	Investment Return Variance	(135)
5	Other Experience Variance	(141)
6	Model and Assumption Modification	73
7	Capital Change and Market Value Adjustment	(1)
8	Others	33
9	Embedded Value as at 31 December 2017	7,831

CONSULTING ACTUARY'S REPORT FOR PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

7. Movement Analysis *(Continued)*

Explanations on items 2 to 8 above:

2. The contribution of new business sold in 2017 to the embedded value at 31 December 2017;

3. The expected return in 2017 arising from the in-force business and adjusted net worth as at 31 December 2016;

4. Change in embedded value arising from variances between the actual investment return and the related investment return assumption in 2017;

5. Change in embedded value arising from variances between the actual experiences and assumptions other than the related investment return in 2017;

6. The impact on embedded value due to model enhancement and the changes in assumptions during 2017;

7. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2017;

8. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 31 December 2016 to 31 December 2017.

On behalf of Deloitte Consulting (Shanghai) Co. Ltd., Beijing Branch

Paul Sheng
FSA

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The People's Insurance Company (Group) of China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 215, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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 *(continued)*

Key audit matter	How our audit addressed the key audit matter

Valuation of life and health insurance contract liabilities
 	
We identified the valuation of life and health insurance contract liabilities as a key audit matter as the determination of these balances requires the use of appropriate actuarial methodologies and also highly judgmental assumptions.
 	
The Group recorded long-term life and health insurance contract liabilities of RMB285,501 million as at 31 December 2017.
 	
Assumptions used in the valuation of life and health insurance contract liabilities include the discount rates, demographic assumptions such as mortality and morbidity, and the management assumptions over the future costs of obtaining and maintaining the life insurance business. Small movements in these assumptions can have a material impact on the life and health insurance contract liabilities.
 	
Details of the life and health insurance contract liabilities are set out in note 36 to the consolidated financial statements.
	Our procedures in relation to the valuation of life and health insurance contract liabilities included:
	
	• Testing the key internal controls relevant to our audit of the estimation of life and health insurance contract liabilities;
	
	• Testing the underlying company data to source documentation on a sample basis;
	
	• With the assistance of our internal actuarial specialists:
	
	    • Assessing the appropriateness of the models, methodologies and assumptions used (including assumptions on discount rates, mortality, morbidity, persistency and maintenance expenses);
	
	    • Evaluating and challenging the management's key judgments and assumptions. Our evaluation and challenge included whether these judgments were supported by relevant experience, market information and formed a reasonable basis for setting the assumptions;
	
	    • Reviewing the sensitivity analysis around the key assumptions, to assess the extent to which changes, both individually and in aggregate, would result in changes in life and health insurance contract liabilities and its reasonableness; and
	
	    • Verifying independently the calculations of actuarial models on a sample basis.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter

Valuation of non-life insurance contract liabilities
 	
We identified the valuation of non-life insurance contract liabilities as a key audit matter as the estimation of non-life insurance contract liabilities involves a significant degree of judgment.
 	
The Group recorded non-life insurance contract liabilities of RMB265,310 million as at 31 December 2017.
 	
The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Small changes in these assumptions could result in material changes to the account balance.
 	
Details of the non-life insurance contract liabilities are set out in note 36 to the consolidated financial statements.
	Our procedures in relation to the valuation of non-life insurance contract liabilities included:
	
	• Testing the key internal controls relevant to our audit of the estimation of non-life insurance contract liabilities;
	
	• Testing the underlying company data to source documentation on a sample basis;
	
	• With the assistance of our internal actuarial specialists:
	
	    • Comparing the methodology, models and assumptions used against recognised actuarial practices to assess its reasonableness;
	
	    • Performing independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves and comparing our re-projected claims reserves to those recorded by the management to assess its reasonableness; and
	
	    • Evaluating the methodology and assumptions, or performing a diagnostic check to identify any abnormalities for the remaining classes.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of financial assets	
We identified the impairment of financial assets as a key audit matter as the Group applied significant judgement whether objective evidence of impairment exists. Significant accounting estimates are also involved in determining the present values of expected future cash flows, or the fair values measured by significant unobservable inputs. As at 31 December 2017, the Group holds debt securities of RMB313,261 million, equity securities, mutual funds and trust schemes of RMB115,013 million, insurance receivables, net, of RMB41,518 million and investments classified as loans and receivables of RMB157,715 million. Impairment losses of RMB887 million and RMB426 million were recorded for available-for-sale financial assets and insurance receivables for the current year. Details of these available-for-sale financial assets and insurance receivables, key estimation uncertainties of their impairment, and fair values measured based on unobservable input (Level 3) are disclosed in Note 18, Note 19, Note 20, Note 3, and Note 44 to the consolidated financial statements, respectively.	Our procedures in relation to impairment assessment of financial assets included: • Testing the management's key controls over identification of financial assets with indications of impairment; • Testing the underlying company data, which used by the management to determine the level of impairment, to source documentation on a sample basis; • For financial assets identified with indication of impairment, assessing the appropriateness of the impairment methodologies, models and assumptions used in determining presented value of future cash flows or fair values measured at Level 3. These assumptions include comparable transactions, pricing multiples, expected future cash flows generated by the instruments and the choice of discount rates; • Checking, on a sample basis, any other indication of objective impairment, including financial difficulties experienced by the issuers of the financial assets, default on repayment or delinquency on principal or interests; • For equity available-for-sale financial instrument, whether the judgment on "significant" or "prolong" decline of fair value below cost is appropriate and consistently applied.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on the investments in associates	

We identified the impairment assessment on the investments in associates as a key audit matter as the Group applied significant judgement and estimation in the impairment assessment when there is an indicator that the investments in associates are impaired.
 	
The Group found the carrying amounts of associates, Hua Xia Bank Co., Limited (Hua Xia Bank) and Industrial Bank Co., Ltd. ("Industrial Bank"), companies listed on the Shanghai Stock Exchange, exceeded their market values for more than one year. As at 31 December, the carrying amount and fair value of Hua Xia Bank amounted to RMB29,611 million and RMB23,069 million; the carrying amount and fair value of Industrial Bank amounted to RMB51,679 million and RMB45,517 million, respectively;
 	
Hence, the Group performed an impairment assessment on these investments by calculating their recoverable amounts based on values in use as determined by the enterprise discounted free cash flow model. Based on the assessment result, the management determined that there was no impairment loss on investments in associates.
 	
Details of investments in associates are disclosed in note 25 to the consolidated financial statements.
	Our procedures in relation to impairment assessment of investments in associates included:
	
	• Evaluating the management's process for preparing its impairment assessment and the critical judgement in the assessment;
	
	• With the assistance of our valuation specialist:
	
	    • Reviewed assumptions used in the models in particular projected cash flows and discount rates; and
	
	    • Reviewing the sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually and in aggregate, would result in the investments being impaired.
	
	• Verifying independently the calculations of the amounts determined by discounted cash flow models.

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2018

Consolidated Income Statement

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2017	2016
Gross written premiums	5	**476,447**	439,874
Less: Premiums ceded to reinsurers	5	**(27,870)**	(32,749)
Net written premiums	5	**448,577**	407,125
Change in unearned premium reserves	5	**(13,600)**	(10,255)
Net earned premiums		**434,977**	396,870
Reinsurance commission income		**8,803**	10,519
Investment income	6	**36,476**	33,075
Other income	7	**3,519**	2,859
TOTAL INCOME		**483,775**	443,323
Life insurance death and other benefits paid		**119,406**	113,583
Claims incurred		**221,042**	203,236
Changes in long-term life insurance contract liabilities		**(5,508)**	5,633
Policyholder dividends		**2,661**	3,538
Claims and policyholder's benefits	8	**337,601**	325,990
Less: claims and policyholders' benefits ceded to reinsurers	8	**(18,760)**	(24,237)
Net claims and policyholders' benefits	8	**318,841**	301,753
Handling charges and commissions	4	**68,094**	53,664
Finance costs	9	**5,569**	4,333
Exchange losses/(gains)		**668**	(688)
Other operating and administrative expenses	10	**71,648**	69,328
TOTAL BENEFITS, CLAIMS AND EXPENSES		**464,820**	428,390
Share of profits and losses of associates and joint ventures		**12,674**	10,386
Loss on deemed disposal of an associate	25	**(798)**	–
PROFIT BEFORE TAX	11	**30,831**	25,319
Income tax expense	14	**(7,780)**	(4,638)
PROFIT FOR THE YEAR		**23,051**	20,681
Attributable to:			
Equity holders of the Company		**16,099**	14,245
Non-controlling interests		**6,952**	6,436
		23,051	20,681
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic (in RMB)	15	**0.38**	0.34

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**2017**	2016
PROFIT FOR THE YEAR		**23,051**	20,681
OTHER COMPREHENSIVE EXPENSE			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value losses		**(164)**	(6,598)
– Reclassification of gains to profit or loss on disposals		**(4,431)**	(876)
– Impairment losses	6(d)	**887**	1,162
Income tax effect	30	**765**	1,573
		(2,943)	(4,739)
Net gains/(losses) on cash flow hedges		**3**	(5)
Income tax effect	30	**2**	1
		5	(4)
Share of other comprehensive (expense)/income of associates and joint ventures		**(1,425)**	165
Exchange differences arising on translation of foreign operations		**(77)**	73
NET OTHER COMPREHENSIVE EXPENSE MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(4,440)**	(4,505)
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	26	**335**	332
Income tax effect	30	**(84)**	(83)
		251	249
Actuarial (losses)/gains on pension benefit obligation	38	**(232)**	41
Share of other comprehensive income/(expense) of associates and joint ventures		**113**	(66)
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**132**	224
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		**(4,308)**	(4,281)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**18,743**	16,400
Attributable to:			
– Equity holders of the Company		**12,865**	11,102
– Non-controlling interests		**5,878**	5,298
		18,743	16,400

Consolidated Statement of Financial Position

At 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2017**	31 December 2016
ASSETS			
Cash and cash equivalents	17	**72,819**	46,729
Derivative financial assets		**–**	3
Debt securities	18	**313,261**	240,531
Equity securities, mutual funds and trust schemes	19	**115,013**	150,550
Insurance receivables, net	20	**41,518**	34,339
Reinsurance assets	21, 36	**28,206**	31,019
Term deposits	22	**70,706**	91,884
Restricted statutory deposits		**11,311**	9,911
Investments classified as loans and receivables	23	**157,715**	168,778
Investments in associates and joint ventures	25	**97,740**	85,834
Investment properties	26	**12,155**	10,695
Property and equipment	27	**24,281**	24,113
Intangible assets	28	**1,494**	1,197
Prepaid land premiums	29	**3,649**	3,825
Deferred tax assets	30	**9,645**	5,965
Other assets	31	**28,393**	26,776
TOTAL ASSETS		**987,906**	932,149
LIABILITIES			
Securities sold under agreements to repurchase	33	**41,226**	33,066
Payables to reinsurers	34	**18,737**	19,302
Income tax payable		**4,462**	2,756
Bonds payable	35	**49,801**	46,084
Insurance contract liabilities	36	**557,011**	538,513
Investment contract liabilities for policyholders	37	**45,880**	38,370
Policyholder dividends payable		**5,205**	7,064
Pension benefit obligation	38	**2,899**	2,800
Deferred tax liabilities	30	**834**	752
Other liabilities	39	**74,970**	72,448
TOTAL LIABILITIES		**801,025**	761,155
EQUITY			
Issued capital	40	**42,424**	42,424
Reserves	41	**95,109**	83,677
Equity attributable to equity holders of the Company		**137,533**	126,101
Non-controlling interests		**49,348**	44,893
TOTAL EQUITY		**186,881**	170,994
TOTAL EQUITY AND LIABILITIES		**987,906**	932,149

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Company															
	Share capital *(note 40)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note 41(a))*	Agriculture catastrophic loss reserve *(note 41(b))*	Asset revaluation	Cash flow hedge	Share of other comprehensive (expense)/income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve fund* *(note 41(c))*	Other reserves** *(note 41(d))*	Actuarial losses on pension benefit obligation *(note 38)*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2017	42,424	19,925	2,353	7,062	1,300	2,417	(7)	661	6	1,410	(15,153)	(652)	64,355	126,101	44,893	170,994
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	16,099	16,099	6,952	23,051
Other comprehensive (expense)/income for the year	–	–	(2,194)	–	–	208	7	(965)	(58)	–	–	(232)	–	(3,234)	(1,074)	(4,308)
Total comprehensive income for the year	–	–	(2,194)	–	–	208	7	(965)	(58)	–	–	(232)	16,099	12,865	5,878	18,743
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,411	–	–	–	–	–	10,349	–	–	(11,760)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	405	–	–	–	–	–	–	–	(405)	–	–	–
Dividends paid to shareholders *(note 16)*	–	–	–	–	–	–	–	–	–	–	–	–	(1,433)	(1,433)	(1,452)	(2,885)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	29	29
Balance at 31 December 2017	42,424	19,925	159	8,473	1,705	2,625	–	(304)	(52)	11,759	(15,153)	(884)	66,856	137,533	49,348	186,881

* This reserve contains both statutory and discretionary surplus reserves.

** Other reserves contain a negative amount of RMB58 million (31 December 2016: a negative amount of RMB58 million) arising from transactions with non-controlling interests, a negative amount of RMB17,942 million (31 December 2016: a negative amount of RMB17,942 million) arising from elimination of asset revaluation of the Company when it was converted to a joint stock company and an amount of RMB2,847 million (31 December 2016: RMB2,847 million) arising from a major shareholder's undertaking to post-employment benefit obligations of the Company.

(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Company															
	Share capital *(note 40)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note 41(a))*	Agriculture catastrophic loss reserve *(note 41(b))*	Asset revaluation	Cash flow hedge	Share of other comprehensive income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve fund *(note 41(c))*	Other reserves *(note 41(d))*	Actuarial gains/(losses) on pension benefit obligation *(note 38)*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2016	42,424	19,925	5,840	5,770	1,300	2,232	(3)	594	(49)	1,101	(15,010)	(693)	52,670	116,101	41,094	157,195
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	14,245	14,245	6,436	20,681
Other comprehensive income/(expense) for the year	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	–	(3,143)	(1,138)	(4,281)
Total comprehensive income for the year	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	14,245	11,102	5,298	16,400
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,292	–	–	–	–	–	309	–	–	(1,601)	–	–	–
Dividends paid to shareholders *(note 16)*	–	–	–	–	–	–	–	–	–	–	–	–	(959)	(959)	(1,574)	(2,533)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	12	12
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	(143)	–	–	(143)	63	(80)
Balance at 31 December 2016	42,424	19,925	2,353	7,062	1,300	2,417	(7)	661	6	1,410	(15,153)	(652)	64,355	126,101	44,893	170,994

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**30,831**	25,319
Adjustments for:			
Investment income	6	**(36,476)**	(33,075)
Exchange losses/(gains)		**668**	(688)
Share of profits and losses of associates and joint ventures		**(12,674)**	(10,386)
Loss on deemed disposal of an associate		**798**	–
Depreciation of property and equipment	11, 27	**1,900**	1,969
Amortisation of intangible assets	11, 28	**203**	169
Amortisation of prepaid land premiums	11, 29	**152**	149
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums	7	**(72)**	(161)
Finance costs except for interests credited to policyholders	9	**4,152**	2,761
Impairment losses on receivables and other assets	11	**445**	408
Investment expenses		**789**	474
Operating cash flows before working capital changes		**(9,284)**	(13,061)
Increase in insurance receivables, net		**(7,605)**	(13,171)
Increase in investment contract liabilities for policyholders		**7,510**	10,769
Increase in insurance contract liabilities, net		**21,311**	26,350
Increase in other assets, net		**(4,474)**	(2,130)
(Decrease)/increase in other liabilities and accruals, net		**(494)**	22,999
Cash generated from operations		**6,964**	31,756
Income tax paid		**(8,989)**	(7,925)
Net cash (used in)/from operating activities		**(2,025)**	23,831
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		**28,721**	28,356
Dividends received		**6,016**	6,865
Decrease in policy loans		**143**	522
Capital expenditures		**(3,125)**	(3,621)
Proceeds from disposals of investment properties, property and equipment, intangible assets and prepaid land premiums		**254**	302
Investments in associates and joint ventures		**–**	(22,914)
Purchases of investments		**(254,098)**	(395,820)
Proceeds from disposals of investments		**225,085**	297,775
Payments for investment expenses		**(789)**	(474)
Decrease in term deposits, net		**21,063**	56,326
Net cash from/(used in) investing activities		**23,270**	(32,683)

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	**2017**	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by subsidiaries		**29**	12
Increase in securities sold under agreements to repurchase		**8,160**	4,835
Issue of bonds payable		**3,500**	15,000
Repayment of bonds payable		**–**	(8,000)
Repayment to banks and other financial institutions		**–**	(980)
Interests paid		**(3,763)**	(2,887)
Dividends paid		**(2,885)**	(2,533)
Net cash from financing activities		**5,041**	5,447
Net increase/(decrease) in cash and cash equivalents		**26,286**	(3,405)
Cash and cash equivalents at the beginning of the year		**46,729**	49,884
Effects of exchange rate changes on cash and cash equivalents		**(196)**	250
Cash and cash equivalents at the end of the year		**72,819**	46,729
Analysis of balances of cash and cash equivalents			
Cash on hand	17	**–**	1
Demand deposits and deposits with banks with original maturity of less than three months	17	**29,528**	39,803
Securities purchased under resale agreements with original maturity of less than three months	17	**43,291**	6,925
Cash and cash equivalents at the end of the year		**72,819**	46,729

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the year ended 31 December 2017, the Company's subsidiaries mainly provided integrated financial products and services and were engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses. The Company and its subsidiaries are collectively referred to as the "Group".

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB") and the disclosures required by the Appendix 16 to Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Companies Ordinance ("CO").

2.2 BASIS OF PREPARATION

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

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

2.3 APPLICATION OF NEW AND REVISED IFRSs

The Group has applied the following amendments to IFRSs issued by the IASB for the first time in the current year:

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*

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

Amendments to IAS 7 – Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flow will be included in cash flow from financing activities.

Specially, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 45. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional information in note 45, the application of these has had no impact on the Group's consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*[2]
IFRS 16	*Leases*[3]
IFRS 17	*Insurance Contracts*[5]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
IFRIC 23	*Uncertainty over Income Tax Treatments*[3]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[3]
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[3]

1 Effective for annual periods beginning on or after 1 January 2018, except for entities engaging predominantly in insurance activities and opt for deferral/overlay approach as permitted by Amendments to IFRS 4.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after 1 January 2019, or the annual period in which the Group first adopts IFRS 9, whichever is later.
5 Effective for annual periods beginning on or after 1 January 2021.
6 Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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

IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

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

Key requirements of IFRS 9:

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

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

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

In September 2016, IFRS 4 was amended to address issues arising from the different effective dates of IFRS 9 and the upcoming IFRS 17.

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

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

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

IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts *(continued)*

During the year ended 31 December 2016, the Group performed an assessment of these amendment and concluded that its activities were predominantly connected with insurance as at 31 December 2015. During the year, the Group reassessed and concluded its activities are still predominantly connected with insurance. The Group has decided to apply the temporary exemption in its reporting period commencing on 1 January 2018.

The Company's separate financial statements do not qualify for this temporary exemption.

Based on the Group's and the Company's financial instruments and risk management policies as at 31 December 2017, the following principal impacts to the consolidated and separate financial statements on initial application of IFRS 9 are expected:

Classification and measurement

The Group

- Debt instruments classified as held-to-maturity as disclosed in note 18 and investments classified as loans and receivables carried at amortised cost as disclosed in note 23: a significant portion of these financial assets are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding ("contractual cash flow characteristics test"). Accordingly, some of them will continue to be subsequently measured at amortised cost upon the application of IFRS 9. However, a significant amount of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value through profit or loss instead of amortised cost under IFRS 9. On initial application of IFRS 9, the difference between the fair value and the amortised cost will be adjusted to retained profits at the date of transition;

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in note 18: a significant portion of these financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the debt instruments are derecognised. However, a significant amount of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under IFRS 9. On initial application of IFRS 9, investment revaluation reserve relating to these financial assets will be transferred to retained profits at the date of transition;

- Equity instruments classified as available-for-sale financial assets carried at fair value as disclosed in note 19: the Group will not elect the option for designation at FVTOCI for most equity available-for-sale financial assets carried at fair value. Therefore, most equity available-for-sale financial instruments will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve relating to these remaining financial assets will be transferred to retained profits on the date of transition.

The Company

- Approximately 90% of available-for-sale financial assets fail contractual cash flow characteristics and therefore will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve relating to these available-for-sale financial assets will be transferred to retained profits on 1 January 2018.

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

IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts *(continued)*

Impairment

If the expected credit loss model was to be applied by the Group/Company, the accumulated amount of impairment loss to be recognised by the Group/Company would be generally increased as compared to the accumulated amount recognised under IAS 39. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at date of transition.

The Group has not yet assessed the interaction of IFRS 9 and IFRS 17 Insurance Contracts when the impact analysis of IFRS 9 was performed.

IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

As the Group provides various services including handling taxes or levies for relevant authorities, managing certain contracts classified as investment contracts, asset management services, implementations of IFRS 15 have an impact on recognition or measurement of income from these services. The following two potential changes have been identified:

- Performance bonuses are recognised by the Group as revenue when certain criteria are met for their asset management services. Under IFRS 15, performance bonuses are regarded as variable considerations, which are included in the transaction prices only to the extent that it is highly probably that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainties associated with the variable consideration is subsequently resolved;

- IFRS 15 provides specific criteria on capitalising certain contract costs. Costs that are directly attributable to obtaining a contract, including certain commissions and fees paid, are capitalised and then amortised on a systematic basis.

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

IFRS 16 – Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB2,803 million as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advanced lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issues insurance contracts. The scope of IFRS 17 is substantially consistent with that of IFRS 4.

IFRS 17 provides the criteria to determine when a non-insurance component is distinct from the host insurance contract. Entities are required to first apply IFRS 9 to separate any cash flows related to embedded derivatives and distinct investment components and then apply IFRS 15 to separate from the host insurance contract any distinct promise to transfer goods or non-insurance services to a policyholder. Under IFRS 17, there is no accounting policy choice to unbundling. It is either required or prohibited. This is different from IFRS 4 where unbundling for investment components is permitted but not required when certain criteria are met and the separation of embedded derivatives is exempted in a number of cases.

IFRS 17 introduces a new requirement for entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issues shall be divided into a minimum of:

- A group of contracts that are onerous at initial recognition, if any;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- A group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. If contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. IFRS 17 requires entities to establish the groups at initial recognition and prohibits subsequent reassessment of the composition of the groups.

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) The beginning of the coverage period of the group of contracts;

(b) The date when the first payment from a policyholder in the group becomes due; and

(c) For a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity measures a group of insurance contracts at the total of the fulfilment cash flows (FCFs) and the contractual service margin ("CSM"). This may be referred to as the General Measurement Model ("GMM") or the Building Block Approach ("BBA") and standardises the varied approaches for reserving under IFRS 4. The FCFs comprise of:

- Estimates of future cash flows-Only future cash flows within the boundary of each contract in the group are allowed to be included. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services;
- An adjustment to reflect the time value of money and the financial risks associated with the future cash flows; and
- A risk adjustment for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

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

IFRS 17 – Insurance Contracts *(continued)*

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future, and is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising at that date.

For contracts measured using GMM under IFRS 17, acquisition costs are included as part of the estimates of future cash flows and therefore there is no need for deferred acquisition cost to be separately accounted for. Furthermore, there is no longer a liability adequacy test under IFRS 17. All favourable and unfavourable changes to the cash flows that are related to future service are offset against CSM which removes the need to test the liability for adequacy. With regards to discounting insurance contract liabilities, IFRS 4 allows insurers to continue using accounting policies that involve them measuring insurance contract liabilities on an undiscounted basis. IFRS 17 requires insurers to apply discount rates to estimates of future cash flows that are consistent with observable current market prices.

The Variable Fee Approach (“VFA”) is the mandatory measurement model for insurance contracts with direct participating features. They are defined out of three criteria, all of which must be met at initial recognition date:

(i) The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

(ii) The entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and

(iii) The entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Under GMM, the net gains and losses that the entity retains from invested premiums are treated as if they were a share of economic returns from the investment portfolio. Under the VFA, however, the returns to the entity arising from participating contracts are viewed as part of the compensation that the entity charges the policyholder for services provided in relation to the insurance contract, rather than as a share of returns from investments held. With the VFA the entity’s interest in the investments held is equivalent to a variable fee that the entity charges the policyholder, expressed as a share of returns.

For contracts measured under the VFA in IFRS 17, the CSM is adjusted for the following items at the end of each reporting period:

(i) Changes in variable fee,

(ii) The time value of money, and

(iii) The effect of changes in financial risks not arising from underlying items.

In contrast, IFRS 4 allows flexibility in the measurement of contracts with discretionary participating features. Changes to the guaranteed element and the discretionary participating features are either captured in profit or loss or treated as an allocation of profit or loss, depending on the insurer’s policy to recognise the guaranteed element separately from or together with the discretionary participation feature.

For groups of contracts with a coverage period less than one year, or where it is reasonably expected to produce a liability measurement that would not differ materially from the GMM, a simplified Premium Allocation Approach (“PAA”) can be applied. Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows paid.

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

IFRS 17 – Insurance Contracts *(continued)*

Presentation and disclosures requirements introduce a new insurance income and expense definitions that move away from a premium-based presentation approach and is instead a direct result of the movements in the items from the statement of financial position. For the presentation of finance income or expenses (e.g. the effect of discounting), insurers have an accounting policy choice at portfolio level to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. This is a new solution that achieves a similar objective as the shadow accounting model under IFRS 4 to avoid undue volatility in the statement of comprehensive income.

IFRS 17 requires more granular and detailed disclosures compared to IFRS 4 given the high degree of judgement in its application. An entity shall disclose qualitative and quantitative information about:

(a) The amounts recognised in its financial statements that arise from insurance contracts;

(b) The significant judgements, and changes in those judgements, made when applying IFRS 17; and

(c) The nature and extent of the risks that arise from insurance contracts.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have also been applied. An entity shall apply IFRS 17 retrospectively unless impracticable, in which case entities have the option of using either a modified retrospective approach or the fair value approach.

The directors of the Company anticipate that the new standard will result in an important change to the accounting policies for insurance contracts and is likely to have a material impact on the Group's profit and financial position, together with significant changes in presentation and disclosure. The Group has not initiated a detailed analysis of the new standard and it would be premature to disclose the impact of the new requirements at this stage.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

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

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

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

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

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of consolidation *(continued)*

- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Investment in associates and joint ventures

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

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

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

When the Group increases its ownership interests in an associate or a joint venture and the investee continues to be accounted for as an associate or a joint venture, any excess of the cost of this additional investment over the Group's additional share of the net fair value of the identifiable assets and liabilities of the investee (measured as at the date of the additional investment) is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's additional share of the net fair value of identifiable assets and liabilities (measured as at the date of the additional investment) over the cost of the additional investment, after reassessment, is recognised immediately in profit or loss in the period in which the additional investment is acquired. There is no re-measurement of the carrying amount of the previously held ownership interests in the associate or the joint venture, nor of the fair value of the net identifiable assets and the resulting goodwill attributable to the previously held interests in the associate or the joint venture. Any gain or loss recognised in other comprehensive income previously shared by the Group remains in the equity and is not reclassified to the profit or loss. The Group commences accounting for its share of the profit or loss and other comprehensive income of the associate or the joint venture according to the new proportionate equity interests when the additional ownership is acquired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Investment in associates and joint ventures *(continued)*

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

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

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

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

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

(3) Cash and cash equivalents

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(4) Foreign currency translation

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

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

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

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

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

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

(5) Financial assets

Initial recognition and measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Available-for-sale financial assets

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

Measured at fair value

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

Measured at cost less impairment

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Subsequent measurement (continued)

Loans and receivables

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

Held-to-maturity financial assets

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

Derecognition of financial assets

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Derecognition of financial assets (continued)

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

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

(6) Impairment of financial assets

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

Available-for-sale financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Available-for-sale financial assets (continued)

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

Financial assets carried at amortised cost

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

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

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

Financial assets carried at cost

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Financial guarantee contracts

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

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

(9) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

Hedges which meet the strict criteria for hedge accounting and are classified as cash flow hedges are accounted for as described below.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Fair value measurement

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

(11) Investment properties

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

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

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

(12) Property and equipment and depreciation

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

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

(Amounts in millions of Renminbi, unless otherwise stated)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(12) Property and equipment and depreciation *(continued)*

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

Land and buildings	1.50% to 19.40%
Office equipment, furniture and fixtures	7.50% to 32.33%
Motor vehicles	6.00% to 24.25%

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

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

(13) Construction in progress

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

(14) Intangible assets (other than goodwill)

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

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

(15) Impairment of non-financial assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(15) Impairment of non-financial assets *(continued)*

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

(16) Insurance receivables

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

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

(17) Product classification and unbundling

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

Investment contracts are those contracts that transfer significant financial risk but no or insignificant insurance risk. Financial risk is the risk of a possible future change in one or more specified interest rates, a financial instrument price, a commodity price, a foreign exchange rate, an index of price or rates, a credit rating or a credit index or other variables, provided in the case of a non-financial variable, the variable is not specific to a party to the contract.

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

The Group test the significance of insurance risk transfer at initial recognition of all relevant contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract up to derecognition, even if the insurance risk subsequently reduces significantly. Investment contracts can, however, be reclassified as insurance contracts after initial recognition if insurance risk becomes significant.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Insurance contract liabilities

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

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

Unearned premium reserves

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

Insurance contract liabilities other than unearned premium reserves

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Insurance contract liabilities *(continued)*

Insurance contract liabilities other than unearned premium reserves (continued)

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

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

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

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

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

Liability adequacy tests

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

Derecognition of insurance contract liabilities

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

(19) Provisions

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

- An entity has a present obligation as a result of a past event;

- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

- A reliable estimate can be made of the amount of the obligation.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Employee benefits

Retirement benefits cost and termination benefits

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement arising from actuarial gains and losses is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur, and will not be reclassified to profit or loss.

The remeasurements arising from actuarial gains and losses recognised in other comprehensive income are accumulated in the Group's reserve headed 'actuarial (losses)/gains on pension benefit obligation' and is transferred to retained profits when the defined benefit plans terminates. Past service cost is recognised in profit or loss in the period of a plan amendment. Interest expense is calculated by applying the discount rate at the beginning of the period to the defined benefit liability. Defined benefit costs are categorised as follows:

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

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

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

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Policyholder dividends

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

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

(22) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Revenue recognition

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

Gross premiums

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

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

Fee income

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

Investment income

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

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

(24) Reinsurance

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(24) Reinsurance *(continued)*

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

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

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

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

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

(25) Borrowing costs

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

(26) Government grants

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(27) Related parties

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

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

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

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

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

(28) Income tax

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) Income tax *(continued)*

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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

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

When a contract transfers significant insurance risk and financial risks, the Group has reached a judgment on whether the financial risks relate to a deposit component that can be measured separately and the Group's accounting policies fully reflect the rights and obligations from such deposit component. The results of this judgement would affect the unbundling of the contract.

When performing significant insurance risk testing, contracts exhibiting homogenous risks for a particular product are grouped together. Subsequently, adequate representative samples are drawn from individual groups, taking into account their risk distributions and characteristics.

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

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

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

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

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

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

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

Judgements *(continued)*

(3) Consolidations of structured entities

The Group has interest in a range of structured entities in its daily operations for investment purposes. These entities vary in legal forms and investors' rights on removals of the managers, changing underlying assets and liquidations. Certain subsidiaries of the Company are also engaged in launching and managing these structured entities. The Group has to assess whether it has control over these entities. The decision mainly depends on whether the Group is the investment manager, whether or not the Group has powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers.

(4) Impairment assessment on investments of associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in an associate exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose suitable discount rates in order to calculate the present values of those cash flows. The most significant judgements relate to the impairment assessment of the investment in Hua Xia Bank Co., Limited ("Hua Xia Bank") and Industrial Bank Co., Ltd. ("Industrial Bank"). Details of these associates are disclosed in Note 25.

Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract reserve, the Group needs to make reasonable estimates in payments which the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

The main assumptions made in measuring these liabilities are as follows:

- For insurance contracts under which future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of the yield curve of China's treasury bonds published by China Government Securities Depository Trust & Clearing Co., Ltd., with consideration of the tax effect and liquidity premiums. In March 2017, the China Insurance Regulatory Commission ("CIRC") issued further guidance on determination of liquidity premiums and ultimate discount rates. As a result of these changes, the Group set the premiums to be 25-98 basis points as at 31 December 2017 (31 December 2016: 30-101 basis points). The discount rates including premiums as at 31 December 2017, were determined as follows:

(Amounts in millions of Renminbi, unless otherwise stated)

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

Estimation uncertainty *(continued)*

(1) Valuation of insurance contract liabilities (continued)

	31 December 2017	31 December 2016
Discount rates	**2.94%-6.49%**	2.97%-5.69%

For insurance contracts which future insurance benefits will be affected by investment income of the underlying asset portfolio, the discount rates are determined based on expected future investment returns of the investment portfolio backing the liabilities. The discount rates used by the Group are as follows:

	31 December 2017	31 December 2016
Discount rates	**5.00%-5.50%**	5.00%-5.50%

The discount rate and investment return assumptions are affected by the future economic environment, capital market performance, investment channels of insurance funds, investment strategy and etc., and therefore subject to uncertainty.

The discount rates are the assumptions which have the most significant impacts on the measurement on the long-term life insurance contract liabilities. The changes of these assumptions during the year increased long-term life insurance contract liabilities by RMB2,885 million (31 December 2016: RMB2,320 million).

- Mortality, morbidity and disability rates are based on the Group's own experience, market experience and development trends. Mortality rates are determined based on the Group's historical data, estimations of current and future expectations and the understanding of China's insurance market, and presented using the standard Chinese mortality tables. Morbidity rates are determined based on factors such as the pricing assumptions of the Group's products and historical data. The assumptions of mortality and morbidity rates are affected by factors such as changes in lifestyles of national citizens, social development, and improvement of medical treatment, and hence subject to uncertainty.

- Lapse rates depend on policy year, product type and sales channel. The assumptions of lapse rates are affected by factors such as future economic environment and market competition, and hence subject to uncertainty.

- Expenses depend on costs analysis and future development trends. For future expenses sensitive to inflation, the Group also considers the effect of inflation. The expense assumptions include assumptions of acquisition costs and maintenance costs. The Group only considers expenses directly related to policy acquisition and maintenance.

- Future policyholder dividends depends on factors such as expected investment yields, dividend policy and policyholders' reasonable expectations. The assumption of participating insurance accounts is affected by the above factors, and hence bears uncertainty. Future policyholder dividends for individual participating insurance business of the Group are measured assuming that the Group will award to policyholders 70% (31 December 2016: 70%) of the distributable surplus calculated according to these contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

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

Estimation uncertainty *(continued)*

(1) Valuation of insurance contract liabilities (continued)

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) for the liability adequacy test over unearned premium reserves as follows:

Type	2017	2016
Agricultural insurance	**33.8%**	33.8%
Motor vehicle insurance	**3.0%**	3.0%
Other non-life insurance	**6.0%**	6.0%
Short-term health insurance	**3.0%**	3.0%

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) of claim reserves as follows:

Type	2017	2016
Agricultural insurance	**33.3%**	33.3%
Motor vehicle insurance	**2.5%**	2.5%
Other non-life insurance	**5.5%**	5.5%
Short-term health insurance	**2.5%**	2.5%

As at 31 December 2017, the Group determines the above assumptions based on the current available information, and improves the discount rate assumptions for the insurance contracts which future insurance benefits will be affected by investment income of the underlying asset portfolio in accordance with the requirements issued by CIRC in March 2017.

The Group considers risk margin for discount rate, mortality and morbidity and expense assumptions to compensate for the uncertain amount and timing of future cash flow. The Group determines the risk margin level itself using an appropriate estimation technique as the regulations have not imposed any specific requirement on it. With the implementation of "China Risk Oriented Solvency System" ("C-ROSS") issued by CIRC with effect in 2016, most insurance companies in the PRC insurance market have applied the scenario comparison method to determine the risk margin for long-term life insurance contract liabilities in the financial statements and for solvency margin requirement under C-ROSS. In consideration of the fact that the scenario comparison method is widely used by many insurance companies in the PRC insurance market in 2016 and applying the widely used method will improve comparability of its financial statements with those of other insurance companies in the PRC, the Group has changed the estimation technique to using the scenario comparison method from that of cost of capital method used previously to determine the risk margin for long-term life insurance contract liabilities for the year ended 31 December 2016. This change of the estimation technique during the year decreased the long-term life insurance contract liabilities by RMB2,077 million.

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

Estimation uncertainty *(continued)*

(1) Valuation of insurance contract liabilities (continued)

The major assumptions needed in measuring claim reserves include the claim development factors and expected claim ratios, which can be used to forecast trends of future claims so as to estimate the ultimate claim expenses. The claim development factors and the expected loss ratios for various measurement units are based on past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, premium rates and claims handling processes, and changing trends in external environment such as economic conditions, regulations and legislation.

Management is of the opinion that as at the end of the reporting period, claim reserve is sufficient to cover all incurred events to date but cannot guarantee there is no underprovision or overprovision of the reserve, which is an estimate of the ultimate losses.

The carrying values of insurance contract liabilities are disclosed in note 36.

(2) Impairment of financial assets

Financial assets measured at amortised cost

When there is an objective evidence that there is impairment in loans and receivables and held-to-maturity investments, the Group assesses the degree of risk and collectability of each item. The Group needs to recognise an impairment loss in the income statement if the present value of expected future cash flows is less than the carrying amount of a financial asset measured at amortised cost. The Group mainly considers the financial situation, credit rating, and collaterals of the debtors in estimating the future cash flows.

Other than impairment for individual financial assets measured at amortised cost, the Group also collectively assesses impairment for insurance 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.

Financial assets measured at amortised cost include cash equivalents, insurance receivables, term deposits, restricted statutory deposits, held-to-maturity investments, investments classified as loans and receivable and miscellaneous receivables. The carrying values of these assets are disclosed in the consolidated statement of financial position and respective notes.

Available-for-sale financial assets

As disclosed in note 44 to these financial statements, certain available-for-sale financial instruments are measured at Level 3 fair value and determination of the fair value of these financial instruments involves significant use of unobservable inputs.

If Level 3 fair value of an available-for-sale financial instrument is blow its carrying amount, the Group determines whether impairment exists by: for equity instruments, judging whether this decline below cost is “significant” or “prolonged” as explained in note 2.5(6); for debt instruments, whether the decline in fair value is due to market interest rates or interest rates specific to the issuers of the financial instruments, or presence of other objective evidence of impairment.

4. OPERATING SEGMENT INFORMATION

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

For management purposes, the Group is organised into business units based on principal activities of subsidiaries and has the following operating and reportable segments:

- The non-life insurance segment offers a wide variety of insurance products to both personal and corporate customers including automobile insurance, agricultural, property and liabilities insurance;
- The life insurance segment offers a wide range of participating, endowments, annuity and universal life insurance products;
- The health insurance segment offers a wide range of health and medical insurance products;
- The asset management segment offers asset management services;
- The headquarters segment provides management and support for the Group's business through its strategy, risk management, treasury, finance, legal and human resources functions;
- The others segment comprises insurance agent business, reinsurance business and other operating business of the Group.

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

As the revenue, net profit, assets and liabilities of operations outside Mainland China constitutes less than 1% of the consolidated amounts in these financial statements, geographical segmental information is not presented.

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

During the reporting period, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2017:

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	309,552	105,428	17,997	–	–	1,748	252	434,977
Net reinsurance commission income	9,374	273	93	–	–	102	(1,039)	8,803
Investment income	15,901	17,320	2,008	452	4,438	162	(3,805)	36,476
Other income	2,025	754	121	1,618	1	379	(1,379)	3,519
TOTAL INCOME – SEGMENT INCOME	336,852	123,775	20,219	2,070	4,439	2,391	(5,971)	483,775
– External income	337,586	123,375	20,190	1,432	815	377	–	483,775
– Intersegment income	(734)	400	29	638	3,624	2,014	(5,971)	–
Net claims and policyholders' benefits	192,586	108,162	17,182	–	–	875	36	318,841
Handling charges and commissions	59,754	8,369	796	–	–	–	(825)	68,094
Finance costs	2,000	2,122	543	4	899	1	–	5,569
Exchange losses	442	185	2	1	35	3	–	668
Other operating and administrative expenses	60,137	7,725	1,689	1,301	823	1,809	(1,836)	71,648
TOTAL BENEFITS, CLAIMS AND EXPENSES	314,919	126,563	20,212	1,306	1,757	2,688	(2,625)	464,820
Share of profits and losses of associates and joint ventures	7,919	3,625	–	(1)	923	–	208	12,674
Loss on deemed disposal of an associate	(356)	(398)	–	–	(44)	–	–	(798)
PROFIT/(LOSS) BEFORE TAX	29,496	439	7	763	3,561	(297)	(3,138)	30,831
Income tax (expense)/credit	(7,315)	(285)	–	(199)	99	–	(80)	(7,780)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	22,181	154	7	564	3,660	(297)	(3,218)	23,051

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2016:

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	270,783	105,162	20,925	–	–	–	–	396,870
Net reinsurance commission income	10,091	233	195	–	–	–	–	10,519
Investment income	15,280	15,720	1,782	452	4,017	121	(4,297)	33,075
Other income	1,579	621	93	1,316	3	229	(982)	2,859
TOTAL INCOME – SEGMENT INCOME	297,733	121,736	22,995	1,768	4,020	350	(5,279)	443,323
– External income	297,570	121,498	22,982	1,202	(17)	88	–	443,323
– Intersegment income	163	238	13	566	4,037	262	(5,279)	–
Net claims and policyholders' benefits	172,087	109,187	20,479	–	–	–	–	301,753
Handling charges and commissions	46,578	6,900	666	–	–	–	(480)	53,664
Finance costs	1,208	1,752	456	2	887	28	–	4,333
Exchange gains	(415)	(174)	(2)	(1)	(96)	–	–	(688)
Other operating and administrative expenses	59,530	6,972	1,322	1,039	726	330	(591)	69,328
TOTAL BENEFITS, CLAIMS AND EXPENSES	278,988	124,637	22,921	1,040	1,517	358	(1,071)	428,390
Share of profits and losses of associates and joint ventures	6,176	3,348	–	5	908	–	(51)	10,386
PROFIT/(LOSS) BEFORE TAX	24,921	447	74	733	3,411	(8)	(4,259)	25,319
Income tax (expense)/credit	(4,439)	5	(71)	(190)	41	(13)	29	(4,638)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	20,482	452	3	543	3,452	(21)	(4,230)	20,681

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2017 and 2016, and other segment information for the year ended 31 December 2017 and 2016:

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
31 December 2017								
Segment assets	**530,450**	**381,802**	**43,096**	**10,293**	**109,569**	**11,382**	**(98,686)**	**987,906**
Segment liabilities	**392,477**	**350,242**	**37,463**	**2,205**	**20,587**	**3,541**	**(5,490)**	**801,025**
Other segment information:								
Capital expenditures	**1,908**	**706**	**109**	**306**	**62**	**34**	**–**	**3,125**
Depreciation and amortisation	**1,806**	**176**	**54**	**31**	**111**	**8**	**69**	**2,255**
Interest income	**13,304**	**12,866**	**1,425**	**146**	**222**	**139**	**213**	**28,315**
31 December 2016								
Segment assets	480,354	375,499	45,224	9,531	108,320	6,586	(93,365)	932,149
Segment liabilities	357,480	342,629	39,548	1,800	20,190	2,656	(3,148)	761,155
Other segment information:								
Capital expenditures	2,511	504	46	245	29	286	–	3,621
Depreciation and amortisation	1,823	158	50	31	58	113	54	2,287
Interest income	12,378	12,836	1,238	143	168	5	–	26,768

The headquarters, non-life and life segments hold equity interests of 0.85%, 5.91%, and 6.14% (31 December 2016: 0.91%, 6.45% and 6.70%), respectively, in the Industrial Bank, an associate of the Group. These interests are accounted for as available-for-sale financial assets in the financial statements of the Company and of another principal subsidiary. On consolidation, these interests in aggregate are accounted for as an associate and the impacts of relevant adjustments to the consolidated financial statements are allocated to the respective segments according to their respective equity interest holding.

(Amounts in millions of Renminbi, unless otherwise stated)

5. GROSS AND NET WRITTEN PREMIUMS

	2017	2016
(a) Gross written premiums		
Long-term life insurance premiums	**113,111**	117,764
Short-term health insurance premiums	**12,438**	10,804
Non-life insurance premiums	**350,898**	311,306
Total	**476,447**	439,874
(b) Premiums ceded to reinsurers		
Long-term life insurance premiums ceded to reinsurers	**(1,083)**	(711)
Short-term health insurance premiums ceded to reinsurers	**(1,167)**	(2,012)
Non-life insurance premiums ceded to reinsurers	**(25,620)**	(30,026)
Total	**(27,870)**	(32,749)
Net written premiums	**448,577**	407,125
(c) Change in unearned premium reserves		
Change in gross unearned premium reserves	**(12,150)**	(11,150)
Less: Change in reinsurer's share of unearned premium reserves	**(1,450)**	895
Net	**(13,600)**	(10,255)

6. INVESTMENT INCOME

	2017	2016
Dividend, interest and rental income (a)	**32,650**	32,253
Realised gains (b)	**4,823**	2,175
Fair value losses (c)	**(110)**	(191)
Impairment losses (d)	**(887)**	(1,162)
TOTAL	**36,476**	33,075

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(a) Dividend, interest and rental income

	2017	2016
Operating lease income from investment properties	**575**	423
Interest income		
Current and term deposits	**4,992**	7,306
Debt securities		
– Held-to-maturity	**5,857**	5,894
– Available-for-sale	**7,727**	5,554
– Held-for-trading	**271**	81
Derivative financial assets	**3**	118
Loans and receivables	**9,465**	7,815
SUBTOTAL	**28,315**	26,768
Dividend income		
Equity securities, mutual funds and trust schemes		
– Available-for-sale	**3,369**	4,418
– Held-for-trading	**391**	644
SUBTOTAL	**3,760**	5,062
TOTAL	**32,650**	32,253

(b) Realised gains

	2017	2016
Debt securities		
– Available-for-sale	**90**	530
– Held-for-trading	**9**	24
Equity securities and mutual funds		
– Available-for-sale	**4,330**	317
– Held-for-trading	**394**	295
– Derivative financial instrument	**–**	1,009
TOTAL	**4,823**	2,175

For the year ended 31 December 2016, the realised gain of a derivative financial instrument arose from an agreement to purchase interests in equity instrument at a price predetermined by a formula agreed by the Group and the third party. The amount represents the difference between final consideration paid by the Group and the fair value of this equity instrument when the transaction was completed. Further details of this transaction are disclosed in note 25(b).

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(c) Fair value losses

	2017	2016
Debt securities		
– Held-for-trading	**(105)**	17
Equity securities and mutual funds		
– Held-for-trading	**195**	(432)
Investment properties *(note 26)*	**(200)**	224
TOTAL	**(110)**	(191)

(d) Impairment losses

	2017	2016
Equity securities and mutual funds		
– Available-for-sale	**(887)**	(1,162)

7. OTHER INCOME

	2017	2016
Commission income arising from the collection of motor vehicles and vessels taxes due to the relevant authorities	**1,166**	842
Management fee charged to policyholders	**318**	324
Disposal gains from property and equipment	**72**	161
Government grants *(note)*	**240**	165
Others	**1,723**	1,367
TOTAL	**3,519**	2,859

Note: Government grants of the Group mainly include agricultural insurance subsidies and subsidies for its insurance business operated in Tibet.

(Amounts in millions of Renminbi, unless otherwise stated)

8. CLAIMS AND POLICYHOLDERS' BENEFITS

	2017		
	Gross	**Ceded**	**Net**
Life insurance death and other benefits paid	**119,406**	**17**	**119,389**
Claims incurred	**221,042**	**18,733**	**202,309**
– Short-term health insurance	**10,390**	**1,578**	**8,812**
– Non-life insurance	**210,652**	**17,155**	**193,497**
Changes in long-term life insurance contract liabilities	**(5,508)**	**10**	**(5,518)**
Policyholder dividends	**2,661**	**–**	**2,661**
TOTAL	**337,601**	**18,760**	**318,841**

	2016		
	Gross	Ceded	Net
Life insurance death and other benefits paid	113,583	25	113,558
Claims incurred	203,236	24,162	179,074
– Short-term health insurance	9,180	2,194	6,986
– Non-life insurance	194,056	21,968	172,088
Changes in long-term life insurance contract liabilities	5,633	50	5,583
Policyholder dividends	3,538	–	3,538
TOTAL	325,990	24,237	301,753

9. FINANCE COSTS

	2017	2016
Interest expenses		
Bonds payable	**2,494**	1,928
Interest credited to policyholders *(note 37)*	**1,417**	1,572
Securities sold under agreements to repurchase	**1,367**	585
Pension benefit obligation unwound *(note 38)*	**96**	84
Due to banks and other financial institutions	**–**	47
Others	**195**	138
Less: amounts capitalised in qualifying assets	**–**	(21)
TOTAL	**5,569**	4,333

(Amounts in millions of Renminbi, unless otherwise stated)

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2017	2016
Employee costs	**32,984**	29,513
Taxes and surcharges	**2,299**	6,872
Depreciation and amortisation	**1,926**	2,057
Contributions to China Insurance Security Fund *(note)*	**2,897**	2,626
Impairment losses *(note 11)*	**445**	408
Others	**31,097**	27,852
TOTAL	**71,648**	69,328

Note: Insurance companies in China are required to make regular contributions to China Insurance Security Fund ("CISF") according to the types and premiums of products sold during the year. CISF was established to provide protection for policyholders when an insurance company in China was in financial troubles.

11. PROFIT BEFORE TAX

Profit before tax is arrived at after charging the following items:

	2017	2016
Employee costs (a) *(note)*	**39,026**	34,915
Depreciation of property and equipment *(note 27) (note)*	**1,900**	1,969
Impairment losses recognised on insurance receivables *(note 20(a))*	**426**	390
Impairment losses recognised on other assets *(note 31(d))*	**11**	18
Impairment losses on prepaid land premiums *(note 29)*	**8**	–
Minimum lease payments under operating leases in respect of land and buildings	**1,089**	896
Amortisation of intangible assets *(note 28) (note)*	**203**	169
Amortisation of prepaid land premium *(note 29) (note)*	**152**	149
Auditors' remuneration	**31**	30

(a) Employee costs

	2017	2016
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	**35,198**	31,842
– Pension scheme contributions	**3,828**	3,073
TOTAL	**39,026**	34,915

Note: Certain employee costs, depreciation and amortisation are recorded as claim handling expenses and are not included in other operating and administrative expenses.

(Amounts in millions of Renminbi, unless otherwise stated)

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

Certain directors, supervisors and senior managements are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

The total compensation package for the Company's key management for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2017 financial statements.

Directors', supervisors' and senior management's remuneration for the years 2017 and 2016, are disclosed as follows:

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during 2017 and 2016 were as follows:

	2017 (in RMB'000)	2016 (in RMB'000)
Lau Hon Chuen	**300**	300
Du Jian (i)	**–**	–
Xu Dingbo	**300**	300
Luk Kin Yu	**250**	250
Lin Yixiang	**300**	288
Chen Wuzhao (ii)	**208**	–
	1,358	1,138

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

(i) Du Jian requested to resign in August 2014, but he still acted as an independent non-executive director of the Company according to the regulatory requirements until March 2017.

(ii) Chen Wuzhao was appointed as an independent non-executive director in March 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Directors and Supervisors

	2017					
	Fees (in RMB'000)	Salaries and allowances (in RMB'000)	Performance related bonuses (in RMB'000)	Social insurance, housing fund and other benefits (in RMB'000)	Retirement benefits (in RMB'000)	Total (in RMB'000)
Executive Directors:						
Miao Jianmin						
(Chairman of the Board) (i)	–	198	148	46	162	554
Xie Yiqun (ii)	–	58	44	15	49	166
Tang Zhigang (ii)	–	44	33	11	38	126
Non-executive Directors:						
Wang Qingjian (iii)	–	–	–	–	–	–
Xiao Xuefeng (iii)	–	–	–	–	–	–
Hua Rixin	–	–	–	–	–	–
Cheng Yuqin	–	–	–	–	–	–
Wang Zhibin	–	–	–	–	–	–
Directors who have resigned:						
Wu Yan (iv)	–	272	204	61	222	759
Yao Zhiqiang (v)	–	–	–	–	–	–
Wang Qiao (v)	–	–	–	–	–	–
Wang Yincheng (vi)	–	23	17	6	4	50
Total	–	595	446	139	475	1,655
Supervisors:						
Lin Fan	–	297	222	67	242	828
Xu Yongxian	–	806	900	274	175	2,155
Jing Xin (vii)	250	–	–	–	–	250
Wang Dajun	–	591	750	220	134	1,695
Ji Haibo (viii)	–	123	164	48	28	363
Supervisors who have resigned:						
Yao Bo (ix)	–	377	407	122	79	985
Total	250	2,194	2,443	731	658	6,276

(i) Miao Jianmin was appointed as an executive director in July 2017 and as the Chairman of the Board in January 2018.
(ii) Xie Yiqun and Tang Zhigang were appointed in October 2017 and November 2017, respectively.
(iii) Wang Qingjian and Xiao Xuefeng were appointed in July 2017 and October 2017, respectively.
(iv) Wu Yan resigned in December 2017.
(v) Yao Zhiqiang and Wang Qiao resigned in July 2017 and October 2017, respectively.
(vi) Wang Yincheng resigned in March 2017.
(vii) Jing Xin was appointed in March 2017.
(viii) Ji Haibo was appointed in October 2017.
(ix) Yao Bo resigned in July 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Directors and Supervisors *(continued)*

	2016 (restated)					
	Fees (in RMB'000)	Salaries and allowances (in RMB'000)	Performance related bonuses (in RMB'000)	Social insurance, housing fund and other benefits (in RMB'000)	Retirement benefits (in RMB'000)	Total (in RMB'000)
Executive Directors:						
Wu Yan (Chairman of the Board)	–	297	365	62	195	919
Non-executive Directors:						
Yao Zhiqiang	–	–	–	–	–	–
Wang Qiao	–	–	–	–	–	–
Hua Rixin	–	–	–	–	–	–
Cheng Yuqin	–	–	–	–	–	–
Wang Zhibin (i)	–	–	–	–	–	–
Directors who have resigned:						
Zhuang Chaoying (ii)	–	152	187	35	102	476
Li Fang (iii)	–	–	–	–	–	–
Li Yuquan (iv)	–	245	301	57	43	646
Wang Yincheng (v)	–	277	208	62	47	594
Total	–	971	1,061	216	387	2,635
Supervisors:						
Lin Fan	–	297	365	62	195	919
Xu Yongxian	–	806	850	253	143	2,052
Yao Bo	–	686	790	216	119	1,811
Wang Dajun (vi)	–	445	615	168	83	1,311
Supervisors who have resigned:						
Li Yongmei (vii)	–	137	177	47	25	386
Yu Ning (viii)	125	–	–	–	–	125
Total	125	2,371	2,797	746	565	6,604

(i) Wang Zhibin was appointed in August 2016.
(ii) Zhuang Chaoying resigned in July 2016.
(iii) Li Fang resigned in August 2016.
(iv) Li Yuquan resigned in November 2016.
(v) Wang Yincheng resigned in March 2017.
(vi) Wang Dajun was appointed in March 2016.
(vii) Li Yongmei resigned in March 2016.
(viii) Yu Ning passed away in June 2016.

The compensation amounts for the directors and supervisors during their appointment were stated above. The total compensation for the year ended 31 December 2016 was restated by final circumstances in year 2017.

Executive directors' emoluments shown above were mainly for the services in connection with management of affairs of the Company and the Group. Non-executive directors did not receive any remuneration from the Company.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(c) Senior Management

The information set out below does not include remuneration of directors or supervisors. The relevant information of their remuneration is disclosed in note 12(b).

	2017 (in RMB'000)	2016 (in RMB'000) (Restated)
Salaries and allowances	**4,796**	4,867
Performance related bonuses	**5,294**	5,959
Social insurance, housing fund and other benefits	**1,382**	1,369
Retirement benefits	**1,635**	1,370
	13,107	13,565

The number of senior management, excluding directors and supervisors, whose remuneration fell within the following bands are as follows:

	2017	2016 (Restated)
Nil to HKD1,000,000	**5**	5
HKD2,500,001 to HKD3,000,000	**1**	4
HKD3,000,001 to HKD3,500,000	**3**	–
	9	9

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals do not include directors and supervisors during the years 2017 and 2016. Details of the five highest paid individuals are set out below:

	2017 (in RMB'000)	2016 (in RMB'000) (Restated)
Salaries, allowances	**4,499**	4,499
Performance related bonuses	**5,368**	5,412
Social insurance, housing fund and other benefits	**1,376**	1,346
Retirement benefits	**875**	715
TOTAL	**12,118**	11,972

The number of the above five highest paid individuals whose remuneration fell within the following bands is as follows:

	2017	2016 (Restated)
HKD2,000,001 to HKD2,500,000	**–**	1
HKD2,500,001 to HKD3,000,000	**2**	4
HKD3,000,001 to HKD3,500,000	**3**	–
	5	5

(Amounts in millions of Renminbi, unless otherwise stated)

14. INCOME TAX EXPENSE

	2017	2016
Current income tax		
– Charge for the year	10,653	7,525
– Adjustments in respect of current tax of previous periods	42	39
Deferred income tax *(note 30)*	(2,915)	(2,926)
TOTAL	7,780	4,638

In accordance with the relevant PRC income tax rules and regulations, the Company and Company's subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% (2016: 25%) on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The People's Insurance Company of China (Hong Kong) Limited ("PICC Hong Kong"), PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), subsidiaries incorporated in Hong Kong, were subject to a profits tax rate of 16.5% in 2017 (2016: 16.5%).

A reconciliation of the tax expense applicable to profit before tax using the CIT rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	2017	2016
Profit before tax	30,831	25,319
Tax at the statutory tax rate	7,708	6,330
Adjustments in respect of current tax of previous periods	42	39
Tax effect of share of profits and losses of associates	(2,969)	(2,597)
Income not subject to tax	(888)	(1,102)
Expenses not deductible for tax	3,511	941
Unrecognised deductible temporary differences and tax losses	384	1,030
Effects of different tax rates applied to subsidiaries	(8)	(3)
Tax charge for the year	7,780	4,638
Effective tax rate	25.2%	18.3%

Handling charges and commission expenses are not deductible for tax purposes when they exceed certain percentages of the amounts of premiums income subtracted by surrender expenses. The increase in handling charges and commission expenses results in an increase in expenses not deductible for tax purposes.

(Amounts in millions of Renminbi, unless otherwise stated)

15. EARNINGS PER SHARE

The calculation of basic earnings per share for the years 2017 and 2016 is based on the profit attributable to equity holders of the Company and the number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to equity holders of the Company for the year	16,099	14,245
Number of ordinary shares (in million shares)	42,424	42,424
Basic earnings per share (in RMB)	0.38	0.34

No diluted earnings per share has been presented for the years 2017 and 2016 as the Group had no potential ordinary shares in issue during the years.

16. DIVIDENDS

	2017	2016
Dividends recognised as distributions during the year: 2016 Final, paid-RMB3.37881 cent per share (2016: 2015 Final, paid-RMB2.26005 cent per share)	1,433	959

As at 23 March 2018, final dividend in respect of the year ended 31 December 2017 of RMB3.94 cent per share has been proposed by the Board of Directors and is subject to approval by the shareholders at the forthcoming general meeting.

17. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	–	1
Money at call and short notice	26,771	36,060
Deposits with banks with original maturity of less than three months	2,757	3,743
Securities purchased under resale agreements with original maturity of less than three months	43,291	6,925
TOTAL	72,819	46,729

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals.

(Amounts in millions of Renminbi, unless otherwise stated)

18. DEBT SECURITIES

	31 December 2017	31 December 2016
Classification of debt securities		
Held-for-trading, at fair value	**7,574**	4,109
Available-for-sale, at fair value	**183,210**	114,591
Held-to-maturity, at amortised cost	**122,477**	121,831
Total debt securities	**313,261**	240,531

19. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES

	31 December 2017	31 December 2016
Investments, at fair value		
Mutual funds	**54,044**	94,028
Shares	**27,036**	29,271
Equity schemes and others	**26,903**	19,878
Subtotal	**107,983**	143,177
Investments, at cost less impairment		
Shares	**107**	107
Total equity securities and mutual funds	**108,090**	143,284
Trust schemes, at fair value	**6,923**	7,266

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2017, the Group is the sole funding provider of a trust investment of carrying value of RMB6,723 million (31 December 2016: RMB7,266 million). The Group concludes it does not control this trust as investment decisions are made by a trust manager, which can only be removed in limited situations.

The trust invests in predominantly debt instruments and it offers the Group an expected return of not more than 6.30% (31 December 2016: 6.30%) per annum. Its actual returns and eventual repayment of initial investments, however, depend on the performance of the underlying investments, which are predominantly debts in nature. The life of this trust arrangement is 5 years but can be extended for another 2 years upon mutual consent of the Group and the trust manager. The Group's maximum loss is limited to its investments and has no contractual obligations or intention to provide any financial support for the trust.

(Amounts in millions of Renminbi, unless otherwise stated)

19. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES *(continued)*

	31 December 2017	31 December 2016
Classification of equity securities and mutual funds		
Held-for-trading, at fair value	16,183	31,062
Available-for-sale, at fair value	91,800	112,115
Available-for-sale, at cost less impairment	107	107
Total equity securities and mutual funds	108,090	143,284
Classification of trust schemes		
Available-for-sale, at fair value	6,923	7,266
Total equity securities, mutual funds and trust schemes	115,013	150,550

20. INSURANCE RECEIVABLES, NET

	31 December 2017	31 December 2016
Insurance receivables	45,120	37,557
Less: Impairment provision on insurance receivables	(3,602)	(3,218)
TOTAL	41,518	34,339

(a) The movements of provision for impairment of insurance receivables are as follows:

	2017	2016
At 1 January	3,218	2,869
Impairment losses recognised *(note 11)*	426	390
Amount written off as uncollectible	(42)	(41)
At 31 December	3,602	3,218

(Amounts in millions of Renminbi, unless otherwise stated)

20. INSURANCE RECEIVABLES, NET *(continued)*

(b) An aged analysis of insurance receivable as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

	31 December 2017	31 December 2016
Not yet due and within 3 months	**30,382**	27,749
3 to 6 months	**4,288**	4,234
6 to 12 months	**5,652**	1,943
1 to 2 years	**1,033**	300
Over 2 years	**163**	113
Total	**41,518**	34,339

21. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

	31 December 2017	31 December 2016
Reinsurers' share of		
Unearned premium reserves	**8,721**	10,171
Claim reserves	**19,336**	20,709
Long-term life insurance reserves	**149**	139
TOTAL	**28,206**	31,019

22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2017	31 December 2016
More than 3 months to 1 year	**761**	342
1 to 2 years	**100**	108
2 to 3 years	**692**	217
More than 3 years	**69,153**	91,217
TOTAL	**70,706**	91,884

These term deposits of the Group bear fixed or variable interests and range from 0.10%-7.50% and 6.30%-6.60% per annum as at 31 December 2017, respectively (31 December 2016: range from 0.10%-7.50% and 3.16%-6.60% per annum respectively).

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2017	31 December 2016
Long-term debt investment schemes	140,830	109,014
Wealth management products	–	42,002
Asset management products	14,385	15,062
Reinsurance arrangement classified as investment contract	2,000	2,000
Subordinated debts held	500	700
TOTAL	157,715	168,778

The interest rates of these long-term debt investment schemes are 3.50%-8.00% (31 December 2016: 3.92%-8.00%) per annum as at 31 December 2017.

Wealth management products are financial products offered by banks. The original terms of these products held at year end date are within 1 year and the interest rates are 3.50% to 4.90% per annum as at 31 December 2016.

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in an active market. These financial products include securitised assets, asset management products offered by banks, securities companies and asset management companies. The interest rates of these products are 3.50%-6.60% (31 December 2016: 3.30%-6.60%) per annum as at 31 December 2017.

Included in the balance of reinsurance arrangement classified as an investment contract was an amount paid under a reinsurance arrangement which did not transfer significant insurance risk. This arrangement offered a fixed interest rate of 6.35% (31 December 2016: 6.35%) per annum. Both the Group and the reinsurer have a right to terminate the arrangement at the end of or subsequent to the fifth anniversary of the effective date of the reinsurance contract.

The original terms of subordinated debts are 10 years with a redemption right exercisable by the issuer as at the end of fifth year after its issue. The interest rates of these debts are 5.60% (31 December 2016: 5.50%-5.60%) per annum as at 31 December 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

24. SUBSIDIARIES

(a) General information of subsidiaries

The particulars of the principal subsidiaries as of 31 December 2017 and 2016 are set out below:

Name	Place of incorporation/ registration	Paid up/ registered share capital	Proportion of shareholders' interest and voting rights 31 December 2017 Direct	31 December 2017 Indirect	31 December 2016 Direct	31 December 2016 Indirect	Principal activities/ place of operation
PICC Property and Casualty Company Limited ("PICC P&C")	Beijing	RMB 14,828,510,202	68.98%	–	68.98%	–	Non-life insurance, China
PICC Asset Management Company Limited ("PICC AMC")	Shanghai	RMB 800,000,000	100.00%	–	100.00%	–	Management of insurance investments, China
PICC Capital Investment Management Company Limited	Tianjin	RMB 200,000,000	100.00%	–	100.00%	–	Investment management, China
PICC Health Insurance Company Limited ("PICC Health")	Beijing	RMB 8,568,414,737	69.32%	26.13%	69.32%	26.13%	Health insurance, China
PICC Life Insurance Company Limited ("PICC Life")	Beijing	RMB 25,761,104,669	71.08%	8.92%	71.08%	8.92%	Life insurance, China
PICC Investment Holding Company Limited ("PICC Investment Holding")	Beijing	RMB 800,000,000	100.00%	–	100.00%	–	Investment holding, China
PICC Hong Kong	Hong Kong	HKD 500,000,000	75.00%	–	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited	Beijing	RMB 170,727,800	92.71%	–	92.71%	–	Insurance and reinsurance brokerage, China
PICC Services (Europe) Ltd.	London	GBP 500,000	100.00%	–	100.00%	–	Claim handling agency, London
PICC AMHK	Hong Kong	HKD 50,000,000	100.00%	–	100.00%	–	Management of insurance investments, Hong Kong
PICC Financial Services Company Limited ("PICC Financial Services")	Tianjin	RMB 1,000,000,000	100.00%	–	100.00%	–	Internet finance, China
PICC Reinsurance Company Limited*	Beijing	RMB 3,000,000,000	51.00%	49.00%	N/A	N/A	Reinsurance business, China
PICC Pension Company Limited* ("PICC Pension")	Hebei	RMB 4,000,000,000	100.00%	–	N/A	N/A	Endowment insurance, China

* These two subsidiaries are established during the year end 31 December 2017.

(Amounts in millions of Renminbi, unless otherwise stated)

24. SUBSIDIARIES *(continued)*

(a) General information of subsidiaries *(continued)*

Only principal subsidiaries which are directly held by the Company and have material impact on the consolidated financial statements are listed above. Other subsidiaries did not materially affect the Group's net financial position and operating results and were therefore not separately disclosed.

As at 31 December 2017, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong, except for PICC P&C, which is listed on the Main Board of the Hong Kong Stock Exchange. As at 31 December 2017, market value of shares of PICC P&C is RMB100,255 million (31 December 2016: RMB110,531 million).

Subordinated debts and capital supplementary bonds issued by these subsidiaries are set out in note 35 to these consolidated financial statements.

The Company and the following subsidiaries had issued subordinated debts and capital supplementary bonds at the end of the year:

	31 December 2017 Held by third parties		31 December 2016 Held by third parties	
	Nominal Amount	Carrying Amount	Nominal Amount	Carrying Amount
The Company	16,000	15,995	16,000	15,984
PICC P&C	23,000	23,262	23,000	23,112
PICC Life	6,000	6,223	6,000	6,162
PICC Health	4,300	4,321	800	826
	49,300	49,801	45,800	46,084

At the end of the reporting period, the Company had other indirectly held subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

Principal activity subsidiaries	Place of incorporation and operation	Number of subsidiaries 31 December 2017	Number of subsidiaries 31 December 2016
Insurance intermediaries	Beijing, Shanghai, Shenzhen and others	5	5
Insurance training services	Hainan	1	1
Property development and management	Beijing, Shanghai and others	9	8
Hotels, restaurants and others	Beijing, Zhejiang, Chongqing and others	4	3
		19	17

(Amounts in millions of Renminbi, unless otherwise stated)

24. SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
PICC P&C and its subsidiaries	Beijing	**31.02%**	31.02%	**6,144**	5,590	**41,296**	37,015
PICC Life and its subsidiaries	Beijing	**20.00%**	20.00%	**34**	90	**6,312**	6,574

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup elimination.

In particular, an interest in an equity instrument, Industrial Bank, is accounted for as an available-for-sale financial assets in the consolidated financial statements of PICC P&C but when combined with voting rights held by the Company and PICC Life, this interest is accounted for as an associate in the Group's consolidated financial statements. The information presented in this note does not consider the impact had these equity interests been accounted for as an associate in the consolidated financial statements of PICC P&C.

PICC P&C

	31 December 2017	31 December 2016
Total assets	**524,566**	475,949
Total liabilities	**391,452**	356,637
Total shareholders' equity	**133,114**	119,312

(Amounts in millions of Renminbi, unless otherwise stated)

24. SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

PICC P&C ***(continued)***

	2017	2016
Total income	327,502	288,356
Total benefits, claims and expenses	(304,916)	(268,850)
Share of profits and losses of associates	4,575	2,945
Income tax expense	(7,353)	(4,430)
Profit for the year	19,808	18,021
Other comprehensive expense for the year	(1,424)	(3,152)
Total comprehensive income for the year	18,384	14,869
Dividends paid to non-controlling interests	1,421	1,398
Net cash inflow from operating activities	21,932	22,077
Net cash outflow from investing activities	(8,014)	(18,206)
Net cash outflow from financing activities	(4,374)	(1,555)
Net cash inflow	9,544	2,316

PICC Life

	31 December 2017	31 December 2016
Total assets	381,802	375,499
Total liabilities	350,242	342,629
Total shareholders' equity	31,560	32,870

(Amounts in millions of Renminbi, unless otherwise stated)

24. SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

PICC Life *(continued)*

	2017	2016
Total income	123,775	121,736
Total benefits, claims and expenses	(126,563)	(124,637)
Share of profit of an associate	3,625	3,348
Loss on deemed disposal of an associate	(398)	–
Income tax expense	(285)	5
Profit for the year	154	452
Other comprehensive expense for the year	(1,345)	(1,827)
Total comprehensive expense for the year	(1,191)	(1,375)
Dividends paid to non-controlling interests	26	172
Net cash outflow from operating activities	(18,611)	(4,972)
Net cash inflow/(outflow) from investing activities	23,110	(7,731)
Net cash inflow from financing activities	6,112	5,992
Net cash inflow/(outflow)	10,611	(6,711)

(c) Changes in ownership interests in subsidiaries

During the year ended 31 December 2016, PICC P&C subscribed for 2,119 million new shares issued by PICC Health at a consideration of RMB2,500 million. As the Company and other shareholders of PICC Health did not subscribe for any new shares, the Group's aggregate ownership interests in PICC Health increased from 93.95% to 95.45% after the completion of this transaction. An amount of RMB63 million, which represents the difference between the consideration paid by the Group and additional interests in equity components of PICC Health acquired, was debited to other reserves as a consequence of the transaction.

(d) Significant restrictions

As certain major subsidiaries of the Company are engaged in insurance business and regulated by the relevant insurance regulatory authorities, the ability of the Company and its subsidiaries to access assets held by these subsidiaries to settle liabilities of the Group is restricted. The carrying amounts of assets held by these insurance entities are disclosed in note 4 to these financial statements as segment assets of non-life insurance, life insurance and health insurance sectors.

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) The Group's investments in the associates and joint ventures as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Associates		
Cost of investment in associates	**66,756**	63,961
Share of post-acquisition profits and other comprehensive income	**28,094**	18,983
Subtotal	**94,850**	82,944
Joint ventures		
Cost of investment in joint ventures	**2,890**	2,890
Total	**97,740**	85,834

Included in the carrying amount of investments in associates as at 31 December 2017 was an aggregate amount of RMB84,958 million (31 December 2016: RMB73,541 million) in respect of listed entities and their corresponding fair values amounted to RMB71,963 million (31 December 2016: RMB66,416 million) on the same date.

(b) Particulars of the principal associates are as follows:

			Percentage of ownership interest and voting rights held by the Group			
			31 December 2017		31 December 2016	
Associates	**Place of registration**	**Principal activities/ Place of operation**	**Direct**	**Indirect**	Direct	Indirect
Industrial Bank [(1)]	Fujian	Banking, China	**0.85%**	**12.05%**	0.91%	13.15%
Hua Xia Bank [(2)]	Beijing	Banking, China	**–**	**19.99%**	–	19.99%

The Group accounts for its interests in Industrial Bank as associate as it has a representative in boards of directors in this entity.

(1) Industrial Bank

On 31 December 2012, the Company, PICC P&C and PICC Life in aggregate subscribed approximately 1.38 billion shares of Industrial Bank through a private placement. After the completion of the subscription, the Company, PICC P&C and PICC Life each holds 0.91%, 4.98% and 4.98% voting rights in Industrial Bank and the Group as a whole became the second largest shareholder of Industrial Bank.

On 19 April 2013, a member of senior management of PICC Life, was nominated by the Group to be the director nominee of Industrial Bank and attended the Industrial Bank board meeting as the representative of shareholder. Considering the shareholders' rights in Industrial Bank and comprehensive cooperation agreement signed on 8 May 2013 between the Group and the Industrial Bank, the Group holds the view that it has the ability to have significant influence over Industrial Bank since 8 May 2013 and therefore accounts for its equity interest in Industrial Bank as an associate using equity method in its consolidated financial statements.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

(1) Industrial Bank *(continued)*

On 9 July 2015, PICC P&C and PICC Life, the Company's subsidiaries, acquired 280 million and 328 million shares, respectively, of Industrial Bank in the open market at considerations of RMB4,641 million and RMB5,454 million respectively. Therefore, the Group's aggregate interest in this associate was increased from 10.87% to 14.06%. Goodwill of RMB485 million arose from this acquisition.

On 31 March 2017, Industrial Bank completed its private offering. The Group did not subscribe the shares proportionately, therefore its total equity interest in Industrial Bank was diluted from 14.06% to 12.90%. The Group is of the view that it still has significant influence over Industrial Bank, as it appointed one director to the board of directors of Industrial Bank and the Group was the second largest shareholder of Industrial Bank, so the Group continues to account for the investment in Industrial Bank as an associate. As such, a deemed disposal loss amounting to RMB798 million was recognised in profit or loss.

(2) Hua Xia Bank

On 28 December 2015, PICC P&C entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to transfer to the major subsidiary of the Company 877 million shares, 267 million shares and 992 million shares of Hua Xia Bank, respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.99% of the total issued shares of Hua Xia Bank) and PICC P&C conditionally agreed to purchase these shares. This transaction was completed on 17 November 2016.

The Group holds the view that it has the ability to have significant influence over Hua Xia Bank since 17 November 2016 and therefore accounts for its interests in Hua Xia Bank as an associate. An excess of RMB2,636 million, which represents the Group's share of the net fair value of the identifiable assets and liabilities of Hua Xia Bank over the cost of the investment, was included as income in the Group's share of the profit or loss for the year ended 31 December 2016.

The Group's interests in Hua Xia Bank are held for strategic purposes.

The above table lists the associates of the Group which principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length. As at 31 December 2017, apart from the two associates disclosed above, the Group has in aggregate 15 (31 December 2016: 12) immaterial associates and joint ventures and their aggregate information was presented in note 25(c).

The details of China Credit Trust Company Limited ("China Credit Trust") were separately disclosed in consolidated financial statements for the year ended 31 December 2016 as it was regarded as a principal associate. It was aggregately disclosed in note 25(c) to these consolidated financial statements as the Company revisited the relative significance of each of its associates and China Credit Trust was no longer considered a principal associate. Therefore, the Group restated the comparative figures in note 25(c).

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

Industrial Bank and Hua Xia Bank are financial institutions. Therefore, their abilities to distribute dividends are subject to fulfillment of the relevant regulatory capital requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Industrial Bank

	30 September 2017	30 September 2016
Total assets	**6,406,993**	5,816,904
Total liabilities	**5,992,998**	5,468,893
Attributable to		
Equity holders of Industrial Bank	**408,389**	343,981
Non-controlling interests	**5,606**	4,030
Total equity	**413,995**	348,011

	Period from 1 October 2016 to 30 September 2017	Period from 1 October 2015 to 30 September 2016
Revenue	**141,442**	160,652
Profit attributable to		
Equity holders of Industrial Bank	**57,017**	52,968
Non-controlling interests	**552**	421
Profit for the period	**57,569**	53,389
Other comprehensive (expense)/income attributable to		
Equity holders of Industrial Bank	**(4,327)**	1,358
Non-controlling interests	**(16)**	(3)
Other comprehensive (expense)/income for the period	**(4,343)**	1,355
Total comprehensive income attributable to		
Equity holders of Industrial Bank	**52,690**	54,326
Non-controlling interests	**536**	418
Total comprehensive income for the period	**53,226**	54,744
Dividends received from the associate during the period	**1,634**	1,634

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Industrial Bank *(continued)*

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

	30 September 2017	30 September 2016
Net assets of Industrial Bank attributable to equity holders of Industrial Bank	408,389	343,981
Total preference shares issued by Industrial Bank	(25,905)	(25,905)
Net assets attributable to ordinary share holders of Industrial Bank	382,484	318,076
Proportion of the Group's ownership's interest in Industrial Bank	12.90%	14.06%
The Group's ownership's interest in net assets of Industrial Bank	49,340	44,721
Goodwill	445	485
Net fair value adjustment to the investee's identifiable assets and liabilities	2,426	2,604
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	(532)	(360)
Carrying amount of the Group's interest in Industrial Bank	51,679	47,450
Fair value of shares listed in Mainland China	45,517	43,240

Industrial Bank is a listed company and its annual results are usually public available after the results announcement of the Group. Therefore, as permitted by IAS 28 *Investments in Associates*, the Group account for its share of the profit of Industrial Bank from 1 October 2016 to 30 September 2017 (31 December 2016: 1 October 2015 to 30 September 2016).

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Hua Xia Bank

	31 December 2017
Total assets	2,508,413
Total liabilities	2,338,916
Attributable to	
Equity holders of Hua Xia Bank	168,055
Non-controlling interests	1,442
Total equity	169,497

	2017
Revenue	66,350
Profit attributable to	
Equity holders of Hua Xia Bank	19,819
Non-controlling interests	114
Profit for the year	19,933
Other comprehensive expense attributable to	
Equity holders of Hua Xia Bank	(1,174)
Non-controlling interests	–
Other comprehensive expense for the year	(1,174)
Total comprehensive income attributable to	
Equity holders of Hua Xia Bank	18,645
Non-controlling interests	114
Total comprehensive income for the year	18,759
Dividends received from the associate during the year	387

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Hua Xia Bank ***(continued)***

Reconciliation of the carrying amount of the interest in Hua Xia Bank recognised in the consolidated financial statements:

	31 December 2017	17 November 2016
Net assets of Hua Xia Bank attributable to equity holders of Hua Xia Bank	**168,055**	150,888
Total preference shares issued by Hua Xia Bank	**(19,979)**	(19,978)
Net assets attributable to ordinary share holders of Hua Xia Bank	**148,076**	130,910
Proportion of the Group's ownership's interest in Hua Xia Bank	**19.99%**	19.99%
The Group's ownership's interest in net assets of Hua Xia Bank	**29,600**	26,169
Net fair value adjustment to the investee's identifiable assets and liabilities	**(78)**	(78)
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	**89**	–
Carrying amount of the Group's interest in Hua Xia Bank	**29,611**	26,091
Fair value of shares listed in Mainland China	**23,069**	23,176

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

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(c) Aggregate information of associates and joint ventures that are not individually material:

	2017	2016 (Restated)
The Group's share of profit	**996**	707
The Group's share of other comprehensive expense	**(202)**	(172)
The Group's share of total comprehensive income	**794**	535
Aggregate carrying amount of the Group's interests in these associates and joint ventures	**16,450**	12,293

The Group acquired 4.98% equity interest in China Merchant Securities Company Limited ("China Merchant Securities") during the year ended 31 December 2016 and accounted for its interests as available-for-sale financial assets. On 26 May 2017, China Merchant Securities became an associate of the Group as the Group appointed one director to the board of directors of China Merchant Securities and was the second largest shareholder of this investee.

26. INVESTMENT PROPERTIES

	31 December 2017	31 December 2016
Beginning of the year	**10,695**	10,358
Additions	**800**	27
Transfers from property and equipment *(note 27)*	**1,348**	188
Transfer from prepaid land premium *(note 29)*	**30**	39
Gains on revaluation of properties upon transfer from property and equipment	**277**	238
Gains on revaluation of properties upon transfer from prepaid land premiums	**58**	94
(Decrease)/increase in fair value of investment properties *(note 6(c))*	**(200)**	224
Transfer to property and equipment *(note 27)*	**(835)**	(451)
Disposals	**(18)**	(22)
End of the year	**12,155**	10,695

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB3,932 million as at 31 December 2017 (31 December 2016: RMB2,781 million).

26. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties were revalued at the end of the reporting period by independent professional valuers. The investment properties held by PICC P&C were revalued by JLL (Beijing) Real Estate Appraisal & Consultancy Co., Ltd. The investment properties held by PICC Life were revalued by DTZ Debenham Tie Leung Limited. The investment properties held by PICC Investment Holding was revalued by Beijing Guorongxinghua Assets Appraisal Company Limited. Valuations were carried out by the following two approaches:

(1) The income approach determining the fair value at the evaluation point by discounting the target properties' rental income derived from existing lease agreements and the potential rental income projected by reference to the current market rental status, at an appropriate capitalization rate; or

(2) The direct comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

The independent valuers usually determine the fair value of the investment properties by one of these approaches according to their professional judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used from the prior year. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 2.00% to 7.50% as at 31 December 2017 (31 December 2016: 4.0% to 8.0%). A slight increase in the capitalisation rate used would result in a significant decrease in fair value measurement of investment properties, and vice versa.

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT

	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2017	26,966	7,830	1,983	2,481	39,260
Additions	153	888	519	1,169	2,729
Transfer of construction in progress	547	11	–	(558)	–
Transfer from investment property *(note 26)*	835	–	–	–	835
Transfer to investment property *(note 26)*	(1,564)	–	–	(71)	(1,635)
Disposals	(45)	(435)	(363)	(55)	(898)
As at 31 December 2017	26,892	8,294	2,139	2,966	40,291
ACCUMULATED DEPRECIATION					
As at 1 January 2017	6,760	6,294	1,246	–	14,300
Depreciation *(note 11)*	845	810	245	–	1,900
Transfer to investment properties *(note 26)*	(286)	–	–	–	(286)
Disposals	(24)	(417)	(309)	–	(750)
As at 31 December 2017	7,295	6,687	1,182	–	15,164
IMPAIRMENT LOSSES					
As at 1 January 2017	830	2	–	15	847
Transfer to investment properties *(note 26)*	(1)	–	–	–	(1)
As at 31 December 2017	829	2	–	15	846
NET CARRYING VALUES					
As at 31 December 2017	18,768	1,605	957	2,951	24,281
As at 1 January 2017	19,376	1,534	737	2,466	24,113

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT *(continued)*

	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2016	25,273	7,395	1,783	2,432	36,883
Additions	527	767	390	1,103	2,787
Transfer of construction in progress	993	4	–	(997)	–
Transfer from investment property *(note 26)*	451	–	–	–	451
Transfer to investment property *(note 26)*	(231)	–	–	(49)	(280)
Disposals	(47)	(336)	(190)	(8)	(581)
As at 31 December 2016	26,966	7,830	1,983	2,481	39,260
ACCUMULATED DEPRECIATION					
As at 1 January 2016	6,056	5,708	1,177	–	12,941
Depreciation *(note 11)*	820	910	239	–	1,969
Transfer to investment properties *(note 26)*	(92)	–	–	–	(92)
Disposals	(24)	(324)	(170)	–	(518)
As at 31 December 2016	6,760	6,294	1,246	–	14,300
IMPAIRMENT LOSSES					
As at 1 January 2016 and 31 December 2016	830	2	–	15	847
NET CARRYING VALUES					
As at 31 December 2016	19,376	1,534	737	2,466	24,113
As at 1 January 2016	18,387	1,685	606	2,417	23,095

(Amounts in millions of Renminbi, unless otherwise stated)

28. INTANGIBLE ASSETS

	Software	
	2017	2016
COST		
Beginning of the year	**1,968**	1,616
Additions	**501**	379
Disposals	**(1)**	(27)
End of the year	**2,468**	1,968
ACCUMULATED AMORTISATION		
Beginning of the year	**771**	611
Amortisation *(note 11)*	**203**	169
Disposals	**–**	(9)
End of the year	**974**	771
NET CARRYING VALUES		
End of the year	**1,494**	1,197
Beginning of the year	**1,197**	1,005

(Amounts in millions of Renminbi, unless otherwise stated)

29. PREPAID LAND PREMIUMS

	Prepaid land premiums 2017	2016
COST		
Beginning of the year	**5,261**	5,263
Additions	**29**	110
Transfer to investment properties *(note 26)*	**(60)**	(61)
Disposals	**(27)**	(51)
End of the year	**5,203**	5,261
ACCUMULATED AMORTISATION		
Beginning of the year	**1,392**	1,278
Amortisation *(note 11)*	**152**	149
Transfer to investment properties *(note 26)*	**(25)**	(22)
Disposals	**(12)**	(13)
End of the year	**1,507**	1,392
IMPAIRMENT LOSSES		
Beginning of the year	**44**	44
Additions *(note 11)*	**8**	–
Transfer to investment properties *(note 26)*	**(5)**	–
End of the year	**47**	44
NET CARRYING VALUES		
End of the year	**3,649**	3,825
Beginning of the year	**3,825**	3,941

30. DEFERRED TAX ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Deferred tax assets	**9,645**	5,965
Deferred tax liabilities	**(834)**	(752)
TOTAL	**8,811**	5,213

(Amounts in millions of Renminbi, unless otherwise stated)

30. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The movements of deferred tax assets and liabilities of the Group during 2017 and 2016 are as follows:

	2017			
	As at 1 January	Credited to the income statement during the year	Credited to equity during the year	As at 31 December
Provision for impairment losses	1,342	66	–	1,408
Employee benefits payable	1,332	(503)	–	829
Adjustments related to available-for-sale financial assets	(999)	–	765	(234)
Fair value adjustments to financial assets carried at fair value through profit or loss	(28)	(22)	–	(50)
Cash flow hedging	(2)	–	2	–
Fair value adjustments arising from investment properties	(1,714)	50	(84)	(1,748)
Insurance contract liabilities	5,063	2,925	–	7,988
Others	219	399	–	618
Net value	5,213	2,915	683	8,811

	2016			
	As at 1 January	Credited to the income statement during the year	Credited to equity during the year	As at 31 December
Provision for impairment losses	977	365	–	1,342
Employee benefits payable	1,567	(235)	–	1,332
Adjustments related to available-for-sale financial assets	(2,572)	–	1,573	(999)
Fair value adjustments to financial assets carried at fair value through profit or loss	(132)	104	–	(28)
Cash flow hedging	(3)	–	1	(2)
Fair value adjustments arising from investment properties	(1,575)	(56)	(83)	(1,714)
Insurance contract liabilities	2,467	2,596	–	5,063
Others	67	152	–	219
Net value	796	2,926	1,491	5,213

Unrecognised deductible temporary differences and deductible tax losses arising from entities in the Group, which do not have sufficient future taxable profits available for realisation, amounted to RMB14,125 million as at 31 December 2017 (31 December 2016: RMB15,073 million), of which deductible tax losses amounted to RMB8,594 million as at 31 December 2017 (31 December 2016: RMB13,078 million).

(Amounts in millions of Renminbi, unless otherwise stated)

30. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The expiry dates of unused tax losses are as follows:

	31 December 2017	31 December 2016
31 December 2018	2,850	5,543
31 December 2019	2,821	3,567
31 December 2020	526	648
31 December 2021	1,734	3,320
31 December 2022	663	–
TOTAL	8,594	13,078

31. OTHER ASSETS

Carrying values of other assets are as follows:

	Note	31 December 2017	31 December 2016
Interest receivables		10,206	10,037
Other receivables	(a)	4,973	5,887
Policy loans	(b)	2,680	2,823
Amount due from MOF	(c)	–	344
Dividends receivables		84	89
Others		12,098	9,233
TOTAL		30,041	28,413
Less: Impairment provision on other assets	(d)	(1,648)	(1,637)
Net value		28,393	26,776

(Amounts in millions of Renminbi, unless otherwise stated)

31. OTHER ASSETS *(continued)*

(a) Other receivables

	31 December 2017	31 December 2016
Prepayments and deposits	**2,639**	3,119
Securities settlement account	**1,810**	2,350
Other receivables	**524**	418
TOTAL	**4,973**	5,887
Less: Impairment provision	**(383)**	(391)
Net value	**4,590**	5,496

PICC Life agreed to purchase an equity interest of 10.1764% in China Credit Trust, an associate of the Group. As at 31 December 2017, included in the balance of prepayments and deposits was prepaid consideration of RMB1,899 million (31 December 2016: RMB1,899 million) in respect of this transaction. This transaction was terminated in January 2018 and refund of this prepaid consideration was received in March 2018.

(b) Policy loans are secured by cash values of the relevant insurance policies and carry interest rate at 5.22%-6.45% (31 December 2016: 5.22%-6.35%) per annum as at 31 December 2017.

(c) The balance as at 31 December 2016 included an amount of RMB344 million was recoverable from the MOF as a result of the Group's assumption of a post-employment benefit obligation as further described in note 41(d)(3).

(d) The movements of provision for impairment of other assets are as follow:

	2017	2016
At 1 January	**1,637**	1,636
Impairment losses recognised *(note 11)*	**11**	18
Amount written off as uncollectible	**–**	(17)
At 31 December	**1,648**	1,637

(Amounts in millions of Renminbi, unless otherwise stated)

32. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(a) Deposits with restricted rights or ownership

As at 31 December 2017, term deposits amounting to RMB1,611 million (31 December 2016: RMB1,347 million) was subject to various restrictions, in particular for the Group's involvement in agricultural insurance and satellite launch risk insurance against non-commercial use satellites.

(b) Securities pledged for repurchase transactions

As described in note 33 to these financial statements, the Group entered into a number of arrangements to sell certain bond securities with commitments to repurchasing in the future. These bond securities are continued to be recognised in these consolidated financial statements and classified as held-for-trading, available-for-sale, or held-to-maturity securities, but they are in effect pledged as collaterals for these transactions.

	31 December 2017	31 December 2016
Carrying amount of transferred assets	57,485	47,430
Carrying amount of associated liabilities		
– Securities sold under agreements to repurchase	41,226	33,066
Net	16,259	14,364

33. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2017	31 December 2016
Transactions by market places:		
Stock exchange	19,661	19,482
Inter-bank market	21,565	13,584
TOTAL	41,226	33,066

Debt securities are pledged for these transactions and details are set out in note 32(b) to these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

34. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2017	31 December 2016
Reinsurance payables	18,737	19,302

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

35. BONDS PAYABLE

As at 31 December 2017, bonds payable comprised of subordinated debts and capital supplementary bonds.

	31 December 2017	31 December 2016
Subordinated debts:		
Carrying amount repayable:		
– Within one year	817	–
– More than two years, but not exceeding five years	22,218	826
– More than five years	8,213	30,279
Subtotal	31,248	31,105
Capital supplementary bonds:		
Carrying amount repayable		
– More than five years	18,553	14,979
TOTAL	49,801	46,084

Original terms of these subordinated debts and capital supplementary bonds are ten years. With proper notice to the counterparties, the Group has an option to redeem the subordinated debts and the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rates of the Group's subordinated debts are 4.38%-6.19% in the first five years (2016: 3.65%-6.19%) and 6.88%-8.19% in the second five years (2016: 4.65%-8.19%). The interest rates of the Group's capital supplementary bonds are 3.65%-4.95% in the first five years (2016: 3.65%) and 4.65%-5.95% in the second five years (2016: 4.65%).

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES

	31 December 2017		
	Insurance contract liabilities	**Reinsurers' share**	**Net**
Long-term life and health insurance contracts (a)	**285,501**	**149**	**285,352**
Short-term health insurance contracts (b)			
– Claim reserves	**4,563**	**511**	**4,052**
– Unearned premium reserves	**1,637**	**164**	**1,473**
Non-life insurance contracts (c)			
– Claim reserves	**138,980**	**18,825**	**120,155**
– Unearned premium reserves	**126,330**	**8,557**	**117,773**
Total insurance contract liabilities	**557,011**	**28,206**	**528,805**

	31 December 2016		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health insurance contracts (a)	291,009	139	290,870
Short-term health insurance contracts (b)			
– Claim reserves	3,513	560	2,953
– Unearned premium reserves	1,498	92	1,406
Non-life insurance contracts (c)			
– Claim reserves	128,174	20,149	108,025
– Unearned premium reserves	114,319	10,079	104,240
Total insurance contract liabilities	538,513	31,019	507,494

(a) Long-term life and health insurance contracts

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2016	285,376	89	285,287
Additions	119,216	75	119,141
Payments	(49,504)	(25)	(49,479)
Surrenders	(64,079)	–	(64,079)
At 31 December 2016	291,009	139	290,870
Additions	113,898	27	113,871
Payments	(47,138)	(17)	(47,121)
Surrenders	(72,268)	–	(72,268)
At 31 December 2017	285,501	149	285,352

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term health insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2016	3,004	508	2,496
Claims incurred	9,180	2,194	6,986
Claims paid	(8,671)	(2,142)	(6,529)
At 31 December 2016	3,513	560	2,953
Claims incurred	10,390	1,578	8,812
Claims paid	(9,340)	(1,627)	(7,713)
At 31 December 2017	4,563	511	4,052

(2) Unearned premiums reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2016	1,734	88	1,646
Premiums written	10,804	2,012	8,792
Premiums earned	(11,040)	(2,008)	(9,032)
At 31 December 2016	1,498	92	1,406
Premiums written	12,438	1,167	11,271
Premiums earned	(12,299)	(1,095)	(11,204)
At 31 December 2017	1,637	164	1,473

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2016	114,639	16,669	97,970
Claims incurred	194,056	21,968	172,088
Claims paid	(180,521)	(18,488)	(162,033)
At 31 December 2016	128,174	20,149	108,025
Claims incurred	210,652	17,155	193,497
Claims paid	(199,846)	(18,479)	(181,367)
At 31 December 2017	138,980	18,825	120,155

(2) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2016	102,933	9,188	93,745
Premiums written	311,306	30,026	281,280
Premiums earned	(299,920)	(29,135)	(270,785)
At 31 December 2016	114,319	10,079	104,240
Premiums written	350,898	25,620	325,278
Premiums earned	(338,887)	(27,142)	(311,745)
At 31 December 2017	126,330	8,557	117,773

(Amounts in millions of Renminbi, unless otherwise stated)

37. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

	31 December 2017	31 December 2016
Interest-bearing deposits	**44,183**	36,603
Non-interest-bearing deposits	**1,697**	1,767
Total	**45,880**	38,370

The movements in investment contract liabilities for policyholders are as follows:

	2017	2016
Beginning of the year	**38,370**	27,601
Deposits received after deducting fees	**17,049**	16,582
Deposits withdrawn	**(10,956)**	(7,385)
Interest credited *(note 9)*	**1,417**	1,572
End of the year	**45,880**	38,370

The original maturities of these investment contracts are from repayable on demand to more than five years. These liabilities bear no interests or variable interest rates, which are declared by the Group regularly. The range of variable interest rates is from 0.36%-6.00% per annum as at 31 December 2017 (31 December 2016: 0.36%-6.00%).

38. PENSION BENEFIT OBLIGATION

The Group is committed to certain pension and medical benefits of employees who retired on or prior to 31 July 2003. The amounts of these pension and medical benefits are paid monthly according to a policy agreed with these employees and number of years of services of these employees with the Group. The Group also offered an early retirement program to certain employees for its group reorganisation in 2003. For employees who joined this program, they are entitled various periodic benefits up to their normal retirement ages. The beneficiaries of these pension benefits are not in active employment with the Group and these benefits are fully vested. There is no plan asset for these pension benefits.

(a) The movements in the present value of early retirement and retirement benefits are shown below:

	2017	2016
Beginning of the year	**2,800**	2,990
Interest cost on benefit obligation *(note 9)*	**96**	84
Actuarial losses/(gains) arising from changes in financial assumptions	**279**	(66)
Actuarial (gains)/losses arising from experience adjustments	**(47)**	25
Benefits paid	**(229)**	(233)
End of the year	**2,899**	2,800

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION *(continued)*

(a) The movements in the present value of early retirement and retirement benefits are shown below: *(continued)*

The plans typically expose the Group to interest rate risk and longevity risk.

- Interest rate risk: a decrease in the bond interest rate will increase the plan liability.
- Longevity risk: the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

In aggregate, actuarial losses of RMB232 million (2016: actuarial gains of RMB41 million) were credited to other comprehensive income for the current year of 2017.

Willis Towers Watson (31 December 2016: Ernst & Young (China) Advisory Limited) was engaged by the Group to measure the retirement benefit plans at the end of this current year.

(b) The discount rates and the principal actuarial assumptions for the above obligations are as follows:

	31 December 2017	31 December 2016
Discount rates:		
– Early retirement benefits	**3.75%**	2.85%
– Retirement benefits	**4.00%**	3.05%
– Supplementary medical benefits	**4.00%**	3.25%
Average annual benefit growth rates:		
– Early retirement benefits	**2.50%**	2.50%
– Medical expenses	**8.00%**	8.00%

Discount rates are set to be the government bond yields with similar maturities and vary for different types of benefits. As at 31 December 2017, the durations of early retirement benefits, retirement benefits and supplementary medical benefits are 3.0, 8.0 and 12.0 as at 31 December 2017 (31 December 2016: 3.8, 8.3 and 12.1).

(c) The maturity of these benefits, in terms of undiscounted cash flows, is presented as follows:

	31 December 2017	31 December 2016
Within 3 months	**50**	51
3 to 12 months	**149**	151
1 to 5 years	**793**	771
More than 5 years	**3,674**	3,029
Total	**4,666**	4,002

In order to reimburse the Company for this pension benefit obligation, a receivable of RMB2,847 million was recognised on the restructuring and reorganisation of the Company, as described in note 41(d)(3).

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION *(continued)*

(d) Sensitivity analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate and benefit growth rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Change in assumptions	Effect on the pension benefit obligation 2017	2016
Discount rate	+50bp	**(142)**	(133)
Discount rate	-50bp	**155**	145
Average annual benefit growth rate	+50bp	**152**	143
Average annual benefit growth rate	-50bp	**(141)**	(133)

39. OTHER LIABILITIES

	31 December 2017	31 December 2016
Premiums received in advance	**21,037**	21,513
Salaries and welfare payable	**13,287**	14,210
Claims payable	**12,199**	12,400
Handling charges and commission payable	**8,098**	7,376
Net value added tax and other taxes payable	**6,718**	5,519
Insurance security fund	**966**	865
Interests payable	**708**	632
Others	**11,957**	9,933
TOTAL	**74,970**	72,448

Premiums received in advance represent amounts collected from policies not yet effective as at the 31 December 2017 and 31 December 2016, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

(Amounts in millions of Renminbi, unless otherwise stated)

40. SHARE CAPITAL

	31 December 2017	31 December 2016
Issued and fully paid ordinary shares of RMB 1 each (in million shares)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424
Share capital (in RMB million)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424

41. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

(a) General risk reserve

In accordance with the relevant regulations, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance businesses. The Group's respective entities would need to make appropriations to such reserves based on their respective year-end profit or risk assets as determined based on applicable financial regulations in the PRC in their annual financial statements. This reserve is not available for profit distribution or transfer to capital.

(b) Agriculture catastrophic loss reserve

According to the relevant regulations of the PRC, which became effective on 1 January 2014, the Group is required to make appropriations to a reserve when the agriculture insurance records underwriting profits. This reserve cannot be used for dividend distribution, but can be utilised when there are catastrophic losses. The reserve can be transferred to general risk reserve if the Group ceases writing agriculture insurance business.

(c) Surplus reserve fund

In accordance with the Company Law and the Articles of Association, the Company is required to make appropriations to the statutory surplus reserve based on their respect year-end profit (after offsetting any prior years' losses) as determined based on applicable financial regulations in the PRC in their annual statutory financial statements. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Company may also make appropriations to the discretionary surplus reserve provided that the appropriation is approved by a resolution of the shareholders. Subject to resolutions passed in general meetings, the statutory and discretionary surplus reserves can be transferred to the share capital. The balance of the statutory surplus reserve fund after transfers to the share capital should not be less than 25% of the share capital.

On 31 October 2017, a shareholders' meeting was convened to approve an appropriation of RMB10 billion from the retained profits to discretionary surplus reserve fund. According to PRC Company Law, this surplus reserve fund can be utilised to make good losses, converted to share capital and support business operations of the Company.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RESERVES *(continued)*

(d) Principal items of other reserves were summarised as follows:

	Transactions with non-controlling interests *(1)*	Transfer to share capital *(2)*	Compensation for post-employment benefit obligation *(3) (note 38)*	Total
As at 1 January 2017 and 31 December 2017	**(58)**	**(17,942)**	**2,847**	**(15,153)**

	Transactions with non-controlling interests *(1)*	Transfer to share capital *(2)*	Compensation for post-employment benefit obligation *(3) (note 38)*	Total
As at 1 January 2016	85	(17,942)	2,847	(15,010)
Changes	(143)	–	–	(143)
As at 31 December 2016	(58)	(17,942)	2,847	(15,153)

(1) The amount represents certain transactions with non-controlling interests, including direct acquisition of ownership interests in subsidiary from non-controlling interests, or deemed acquisitions or disposals of ownership interests in subsidiaries without loss of control. The principal reason for movement was set out in note 24(c) to these consolidated financial statements.

(2) As at 30 June 2009, the Company obtained approval from MOF on conversion into a joint stock company. During the process, certain assets were revalued and the corresponding revaluation surplus was transferred to the share capital. On consolidation, these revaluations were reversed, and created a negative balance.

(3) In 2009, the Company recognised an amount of RMB2,847 million recoverable from the MOF as compensation for the Company's assumption of post-employment benefit obligation. The amount was recognised as a special capital contribution from the MOF and was credited to other reserves. The amount was received by the Company by instalments and the final amount of RMB344 million was received during the year.

42. RISK MANAGEMENT FRAMEWORK

(a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

(Amounts in millions of Renminbi, unless otherwise stated)

42. RISK MANAGEMENT FRAMEWORK *(continued)*

(b) Capital management approach

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to adjust the capital position of the Group in light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity shareholders' funds and borrowings. The Group also makes reinsurance arrangements to manage its regulatory capital requirements.

The Group has had no significant changes in its policies and processes in respect of its capital structure during the current year.

The comprehensive and core solvency margin ratios of the Group's principal subsidiaries are listed below:

(in RMB million)		**31 December 2017**	
	PICC P&C	**PICC Life**	**PICC Health**
Actual capital	**154,590**	**54,010**	**10,930**
Core capital	**127,326**	**47,192**	**7,099**
Minimum capital	**55,552**	**24,631**	**2,763**
Comprehensive solvency margin ratio (%)	**278%**	**219%**	**396%**
Core solvency margin ratio (%)	**229%**	**192%**	**257%**

(in RMB million)		31 December 2016	
	PICC P&C	PICC Life	PICC Health
Actual capital	140,793	46,380	6,695
Core capital	113,864	39,257	6,200
Minimum capital	49,071	26,263	3,107
Comprehensive solvency margin ratio (%)	287%	177%	215%
Core solvency margin ratio (%)	232%	149%	200%

Insurance companies carrying out business in China are required to comply with capital requirements imposed by CIRC. These capital requirements are generally known as solvency requirements in the insurance industry.

Insurance companies comply with requirements on both the core capital and actual capital (sum of core and supplementary capital). Under C-ROSS, the minimum capital is calculated by formula prescribed by the CIRC. The minimum capital requirements is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For subsidiaries of the Group, core capital are principally net assets with adjustments to life insurance liabilities under solvency calculations, while supplementary capital are mainly subordinated debts and capital supplementary bonds issued by these subsidiaries.

42. RISK MANAGEMENT FRAMEWORK *(continued)*

(b) Capital management approach *(continued)*

Comprehensive and core solvency margin ratios are defined as actual capital and core capital divided by the minimum capital requirements, respectively. Comprehensive and core solvency margin ratio have to be higher than 100% and 50% for compliance with the solvency requirements.

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

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Insurance risk

(1) Insurance risk types

The risk under an insurance contract is the possibility of occurrence of insured events and uncertainty of the amount and timing of the resulting claims. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of a policyholder's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful risk selection and implementation of underwriting strategy and guidelines.

When the underwriting risks principally are mortality risks, epidemics, widespread changes in lifestyle and natural disasters may result in earlier or more claims than expected; when the underwriting risks principally are longevity risks, continued improvement in medical science and social conditions that would improve longevity and may result in losses to annuity or similar contracts. For contracts with discretionary participation features, a significant portion of these insurance risks are shared with the insured parties.

Insurance risk of life insurance contracts is also affected by the policyholders' rights to terminate the contracts, to pay reduced premiums, refuse to pay premiums or to avail annuity conversion rights. Therefore, the resultant insurance risk is subject to policyholders' behaviour and decisions.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(1) Insurance risk types (continued)

Prior to August 2013, traditional long-term life insurance products sold by the Group was priced at a valuation interest rate of 2.5% per annum. Subsequently, this pricing assumption was relaxed for traditional products in 2013 and then for participating products during the year ended 31 December 2015. Among the gross long-term liabilities of RMB285,501 million (31 December 2016: RMB291,009 million) as at 31 December 2017, RMB98,722 million (31 December 2016: RMB150,205 million) was reserved for products priced/guaranteed at 2.5%, while RMB120,852 million (31 December 2016: RMB118,016 million) was reserved for products priced/guaranteed at 4.025%. If the actual investment returns generated by premiums of long term life insurance products were less than those assumed in the pricing, the Group may incur losses on these insurance contracts.

Participating insurance products are very common in the Chinese market. Long term life insurance liabilities in relation to participating insurance products were RMB82,445 million (31 December 2016: RMB107,167 million) as at 31 December 2017, which constitutes around 29% (31 December 2016: 37%) of the total long term life insurance liabilities of the Group.

For non-life insurance contracts, claims are often affected by many factors such as climate changes, natural disasters, calamities, and terrorist activities.

Gross and net premiums written to certain extent represent the risk exposures of the Group before and after reinsurance and the information is presented in note 5 to these consolidated financial statements.

(2) Insurance risk concentration

Non-life claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC (including Hong Kong).

The Group's concentration of non-life insurance risk before and after reinsurance, measured by geographical turnover and net written premiums of non-life insurance, is as follows:

	2017		2016	
	Gross	**Net**	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	**157,311**	**145,946**	142,076	127,400
North-eastern China	**21,468**	**19,001**	19,505	17,138
Northern China	**44,743**	**42,044**	40,178	36,928
Central China	**51,032**	**47,808**	42,620	39,119
Western China	**76,344**	**70,479**	66,927	60,695
Total premiums written from non-life insurance contracts	**350,898**	**325,278**	311,306	281,280

For life and health insurance contracts, their insurance risks usually do not vary significantly in relation to the geographical locations of the insured and therefore geographical concentration by locations is not presented.

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

(a) Insurance risk *(continued)*

(3) Reinsurance

The Group limits its exposure to losses within non-life and short-term health insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on the quota share basis or the surplus line basis with retention limits varying by product lines. There are profit commission, sliding, scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's non-life premiums ceded to the top three reinsurance companies amounted to RMB12,084 million (2016: RMB14,217 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to parts of non-life insurance contracts.

Reinsurance	Estimation method
Proportional treaty	As a certain percentage of gross claim liabilities
Facultative	Case estimates of individual large claims multiplied by an IBNR ratio
Other treaties	Incurred claims loss development method and Bornhuetter-Ferguson method

(4) Key assumptions and sensitivity analysis

Long-term life insurance contracts

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the pre-tax impact on profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions have to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reasons for the asymmetry of sensitivities. The impacts to future dividend distributions to policyholders are considered in determining the impact of changes in individual assumptions.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Long-term life insurance contracts *(continued)*

Sensitivity analysis (continued)

Long-term life and health insurance contracts held by PICC Life:

	Change in assumptions	Pre-tax impact on profit and equity 2017	2016
Discount rate	+50bp	**6,900**	5,085
Discount rate	-50bp	**(7,942)**	(5,606)
Mortality/morbidity	10%	**(1,009)**	(548)
Mortality/morbidity	-10%	**1,070**	561
Lapse and surrenders rate	25%	**974**	597
Lapse and surrenders rate	-25%	**(1,052)**	(651)
Expenses	110%	**(309)**	(166)
Expenses	90%	**308**	165

Long-term life and health insurance contracts held by PICC Health:

	Change in assumptions	Pre-tax impact on profit and equity 2017	2016
Discount rate	+25bp	**147**	95
Discount rate	-25bp	**(154)**	(81)
Mortality/morbidity	10%	**(61)**	(47)
Mortality/morbidity	-10%	**62**	47
Lapse and surrenders rate	10%	**95**	73
Lapse and surrenders rate	-10%	**(85)**	(39)
Expenses	110%	**(27)**	(55)
Expenses	90%	**27**	55

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Long-term life insurance contracts *(continued)*

Sensitivity analysis (continued)

The above analysis does not take into account the mitigation effect from asset-liability management and possible actions taken by management in view of these changes. Any change in discount rate is assumed to be a parallel shift in yield curve.

When the sensitivity analysis was performed for these actuarial assumptions, possibly reasonable changes in discount rates and lapse and surrender rates were determined to be 25 basis point and 10% for PICC Health, compared with 50 basis points and 25% for PICC Life. It is because the size of operations of PICC Health was smaller than that of PICC Life and the duration of liabilities was shorter for former.

Non-life insurance and short-term health insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The range of reasonable estimates of claim reserve, projected using different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

The sensitivity of certain variables like legislative change and uncertainty in the estimation process is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claim reserve is not quantifiable with certainty at the end of 2017 and 2016.

If the average cost per claim or the number of claims changes, the claim reserves will change proportionately. When the other assumptions remain unchanged, if the future average cost per claim increases by 5%, the net claim reserves of the Group will increase by approximately RMB6,210 million as at 31 December 2017 (31 December 2016: RMB5,549 million).

As the claims of life insurance are usually settled in 1 year, an analysis of the development of claims was not reflected in the table below.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts *(continued)*

Key assumptions (continued)

The following analysis shows the development of non-life claims over a period of time on a gross basis:

	Accident year – gross					
	Year ended 31 December					
	2013	2014	2015	2016	2017	Total
Estimated cumulative claims:						
At the end of current year	138,468	151,002	168,915	191,928	211,497	861,810
One year later	138,703	150,255	168,265	192,678	–	649,901
Two years later	140,298	149,209	167,824	–	–	457,331
Three years later	140,209	149,641	–	–	–	289,850
Four years later	139,382	–	–	–	–	139,382
Estimated cumulative claims	139,382	149,641	167,824	192,678	211,497	861,022
Cumulative claims paid	(137,112)	(142,279)	(158,157)	(173,038)	(129,961)	(740,547)
Subtotal as at 31 December 2017						120,475
Unpaid claims prior to 2013, unallocated loss adjustment expenses, discount and risk margin						18,505
Non-life unpaid claim reserves, gross						138,980

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts *(continued)*

Key assumptions (continued)

The following analysis shows the development of non-life claims over a period of time on a net basis:

	Accident year – net					
	Year ended 31 December					
	2013	2014	2015	2016	2017	Total
Estimated cumulative claims:						
At the end of current year	120,247	131,579	150,508	170,917	193,714	766,965
One year later	120,334	131,433	149,966	171,045	–	572,778
Two years later	120,348	130,618	149,294	–	–	400,260
Three years later	120,113	130,990	–	–	–	251,103
Four years later	119,314	–	–	–	–	119,314
Estimated cumulative claims	119,314	130,990	149,294	171,045	193,714	764,357
Cumulative claims paid	(117,490)	(124,719)	(141,459)	(156,412)	(122,096)	(662,176)
Subtotal as at 31 December 2017						102,181
Unpaid claims prior to 2013, unallocated loss adjustment expenses, discount and risk margin						17,974
Non-life unpaid claim reserves, net						120,155

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years.

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

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, subordinated debts, debt investment schemes, interests receivable, other receivables, investments in debt securities, investments in trust schemes, insurance receivables and reinsurance arrangements. The Group holds a diversified portfolio of debt instruments and do not have concentration risk except for treasury bonds issued by Ministry of Finance. The amounts of MOF issued debt securities were RMB18,493 million (31 December 2016: RMB14,597 million) as at 31 December 2017.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which the Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged.

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A-(or ratings of an equal level given by other international rating institutions such as A.M. Best and Fitch and Moody's) or above. The Group's management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

Credit exposure

The carrying amounts of financial assets included on the consolidated statement of financial position best represent the maximum credit risk exposure at the reporting date without taking account of any collaterals held or other credit enhancements.

Included in cash and cash equivalents are certain securities purchased under resale agreements and the relevant collaterals are disclosed in note 17.

Included in investments classified as loans and receivables are debt investment schemes which are guaranteed by banks or other corporates. Their carrying values are disclosed in note 23.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets

	As at 31 December 2017						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	72,819	–	–	–	–	–	72,819
Debt securities	313,261	–	–	–	–	26	313,287
Equity securities, mutual funds and trust schemes	6,923	–	–	–	–	–	6,923
Insurance receivables	24,749	1,145	3,387	7,638	12,170	8,201	45,120
Reinsurance assets	28,206	–	–	–	–	–	28,206
Term deposits	70,706	–	–	–	–	–	70,706
Restricted statutory deposits	11,311	–	–	–	–	–	11,311
Investments classified as loans and receivables	157,715	–	–	–	–	–	157,715
Other financial assets	20,934	588	741	1,397	2,726	1,902	25,562
Total	706,624	1,733	4,128	9,035	14,896	10,129	731,649
Less: impairment losses	–	–	–	–	–	(5,272)	(5,272)
Net	706,624	1,733	4,128	9,035	14,896	4,857	726,377

	As at 31 December 2016						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	46,728	–	–	–	–	–	46,728
Derivative financial assets	3	–	–	–	–	–	3
Debt securities	240,531	–	–	–	–	28	240,559
Equity securities, mutual funds and trust schemes	7,266	–	–	–	–	–	7,266
Insurance receivables	22,882	1,391	3,303	3,965	8,659	6,016	37,557
Reinsurance assets	31,019	–	–	–	–	–	31,019
Term deposits	91,884	–	–	–	–	–	91,884
Restricted statutory deposits	9,911	–	–	–	–	–	9,911
Investments classified as loans and receivables	168,778	–	–	–	–	–	168,778
Other financial assets	21,806	1,379	480	1,784	3,643	1,786	27,235
Total	640,808	2,770	3,783	5,749	12,302	7,830	660,940
Less: impairment losses	–	–	–	–	–	(4,881)	(4,881)
Net	640,808	2,770	3,783	5,749	12,302	2,949	656,059

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets (continued)

For receivables arising from direct insurance business, the Group assesses any impairment on a collective basis according to default history of similar lines of business and ageing. For financial assets other than receivables arising from direct insurance companies, the Group considers, on an individual basis, any default on amounts due, financial strength and repayment histories of the relevant counterparties when arriving at the amount of impairment.

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. As at 31 December 2017, 100% (31 December 2016: 100%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2017, 98.45% (as at 31 December 2016: 97.41%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks, and CSDCC have a high credit quality.

The credit risk associated with securities purchased under agreements to resell will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collaterals held and maturity term of no more than one year as at 31 December 2017 and 2016.

(2) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet the Group's obligations as they become due.

The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. As disclosed in note 23, the Group holds certain financial instruments that are classified as loans and receivables as active markets do not exist for these instruments. The Group also classified certain debt securities as held-to-maturity financial assets and is only allowed to dispose of these financial assets prior to maturities in limited situation without tainting other held-to-maturity financial assets. Therefore, the Group's ability to manage liquidity risks by disposing of these financial assets will be limited by these factors. Moreover, quoted financial assets held by the Group are mainly traded on the stock exchanges or in inter-bank markets in the Mainland China. Any significant decrease in liquidity in these markets will impair the Group's ability to manage its liquidity risk.

The Group manages the liquidity risks of its major operating subsidiaries by requiring them to perform cash flow forecasts on a quarterly basis under different scenarios and establish contingency plans for any expected shortfall of liquidity.

The Group held cash and cash equivalents which accounted for 7.37% of total assets as at 31 December 2017 (31 December 2016: 5.01%).

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of financial assets and financial liabilities

The table below summarises maturity profiles of financial assets and financial liabilities of the Group. Maturity profiles of financial assets and financial liabilities are prepared, using the contractual collection or repayment dates.

All amounts are based on undiscounted contractual cash flows.

	As at 31 December 2017						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Financial assets:							
Cash and cash equivalents	28,056	45,091	–	–	–	–	73,147
Debt securities	–	23,477	27,077	155,216	221,490	–	427,260
Equity securities, mutual funds and trust schemes	–	1	493	7,570	–	107,811	115,875
Insurance receivables, net	16,657	13,206	6,153	5,382	120	–	41,518
Term deposits	–	3,022	8,998	49,339	20,186	–	81,545
Restricted statutory deposits	–	827	1,275	11,464	–	–	13,566
Investments classified as loans and receivables	–	12,124	15,465	110,135	59,960	–	197,684
Other financial assets	6,714	8,037	6,417	2,607	200	–	23,975
Total financial assets	51,427	105,785	65,878	341,713	301,956	107,811	974,570
Financial liabilities:							
Securities sold under agreements to repurchase	–	41,255	–	–	–	–	41,255
Payables to reinsurers	9,675	7,725	908	424	5	–	18,737
Bonds payable	–	–	1,749	12,032	57,331	–	71,112
Investment contract liabilities for policyholders	1,893	2,596	1,110	1,002	4,095	35,194	45,890
Policyholder dividends payable	5,202	–	–	3	–	–	5,205
Other financial liabilities	11,731	28,688	2,795	2,161	1,836	–	47,211
Total financial liabilities	28,501	80,264	6,562	15,622	63,267	35,194	229,410

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of financial assets and financial liabilities (continued)

	As at 31 December 2016						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Financial assets:							
Cash and cash equivalents	32,152	14,656	–	–	–	–	46,808
Derivative financial assets	–	–	1	1	–	–	2
Debt securities	–	7,801	34,756	96,661	190,992	–	330,210
Equity securities, mutual funds and trust schemes	–	–	425	8,182	1,000	142,284	151,891
Insurance receivables, net	12,759	13,188	5,261	3,043	88	–	34,339
Term deposits	–	14,982	16,120	61,107	12,509	–	104,718
Restricted statutory deposits	–	905	1,741	8,733	49	–	11,428
Investments classified as loans and receivables	–	14,519	47,189	99,145	39,269	–	200,122
Other financial assets	5,466	10,755	7,275	2,084	135	–	25,715
Total financial assets	50,377	76,806	112,768	278,956	244,042	142,284	905,233
Financial liabilities:							
Securities sold under agreements to repurchase	–	33,114	–	–	–	–	33,114
Payables to reinsurers	11,134	7,064	717	367	20	–	19,302
Bonds payable	–	–	1,627	11,329	53,389	–	66,345
Investment contract liabilities for policyholders	195	2,642	768	1,416	4,077	29,293	38,391
Policyholder dividends payable	7,062	–	–	2	–	–	7,064
Other financial liabilities	12,370	21,731	8,575	2,584	70	–	45,330
Total financial liabilities	30,761	64,551	11,687	15,698	57,556	29,293	209,546

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of reinsurance assets and insurance liabilities

For reinsurance assets and insurance liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims or benefits. These expected timing is made on various assumptions, including settlement speed of non-life claims, surrenders of certain life insurance policies, and longevity of retired former employees. Therefore, actual timing can deviate from the analysis presented below.

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

All amounts are based on undiscounted contractual cash flows.

	As at 31 December 2017				
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Reinsurance assets	**4,271**	**13,890**	**7,871**	**2,556**	**28,588**
Insurance contract liabilities	**88,691**	**182,959**	**125,816**	**485,550**	**883,016**

	As at 31 December 2016				
	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Reinsurance assets	5,519	15,116	7,659	3,021	31,315
Insurance contract liabilities	80,335	200,976	136,730	312,700	730,741

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group uses multiple methods managing market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal operations and transactions are conducted in RMB, and is also exposed to foreign exchange risk in respect of United States Dollars ("USD") because certain non-life insurance contracts are denominated in USD. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

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

31 December 2017	RMB	HKD	USD	Others	Total
Cash and cash equivalents	68,121	909	3,776	13	72,819
Debt securities	311,804	–	1,457	–	313,261
Equity securities, mutual funds and trust schemes	109,614	4,169	1,230	–	115,013
Insurance receivables	37,460	115	3,823	120	41,518
Reinsurance assets	26,817	266	1,098	25	28,206
Term deposits	68,085	95	2,520	6	70,706
Restricted statutory deposits	11,311	–	–	–	11,311
Investments classified as loans and receivables	157,715	–	–	–	157,715
Other financial assets	23,324	50	536	8	23,918
Total assets	814,251	5,604	14,440	172	834,467
Securities sold under agreements to repurchase	41,226	–	–	–	41,226
Payables to reinsurers	18,298	46	337	56	18,737
Bonds payable	49,801	–	–	–	49,801
Insurance contract liabilities	554,412	836	1,692	71	557,011
Investment contract liabilities for policyholders	45,866	14	–	–	45,880
Policyholder dividends payable	5,205	–	–	–	5,205
Pension benefit obligation	2,899	–	–	–	2,899
Other financial liabilities	45,456	215	1,528	12	47,211
Total liabilities	763,163	1,111	3,557	139	767,970

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2016	RMB	HKD	USD	Others	Total
Cash and cash equivalents	41,487	1,505	3,719	18	46,729
Derivative financial assets	3	–	–	–	3
Debt securities	239,678	–	853	–	240,531
Equity securities, mutual funds and trust schemes	142,319	6,836	1,395	–	150,550
Insurance receivables	29,991	39	4,234	75	34,339
Reinsurance assets	29,718	146	1,133	22	31,019
Term deposits	88,882	12	2,990	–	91,884
Restricted statutory deposits	9,911	–	–	–	9,911
Investments classified as loans and receivables	168,778	–	–	–	168,778
Other financial assets	25,218	37	343	3	25,601
Total assets	775,985	8,575	14,667	118	799,345
Securities sold under agreements to repurchase	33,066	–	–	–	33,066
Payables to reinsurers	17,281	19	1,961	41	19,302
Bonds payable	46,084	–	–	–	46,084
Insurance contract liabilities	535,790	863	1,803	57	538,513
Investment contract liabilities for policyholders	38,370	–	–	–	38,370
Policyholder dividends payable	7,064	–	–	–	7,064
Pension benefit obligation	2,800	–	–	–	2,800
Other financial liabilities	44,602	94	631	3	45,330
Total liabilities	725,057	976	4,395	101	730,529

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	31 December 2017	
Exchange rate of foreign currencies (in millions of RMB)	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**428**	**771**
-5%	**(428)**	**(771)**

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis (continued)

	31 December 2016	
Exchange rate of foreign currencies (in millions of RMB)	Pre-tax impact on profit	Pre-tax impact on equity
+5%	440	894
-5%	(440)	(894)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Based on asset liability matching gap analysis, the Group implements sensitive analysis and stress tests to monitor and to evaluate interest rate risk regularly. The Group manages interest rate risk by monitoring the average duration and expiry dates as well as adjusting composition of portfolio.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days at a confidence level of 99% for bond investments measured at fair value. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2017	2016
Interest rate VaR	**962**	1,080

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group holds a diversified portfolio of equity instruments and therefore do not have significant concentration risk in any particular individual instrument. However, the Group principally invest in the stock markets of Hong Kong and Mainland China and is subject to price risk arising from volatilities of these two markets.

The Group's price risk policy requires setting and managing investment objectives. Subject to laws and regulatory policies, the Group manages price risk by diversification of investments, setting limits for investments in different securities, etc.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and mutual fund investments measured at fair value (other than those measured at level 3 fair value) over a holding period of 10 trading days at a confidence level of 99%. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2017	2016
Equity price VaR	**2,625**	3,307

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY

Classification of financial instruments

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

	Carrying amount		Fair value	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Financial Assets				
Cash and cash equivalents	**72,819**	46,729	**72,819**	46,729
Held-for-trading				
– Equity securities, mutual funds and trust schemes	**16,183**	31,062	**16,183**	31,062
– Debt securities	**7,574**	4,109	**7,574**	4,109
– Derivative financial assets	**–**	3	**–**	3
Available-for-sale				
– Equity securities, mutual funds and trust schemes	**98,723**	119,381	**98,723**	119,381
– Debt securities	**183,210**	114,591	**183,210**	114,591
Held-to-maturity investment				
– Debt securities	**122,477**	121,831	**120,388**	127,961
Loans and receivables				
– Insurance receivables, net	**41,518**	34,339	**41,518**	34,339
– Term deposits	**70,706**	91,884	**70,706**	91,884
– Restricted statutory deposits	**11,311**	9,911	**11,311**	9,911
– Investments classified as loans and receivables	**157,715**	168,778	**159,799**	177,052
– Other assets	**23,918**	25,601	**23,918**	25,601
Total financial assets	**806,154**	768,219	**806,149**	782,623
Financial liabilities				
Other financial liabilities – measured at amortised cost				
– Securities sold under agreement to repurchase	**41,226**	33,066	**41,226**	33,066
– Payables to reinsurers	**18,737**	19,302	**18,737**	19,302
– Bonds payable	**49,801**	46,084	**49,404**	49,328
– Investment contract liabilities for policyholders	**45,880**	38,370	**45,880**	38,370
– Policyholder dividends payable	**5,205**	7,064	**5,205**	7,064
– Other liabilities	**47,211**	45,330	**47,211**	45,330
Total financial liabilities	**208,060**	189,216	**207,663**	192,460

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Determination of fair value and the fair value hierarchy

This note provides information on how the Group determine the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 26 to these financial statements.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

Items	Fair value 31 December 2017	31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial assets – Interest rate swaps	–	3	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Held-for-trading debt securities	6,085	187	Level 1	Quoted bid prices in an active market.
Held-for-trading debt securities	1,489	3,922	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale debt securities	11,314	11,936	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	171,896	102,655	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Held-for-trading equity securities and mutual funds	16,183	31,062	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	62,128	85,316	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	14,374	10,704	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend rates, discounted at a rate that reflects the credit risk of counterparty.

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

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

Items	Fair value 31 December 2017	Fair value 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale equity securities and mutual funds	**1,152**	3,554	Level 3	Quoted bid prices adjusted by a liquidity discount determined by the Black-Scholes option pricing model. The key input is historical volatility of the share prices of the securities.
Available-for-sale equity securities and mutual funds	**7,179**	7,920	Level 3	The fair value is determined with reference to the quoted market price and latest round of financing price.
Available-for-sale equity securities and mutual funds	**3,481**	1,021	Level 3	Relative value that are assessed based on average pricing-to-earnings ratio from comparative companies and earnings per share of target company.
Available-for-sale equity securities, mutual funds and trust schemes	**10,409**	10,866	Level 3	Fair value of the investments is based on the use of internal valuation models.

As at 31 December 2017, the Group transferred certain debt securities with a carrying amount of RMB3,575 million (2016: RMB3,768 million) from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. The Group transferred debt securities with a carrying amount of RMB3,095 million (2016: RMB2,670 million) from Level 2 to Level 1 as the Group is able to obtain quoted prices in active markets.

(b) Fair value of financial assets and liabilities not carried at fair value

Some of the Group's financial assets and financial liabilities are not carried at fair value at the end of each reporting period but their fair values are disclosed in the table set out at the beginning of this note. The levels of fair value in the fair value hierarchy in respect of these fair values disclosed are as follows:

	Fair value hierarchy at 31 December 2017		
	Level 1	**Level 2**	**Total**
Financial assets			
Held-to-maturity financial assets	**2,044**	**118,344**	**120,388**
Investments classified as loans and receivables	**–**	**159,799**	**159,799**
Financial liabilities			
Bonds payable	**–**	**49,404**	**49,404**

	Fair value hierarchy at 31 December 2016		
	Level 1	Level 2	Total
Financial assets			
Held-to-maturity financial assets	658	127,303	127,961
Investments classified as loans and receivables	–	177,052	177,052
Financial liabilities			
Bonds payable	–	49,328	49,328

(Amounts in millions of Renminbi, unless otherwise stated)

44. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) Fair value of financial assets and liabilities not carried at fair value *(continued)*

The fair values of the debt instruments reported as financial assets and financial liabilities and included in the Level 2 categories above have been determined with generally accepted pricing models for such debt instruments based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties or the Group.

(c) Reconciliation of Level 3 fair value measurements

	31 December 2017	31 December 2016
Unlisted available-for-sale financial assets		
Opening balance	**23,361**	17,722
Unrealised gains recognised in other comprehensive income	**862**	942
Reclassification from cost to fair value	**–**	400
Transfer from Level 3 to equity accounting	**(3,554)**	–
Additions	**2,708**	7,392
Disposals	**(1,156)**	(3,095)
Closing balance	**22,221**	23,361

As disclosed in note 25(c), during the year, a financial asset of RMB3,554 million was transferred from equity investments to an investment in an associate when the Group was able to appoint a director.

During the year ended 31 December 2016, certain available-for-sale financial assets were reclassified from being measured at cost to be measured at fair value as management is of the opinion that fair value measurement can provide more relevant information to users of these financial statements.

Fair values of trust schemes of RMB6,723 million (2016: RMB7,266 million) are measured by discounted cash flows that are estimated based on expected amounts, discounted at a rate that reflects the risk characteristics of the counterparty. A 50-basis point increase/decrease in the discount rate holding other variables constant will result in a decrease/increase in carrying amount by RMB11 million/RMB21 million (31 December 2016: RMB45 million/RMB55 million).

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements is presented in note 26 to these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Securities sold under agreements to repurchase *(note 33)*	Bonds payable *(note 35)*	Interests payable *(note 39)*	Total
At 1 January 2017	33,066	46,084	632	79,782
Financing cash flows	8,160	3,500	(3,763)	7,897
Finance costs	–	217	3,839	4,056
At 31 December 2017	41,226	49,801	708	91,735

46. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

Due to the nature of the insurance business, the Group is subject to legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and the losses incurred will be partly indemnified by reinsurers or other recoveries including salvage and subrogation. The Group took into account potential losses arising from these legal proceedings when measuring insurance contract liabilities.

(b) Capital commitments and operating leases

(1) Capital commitments

	31 December 2017	31 December 2016
Property and equipment commitments:		
Contracted, but not provided for	**2,228**	2,472

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 26) under operating lease arrangements, with lease terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

(Amounts in millions of Renminbi, unless otherwise stated)

46. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases (continued)

(i) As lessor (continued)

At the end of 2017 and 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2017	31 December 2016
Within one year	298	340
In the second to fifth years, inclusive	427	598
After five years	101	246
TOTAL	826	1,184

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Lease terms for properties range from one to ten years.

Future minimum lease payments under non-cancellable operating leases as at the end of 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Within one year	587	511
In the second to fifth years, inclusive	1,799	1,224
After five years	417	549
TOTAL	2,803	2,284

47. RELATED PARTY DISCLOSURES

(a) The Company is a state-owned enterprise and its controlling shareholder is MOF.

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(b) During the year, the Group had the following significant related party transactions:

	2017	2016
Transactions with associates:		
Industrial Bank		
Gross written premiums	660	480
Investment income	664	199
Claims and policyholder's benefits	607	552
Handling charges and commissions	13	7
Finance costs	134	133
Hua Xia Bank		
Gross written premiums	636	18
Investment income	447	59
Claims and policyholder's benefits	590	9
Handling charges and commissions	1	–
Finance costs	1	–
Other associates		
Gross written premiums	4	–
Premiums ceded to reinsurers	37	–
Investment income	157	–
Claims and policyholder's benefits	7	–
Other operating and administrative expense	–	120

(c) Compensation of key management personnel

Key management personnel of the Company include Directors, Supervisors and Senior Management. The summary of compensation of key management personnel for 2017 and 2016 is as follows:

	2017 (in RMB'000)	2016 (in RMB'000) (Restated)
Short-term employee benefits	10,087	10,665
Other long-term benefits	8,183	9,817
Retirement benefits	2,768	2,322
Total compensation paid to key management personnel	21,038	22,804

Further details of directors and supervisors' emoluments are included in note 12 to the consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties

Receivables from associates	**31 December 2017**	31 December 2016
Industrial Bank		
Cash and cash equivalents	**997**	42
Debt securities	**2,915**	2,915
Equity securities, mutual funds and trust schemes	**882**	447
Term deposits	**9,375**	10,327
Restricted statutory deposits	**1,186**	600
Investments classified as loans and receivables	**–**	2,900
Other assets	**530**	127
Hua Xia Bank		
Cash and cash equivalents	**166**	2
Debt securities	**1,000**	–
Term deposits	**6,508**	8,500
Restricted statutory deposits	**100**	–
Other assets	**1,171**	208
Other associates		
Debt securities	**2,191**	–
Equity securities, mutual funds and trust schemes	**6,723**	7,266
Other assets	**86**	1
TOTAL	**33,830**	33,335

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties *(continued)*

The Group invested in a trust scheme of RMB6,723 million (31 December 2016: RMB7,266 million) which is controlled by an associate.

Receivables from a major shareholder	31 December 2017	31 December 2016
Other assets		
MOF	–	344

Payables to associates	31 December 2017	31 December 2016
Industrial Bank		
Bonds payable	2,422	2,416
Other liabilities	51	51
Hua Xia Bank		
Bonds payable	102	103
Other liabilities	2	2
Other associates		
Other liabilities	2	–
TOTAL	2,579	2,572

(e) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment dominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks and postal offices for insurance policies distributed.

Management considers that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

48. STRUCTURED ENTITIES

The Group invested in a variety of structured entities including asset management products sponsored by asset management companies, securities companies or insurance asset management companies, mutual funds sponsored by mutual fund management companies, trusts sponsored by trust companies and wealth management products sponsored by banks. Investments in these unconsolidated structured entities are disclosed in respective notes of "Debt Securities", "Equity Securities, Mutual Funds and Trust Schemes" and "Investments Classified as Loans and Receivables". The corresponding investment income is recorded in profit or loss as changes in fair values, realised gains/(losses), dividend or interest income, and impairment losses.

Certain subsidiaries of the Group are managers of these structured entities and therefore are considered sponsor of these entities. Management fee earned by this segment is disclosed in note 7 to these consolidated financial statements.

The following table shows the Groups' interests in unconsolidated structured entities. It also shows the Group's maximum exposure to these unconsolidated structured entities, representing the Group's maximum possible risk exposure that could occur. The Group do not provide any financial support for these unconsolidated structured entities.

	31 December 2017			
	Size	Funding provided by the Group and carrying amount of the investment	The Group's maximum exposure	Interest held by the Group
Insurance asset management products managed by the Group	**162,599**	**62,864**	**62,864**	Investment income and management fee
Insurance asset management products managed by third parties	*note*	**71,436**	**71,436**	Investment income
Trust products managed by third parties	*note*	**42,462**	**42,462**	Investment income
Bank wealth management products managed by third parties	*note*	**38,900**	**38,900**	Investment income
Funds managed by third parties	*note*	**54,045**	**54,045**	Investment income
Total	**162,599**	**269,707**	**269,707**	

	31 December 2016			
	Size	Funding provided by the Group and carrying amount of the investment	The Group's maximum exposure	Interest held by the Group
Insurance asset management products managed by the Group	146,067	57,543	57,543	Investment income and management fee
Insurance asset management products managed by third parties	*note*	69,178	69,178	Investment income
Trust products managed by third parties	*note*	14,011	14,011	Investment income
Bank wealth management products managed by third parties	*note*	42,503	42,503	Investment income
Funds managed by third parties	*note*	94,027	94,027	Investment income
Total	146,067	277,262	277,262	

Note: The structured entities are sponsored by third party financial institutions and the information related to size of these structured entities were not publicly available.

(Amounts in millions of Renminbi, unless otherwise stated)

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2017	31 December 2016
ASSETS		
Cash and cash equivalents	**2,833**	5,984
Debt securities	**2,386**	323
Equity securities and mutual funds	**7,138**	7,648
Term deposits	**131**	135
Investments classified as loans and receivables	**600**	2,806
Investments in subsidiaries	**84,274**	82,318
Investments in associates	**5,571**	5,137
Investment properties	**2,605**	1,201
Property and equipment	**3,090**	158
Intangible assets	**29**	25
Prepaid land premiums	**65**	67
Other assets	**227**	2,080
TOTAL ASSETS	**108,949**	107,882
LIABILITIES		
Bonds payable	**15,995**	15,984
Pension benefit obligation	**2,899**	2,800
Other liabilities	**1,693**	1,406
TOTAL LIABILITIES	**20,587**	20,190
EQUITY		
Share capital	**42,424**	42,424
Reserves	**45,938**	45,268
TOTAL EQUITY	**88,362**	87,692
TOTAL EQUITY AND LIABILITIES	**108,949**	107,882

(Amounts in millions of Renminbi, unless otherwise stated)

50. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	2017									
	Share capital	Share premium account	Available-for-sale investment revaluation reserve	Surplus reserve fund*	Share of other comprehensive income/(expense) of associates	Properties transfer to investment properties	Other reserves	Actuarial losses on pension benefit obligation	Retained profits	Total equity
Balance at 1 January 2017	42,424	19,925	1,295	1,410	189	–	11,672	(652)	11,429	87,692
Profit for the year	–	–	–	–	–	–	–	–	3,484	3,484
Other comprehensive income/(expense)	–	–	46	–	(11)	231	–	(232)	–	34
Total comprehensive income/(expense)	–	–	46	–	(11)	231	–	(232)	3,484	3,518
Merger with a wholly owned subsidiary	–	–	–	–	–	–	(65)	–	(1,350)	(1,415)
Appropriations to surplus reserve fund	–	–	–	349	–	–	–	–	(349)	–
Appropriations to discretionary surplus reserve fund	–	–	–	10,000	–	–	–	–	(10,000)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	(1,433)	(1,433)
Balance at 31 December 2017	42,424	19,925	1,341	11,759	178	231	11,607	(884)	1,781	88,362

	2016								
	Share capital	Share premium account	Available-for-sale investment revaluation reserve	Surplus reserve fund*	Share of other comprehensive income of associates	Other reserves	Actuarial (losses)/gains on pension benefit obligation	Retained profits	Total equity
Balance at 1 January 2016	42,424	19,925	1,171	1,101	166	11,672	(693)	9,604	85,370
Profit for the year	–	–	–	–	–	–	–	3,093	3,093
Other comprehensive income	–	–	124	–	23	–	41	–	188
Total comprehensive income	–	–	124	–	23	–	41	3,093	3,281
Appropriations to surplus reserve fund	–	–	–	309	–	–	–	(309)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	(959)	(959)
Balance at 31 December 2016	42,424	19,925	1,295	1,410	189	11,672	(652)	11,429	87,692

* This reserve contains both statutory and discretionary surplus reserves.

51. EVENT AFTER THE REPORTING PERIOD

On 23 March 2018, the Board of Directors of the Company proposed a final dividend of RMB3.94 cent per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

52. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors of the Company on 23 March 2018.

Corporate Information

REGISTERED NAME

Chinese name： 中國人民保險集團股份有限公司

Abbreviation of Chinese name： 中國人保集團

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

Abbreviation of English nam: PICC Group

OFFICE

PICC Building, No. 88 West Chang'an Avenue,
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PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H share

STOCK NAME

PICC Group

STOCK CODE

1339

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

WEBSITE

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LEGAL REPRESENTATIVE

Miao Jianmin

SECRETARY OF THE BOARD

Li Tao

COMPANY SECRETARY

Tai Chi Shan Psyche

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as to Hong Kong law
Davis Polk & Wardwell

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King & Wood Mallesons

PICC

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