中國再保險(集團)股份有限公司

CHINA REINSURANCE (GROUP) CORPORATION

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

Stock Code：1508

2018 Annual Report

專業 讓保險更保險

EMPOWER YOUR INSURANCE **BY EXPERTISE**

CORPORATE CULTURE OF CHINA RE GROUP

MISSION

Diversifying economic risks
Assisting the robust development of the insurance industry

VISION

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

CORE VALUES

Integrity Expertise Responsibility Aspiration

BASIC AWARENESS

Risk awareness
Service awareness
Compliance awareness
Collaboration awareness

BUSINESS PHILOSOPHY

Prudence Innovation Openness Mutual-benefit

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FINANCIAL HIGHLIGHTS

Highlights of financial information of the Group for the past five accounting years are extracted as below:

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

	2018	2017	**Change (%)**	2016	2015	2014
Total assets	**340,907**	242,800	**40.4**	211,207	328,993	189,675
Total liabilities	**253,653**	167,430	**51.5**	139,067	258,036	135,040
Total equity	**87,254**	75,370	**15.8**	72,140	70,957	54,635
Gross written premiums	**122,257**	105,336	**16.1**	86,677	80,434	73,753
Net profit	**3,899**	5,336	**(26.9)**	5,233	7,675	5,476
Net profit attributable to equity shareholders of the parent company	**3,730**	5,256	**(29.0)**	5,146	7,579	5,404
Earnings per share (RMB)	**0.09**	0.12	**(29.0)**	0.12	0.20	0.15
Net assets per share attributable to equity shareholders of the parent company (RMB)	**1.84**	1.75	**5.3**	1.68	1.65	1.48
Weighted average return on equity (%)[1]	**4.90**	7.22	**Decrease of 2.32 percentage points**	7.28	12.99	10.91

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

HONOURS AND AWARDS

China Re Group was recognised as the "China Financial Innovation Enterprise" and Yuan Linjiang, the Chairman, was named "China Financial Innovation Figure"

On 12 May 2018, China Re Group was recognised as the "China Financial Innovation Enterprise" and Yuan Linjiang, the Chairman, was named "China Financial Innovation Figure" at the 2018 China Economic Summit jointly hosted by *China Business Herald, Economy* by China Economic Daily and *China International Journal of Finance and Economics*.

China Re Group was recognised as the "2018 Asian Excellent Reinsurance Company"

On 12 December 2018, China Re Group was recognised as the "2018 Asian Excellent Reinsurance Company" at 13th 21st Century Annual Finance Summit of Asia hosted by 21st Century Media.

China Re Group was recognised as the "Best Listed Company in Hong Kong Stock Connect" and the "Most Valuable Financial Stocks Company"

On 16 January 2019, China Re Group was recognised as the "Best Listed Company in Hong Kong Stock Connect" and the "Most Valuable Financial Stocks Company" at the third "Golden Hong Kong Stocks Annual Awards Ceremony" jointly hosted by Zhitong Finance and Royal Flush Finance.

China Re Group was recognised as the "Hong Kong Stock Connect Company with Best Investor Returns"

On 19 October 2018, China Re Group was recognised as the "Hong Kong Stock Connect Company with Best Investor Returns" at the 2018 "Golden Wing Award" Ceremony for the Most Valuable Hong Kong Stock Connect Companies hosted by *Securities Times.*

China Re Group was recognised as the "Best Reinsurance Company of the Year"

On 12 December 2018, China Re Group was recognised as the "Best Reinsurance Company of the Year" in the election of "2018 Chinese Financial Institutions Gold Medal List — the Golden Dragon Prize" hosted by *Financial News.*

China Re Group was recognised as the "Best Listed Company for Practicing the Belt and Road Initiative"

On 5 December 2018, China Re Group was recognised as the "Best Listed Company for Practicing the Belt and Road Initiative" in the election of China Securities Golden Bauhinia Awards hosted by Hong Kong Ta Kung Wen Wei Media Group.

China Re Group was granted the "2018 China Social Responsibility Targeted Poverty Alleviation Award"

On 28 December 2018, China Re Group was granted the "2018 China Social Responsibility Targeted Poverty Alleviation Award" at the 2018 China Social Responsibility Award Ceremony hosted by Xinhua Net.

China Re Group was recognised as the "Most Socially Responsible Listed Company"

On 12 December 2018, China Re Group was recognised as the "Most Socially Responsible Listed Company" in the election of "Golden Lion Award" for Hong Kong Listed Companies hosted by Sina Finance.

China Re Group was recognised as the "Best Insurance Brand of the Year"

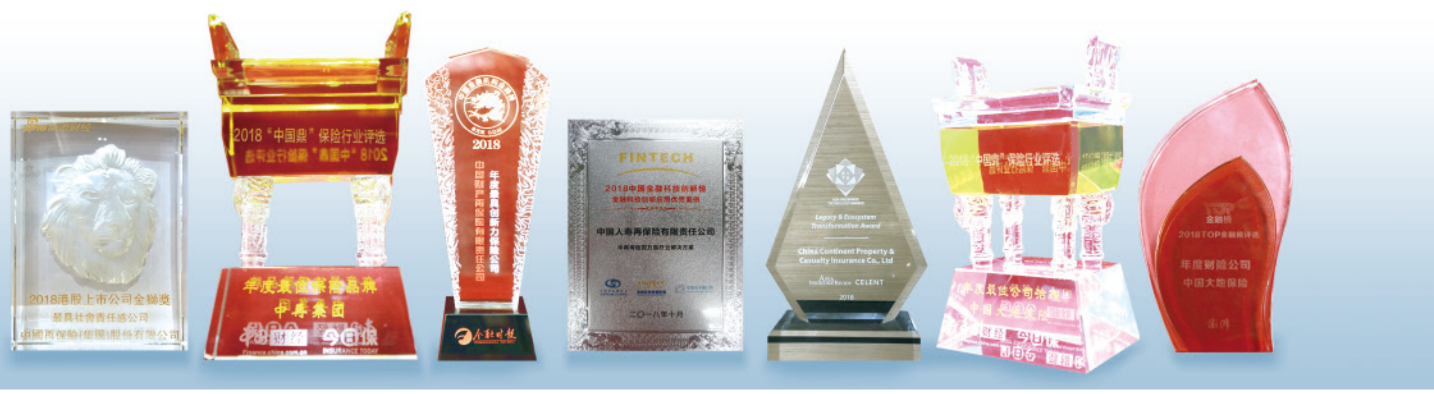
On 27 December 2018, China Re Group was recognised as the "Best Insurance Brand of the Year" in the election of "China Tripod" hosted by China.org.cn.

China Re Group was granted the "2018 Ark Award for Gold Insurance Brand"

On 27 June 2018, China Re Group was granted the "2018 Ark Award for Gold Insurance Brand" in the "2018 Election of Ark Awards for the Insurance Industry in China" hosted by *Securities Times.*

China Re P&C was recognised as the "Most Innovative Insurance Company of the Year"

On 12 December 2018, China Re P&C was recognised as the "Most Innovative Insurance Company of the Year" in the election of "2018 Chinese Financial Institutions Gold Medal List — the Golden Dragon Prize" hosted by *Financial News.*



HONOURS AND AWARDS

China Re P&C was granted the "2018 Ark Award for Innovation of the Insurance Industry in China"

On 27 June 2018, China Re P&C was granted the "2018 Ark Award for Innovation of the Insurance Industry in China" in the "2018 Election of Ark Awards for the Insurance Industry in China" hosted by *Securities Times.*

China Re Life was granted the 2018 ChinaBond "Outstanding Financial Bond Issuer Award"

On 16 January 2019, China Re Life was granted the "Outstanding Financial Bond Issuer Award" in the election of 2018 ChinaBond Outstanding Members hosted by China Central Depository & Clearing Co., Ltd.

The Million Healthcare Cloud Solutions of China Re Life was recognised as the "2018 China Financial Technology Innovation List — Excellent Case of Financial Technology Innovative Application Award"

On 12 October 2018, the project of Million Healthcare Cloud Solutions of China Re Life was recognised as the "2018 China Financial Technology Innovation List — Excellent Case of Financial Technology Innovative Application Award" at the "Financial Technology Development Forum cum 3rd China FinTech Innovation Conference" hosted by the Internet Society of China, Internet Finance Working Committee, the China Academy of Information and Communications Technology, and the FinTech Innovation Alliance.

China Continent Insurance was recognised as the "2018 Most Competitive P&C Insurance Company"

On 12 December 2018, China Continent Insurance was recognised as the "2018 Most Competitive P&C Insurance Company" at the 13th 21st Century Annual Finance Summit of Asia hosted by 21st Century Media.

China Continent Insurance was granted the "2018 Ark Award for Gold Insurance Service"

On 27 June 2018, China Continent Insurance was granted the "2018 Ark Award for Gold Insurance Service" in the "2018 Election of Ark Award for the Insurance Industry in China" hosted by *Securities Times.*

China Continent Insurance was granted the "Best Digital Transformation Award"

On 19 September 2018, China Continent Insurance was granted the "Best Digital Transformation Award" in the election of Asia Insurance Technology Awards (AITA) hosted by Celent and *Asia Insurance Review*.

China Continent Insurance was recognised as the "Best Corporate Governance of the Year"

On 27 December 2018, China Continent Insurance was recognised as the "Best Corporate Governance of the Year" in the election of "China Tripod" hosted by China.org.cn.

China Continent Insurance was recognised as the "P&C Insurance Company of the Year"

On 27 November 2018, China Continent Insurance was recognised as the "P&C Insurance Company of the Year" at the 2018 Financial Development Summit Forum cum China's TOP Financial List Awards Ceremony titled "New Ecology of Compliance and New Future Outlook" hosted by The Paper of Shanghai United Media Group.

STATEMENT FROM THE CHAIRMAN

In 2018, China's gross domestic product ("GDP") exceeded RMB90 trillion, and its per capita GDP was close to USD10,000. The overall growth rate continued to remain within a reasonable range. As the economy shifted to high quality development, supply-side structural reform accelerated, technological innovation and consumption upgrading continued to speed up, new insurance demands sprang up with breadth and depth of protection constantly expanding. China Re Group actively dealt with the changes in macro environment and market development and facilitated the implementation of the "One-Three-Five" Strategy, which contributed to the rapid growth in gross written premiums, continuous optimization of business structure, steady market position with moderate growth, major breakthroughs in global expansion, and solid transformation towards high quality development.

In 2018, China Re Group recorded robust growth in business scale. The gross written premiums amounted to RMB122,257 million, representing a year-on-year increase of 16.1%, which continued to surpass the overall growth rate of China's insurance industry. Operating performance remained stable. Net profit attributable to equity shareholders of the parent company for the year amounted to RMB3,730 million, and the weighted average return on equity was 4.90%. China Re Group recorded a total investment yield of 4.20%, while its net investment yield was 5.12%. The international ratings remained stable, with "A (Excellent)" rating by A.M. Best and "A" rating by S&P Global Ratings.

STATEMENT FROM THE CHAIRMAN

In 2018, China Re Group actively promoted the national strategies and facilitated innovation, synergy and fission, and achieved remarkable results in different key tasks. China Re Group successfully completed an overseas acquisition, in which China Re Group acquired 100% equity interest in Chaucer for a consideration of no more than USD865 million as at the Latest Practicable Date. This is the largest cross-border main business acquisition made by a Chinese state-owned insurance company to date and a milestone for the Group's global expansion, which is conducive to comprehensively improving the Group's global market position and its ability to serve the Belt and Road Initiative. China Re Group successfully completed significant financing activities. China Continent Insurance introduced eight large-scale central state-owned enterprises and leading enterprises with great strength as strategic investors, raising RMB10,673 million, which is the largest private equity financing case in China's P&C insurance industry in recent years. After the Group Company successfully issued USD1,500 million notes through an offshore platform for the first time in 2017, China Re P&C and China Re Life respectively issued capital supplementary bonds of RMB4 billion and RMB5 billion with interest rates lower than their peers that year, significantly enhancing the capital strength. China Re Group continued to upgrade the catastrophe management ecosystem, established China's first technology company focusing on catastrophe risk management, and released the first earthquake catastrophe model in China with independent intellectual property rights. We successfully applied for the first national key scientific research project in the insurance industry and served as the lead reinsurer in government-driven catastrophe projects. China Re Group continued to expand the strategic partnership ecosystem. We signed a total of 17 strategic cooperation agreements with provincial governments including Guangxi and Qinghai and large-scale enterprises such as the People's Insurance Company (Group) of China Limited, China Shipbuilding Industry Corporation and Tencent Holdings Limited, and the cooperation areas and industry coverage continued to expand. We also signed memorandums of understanding with 29 leading insurance companies along the route of the "Belt and Road". The overseas cooperation network covered 122 countries and regions, and has achieved breakthroughs in business. The implementation of "Digital China Re" strategy accelerated. We set up an information technology centre of the Group Company, built a private cloud platform of China Re Group and continuously improved the core business system of NCR Reinsurance. China Continent Insurance launched "Somersault Cloud", the world's first insurance core business system with "cloud structure + micro-service" model, stepping into a new digital insurance 4.0 era ahead of the industry. We launched a series of technological innovations, such as the blockchain-based CNIP "Nuclear and Star" platform, the big data-based "Qing Song Chou" platform, the cloud-based API system platform, and the reinsurance trading platform based on decentralized model. We supported the targeted poverty alleviation based on the "1+N" insurance targeted poverty alleviation model of China Re's characteristics. Since 2002, we have contributed a total of RMB54.10 million in assistance to the Xunhua Salar Autonomous County of Qinghai Province, and since the 18th Central Party Committee National Congress, we have contributed approximately RMB48.74 million, of which the contribution in the past two years accounted for more than 80%, assisting Xunhua in becoming the first ethnic minority autonomous county in China to get rid of poverty in its entirety, which evoked great positive social responses.

STATEMENT FROM THE CHAIRMAN

In 2018, the gross written premiums from P&C reinsurance business amounted to RMB28,947 million, representing a year-on-year increase of 14.7%. In particular, the domestic P&C reinsurance business[1] recorded gross written premiums of RMB24,970 million, representing a year-on-year increase of 14.2%, and maintained No.1 ranking in the industry in terms of market share; overseas business recorded gross written premiums of RMB4,149 million (before intra-segment elimination), representing a year-on-year increase of 23.0%. Great breakthroughs were achieved in innovative areas such as construction quality inherent defects insurance (IDI), first piece (set) and new material comprehensive insurance, short-term health insurance, catastrophe insurance, and insurance business for the Belt and Road Initiative. The gross written premiums from the life and health reinsurance business amounted to RMB52,454 million, representing a year-on-year increase of 18.4%, achieving "three leaps in three years"; the reinsurance premium income from domestic protection-type business made a historical breakthrough to over RMB10 billion, representing a year-on-year increase of 74.4%, and well established itself as new business growth driver. We also carried out in-depth development based on the "Data+" and "Product+" strategies, and co-developed the internet product "Hao Yi Bao". The gross written premiums from the primary P&C insurance business amounted to RMB42,622 million, achieving a leap forward in ranking from sixth to fifth in the domestic market, with the growth rate outperforming industry average for four consecutive years. The "Non-motor Insurance Business" strategy achieved remarkable results. The primary premium income from non-motor insurance business reached RMB15,154 million, representing a year-on-year increase of 54.3%, and surpassing the market by 24.5 percentage points. Driven by the cooperation with internet giants such as Baidu, Alibaba, Tencent and JD, the gross written premiums through online channels reached RMB1,743 million. The net investment income of the asset management business amounted to RMB10,403 million. The net investment yield was 5.12%, representing a year-on-year increase of 0.48 percentage points. The revenue of insurance intermediary business amounted to RMB296 million, representing a year-on-year increase of 14.3%, showing significantly enhanced synergy.

Looking forward, the landscape of global economy is confronting a crossroad of historical significance. China's economy is accelerating the shift to high quality development, while the insurance industry is undergoing profound changes in all directions. The industry's ecology and development momentum are being fully reshaped, and competition in the insurance market continues to intensify. There will be an upgrade in industrial organisation form, and deep integration between upstream and downstream industries. Large-scale enterprises, especially leading enterprises in various industries, are all seeking to build up platform ecosystems, to integrate upstream, downstream and related industries, and strive to satisfy customers' diverse needs in different aspects. Disruptive competition is emerging, and technology is fully reconstructing the ecological environment and competition landscape of the insurance industry. The traditional insurance business model may undergo disruptive reform. International reinsurers, primary insurance companies and technology giants are all accelerating the overall deployment of insurance technology. Globalized development is deepening, and globalization has become the need of China's economy and the direction of the insurance industry. China's financial industry is accelerating the two-way opening up. More and more China's overseas interests seek insurance protection. Domestic and overseas collaboration and global integration have become the new trends in the development of insurance industry.

Note: 1. The domestic P&C reinsurance business mentioned herein only refers to domestic P&C reinsurance business operated by China Re P&C.

STATEMENT FROM THE CHAIRMAN

In the face of opportunities and challenges, in the year of 2019, China Re Group will facilitate the implementation of the "One-Three-Five" Strategy and transformation to high-quality development, focus on three major strategies, namely, platform operation, technology advancement and globalization, and adhere to the operational strategy of "stabilizing growth, adjusting structure and increasing profitability", thereby achieving stable growth in overall value. We will implement platform operation, accelerate the breaking of internal boundaries, attract more partners, and focus on disaster management, the Belt and Road Initiative and health management to create a platform ecosystem. Acting as the pioneer of innovation of insurance products and services, we will integrate different resources to provide more universal and reliable products and services, and comprehensive solutions to facilitate the implementation of national strategies, industry transformation and upgrade, and enhance people's general wellbeing. We will implement technology advancement, accelerate the construction of "Digital China Re", build a technology engine of high-quality development, solidify data foundation, fully utilise data assets, and make significant efforts to promote the construction of data platform. We will leverage blockchain, artificial intelligence and other new technologies to facilitate online management, business digitalization and operational intelligence, actively carry out external cooperation and build up a technological ecosystem. We will implement globalization, facilitate the improvement of operational management and control capabilities, create a higher level mindset for high-quality development, do our best to achieve smooth transition after the merger and acquisition of Chaucer, coordinate and promote the development of overseas institutions, continuously improve the investment return on overseas funds, and speed up the collaborative development of domestic and overseas markets and insurance and investment business, improve and diversify the global business portfolio, optimize global asset allocation, lead and nurture domestic innovation, and build up a more comprehensive protection for China's overseas interests. We will stabilize growth, pay more attention to our core business and focus more on the risk protection function. On one hand, we will strive to make our "ballast" businesses such as quota share reinsurance and motor insurance more stable and refined, and on the other hand, we will grow the "pillar" business such as non-motor insurance, health insurance and policy-oriented business stronger and bigger. We will adjust business structure, focus more on value growth, promote the transformation and upgrade of business structure and business model, and focus on increasing the business proportion of non-motor insurance, protection-type life reinsurance and overseas P&C reinsurance. We will increase profitability, pay more attention to the dual profit drivers, strive to attain profitable underwriting and stable and high-yield investment, increase operating cash flow, emphasize cost management and control, and actively cultivate new profit sources such as third-party asset management, technology services, and health management.

Standing at a new point in time, China Re Group will continue to follow the "One-Three-Five" Strategy as its guidance, comprehensively and efficiently serve the national strategies, actively lead the industry to innovate and upgrade, achieve stable returns for shareholders, create value with customers, provide a platform for employees to grow, and strive to become a comprehensive international reinsurance group with sustainable development capabilities and core competitiveness.

Yuan Linjiang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is engaged in P&C reinsurance, life and health reinsurance, primary P&C insurance, asset management and other business. We operate our domestic P&C reinsurance business primarily through China Re P&C, our overseas P&C reinsurance business primarily through China Re P&C, Singapore Branch and China Re Syndicate 2088, our domestic and overseas life and health reinsurance business primarily through China Re Life, and our primary P&C insurance business primarily through China Continent Insurance. We utilise and manage our insurance funds in a centralised and professional manner primarily through China Re AMC. In addition, the Group Company operates domestic and overseas legacy P&C reinsurance business and CNIP business through China Re P&C, and operates the domestic legacy life and health reinsurance business through China Re Life.

The acquisition of Chaucer by the Group has been progressing well, and the Group has completed the closing of the acquisition of HIIH on 28 December 2018 (EST). The financial statements set out in this report include the financial information of HIIH after the date of acquisition. For details, please refer to the section of "Major Events" in this report.

Key Operating Data

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December		
	2018	2017	Change (%)
Gross written premiums	**122,257**	105,336	16.1
Gross written premiums by business segment:			
P&C reinsurance[1]	**28,947**	25,239	14.7
Life and health reinsurance[1]	**52,454**	44,311	18.4
Primary P&C insurance[1]	**42,622**	37,268	14.4
Total investment income[2]	**8,530**	10,700	(20.3)
Total investment yield (%)[3]	**4.20**	6.01	Decrease of 1.81 percentage points
Net investment income[4]	**10,403**	8,260	25.9
Net investment yield (%)[5]	**5.12**	4.64	Increase of 0.48 percentage points

Notes:
1. Gross written premiums of each business segment do not consider inter-segment eliminations.
2. Total investment income = Investment income + share of profits of associates - interest expenses on securities sold under agreements to repurchase.
3. Total investment yield = Total investment income ÷ average of investment assets as at the beginning and end of the period.
4. Net investment income equals to the sum of interest, dividends, rental income and share of profits of associates.
5. Net investment yield = Net investment income ÷ average of investment assets as at the beginning and end of the period.

	As at 31 December 2018		As at 31 December 2017	
	Core solvency adequacy ratio (%)	**Aggregated solvency adequacy ratio (%)**	Core solvency adequacy ratio (%)	Aggregated solvency adequacy ratio (%)
China Re Group	**162**	**184**	197	197
Group Company	**416**	**416**	549	549
China Re P&C	**178**	**217**	218	218
China Re Life	**166**	**214**	234	234
China Continent Insurance	**434**	**434**	267	267

Unit: in RMB millions, except for percentages

	As at 31 December 2018	As at 31 December 2017	Change (%)
Embedded value of life and health reinsurance business	**21,763**	20,116	8.2
Value of one year's new business of life and health reinsurance business	**1,341**	1,470	(8.8)

Note: Figures related to life and health reinsurance business in the table only include China Re Life, which accounts for more than 99.5% of total life and health reinsurance business segment.

In 2018, the Group proactively dealt with the changes in macro environment and market development, and facilitated the implementation of the "One-Three-Five" Strategy, which contributed to the rapid growth in premium volume, continuous optimisation of business structure, steady improvement of market position, major breakthrough in global expansion, and solid transformation towards high quality development.

As our business kept growing rapidly, our gross written premiums recorded a new high with an increase of 16.1% from RMB105,336 million in 2017 to RMB122,257 million in 2018, of which the gross written premiums from P&C reinsurance, life and health reinsurance and primary P&C insurance (before inter-segment eliminations) were RMB28,947 million, RMB52,454 million and RMB42,622 million, respectively, representing year-on-year growth of 14.7%, 18.4% and 14.4%, respectively.

Our business structure continued optimising, with year-on-year growth of 26.5% for domestic non-motor insurance business of P&C reinsurance, representing an increase of 6.3 percentage points in the proportion of domestic P&C reinsurance business; year-on-year growth of 68.6% for domestic facultative reinsurance business of P&C reinsurance, representing an increase of 1.8 percentage points in the proportion of domestic P&C reinsurance business; year-on-year growth of 23.0% for overseas P&C reinsurance business, representing an increase of 0.9 percentage points in the proportion of P&C reinsurance business; year-on-year growth of 74.4% for domestic protection-type business of life and health reinsurance, representing an increase of 8.5 percentage points in the proportion of domestic life and health reinsurance business; year-on-year growth of 54.3% for non-motor primary P&C insurance, representing an increase of 9.2 percentage points in the proportion of primary P&C insurance business.

Our core reinsurance business maintained its solid market position and we continued to maintain the leading market share in both domestic P&C reinsurance market and life and health reinsurance market. In terms of primary premium incomes, we accounted for a market share of 3.61% in primary P&C insurance business, jumping to No. 5 of all primary P&C insurance companies in the domestic market. During the Reporting Period, we maintained Financial Strength Rating of "A (Excellent)" by A.M. Best and was rated "A" by S&P Global Ratings, with our financial condition remaining stable.

In 2018, the Group's total investment income amounted to RMB8,530 million, representing a year-on-year decrease of 20.3%; total investment yield was 4.20%, representing a year-on-year decrease of 1.81 percentage points. The decrease in total investment yield was mainly due to the year-on-year decrease in equity and fund investment income under the influence of the significant downturn in domestic and overseas equity markets. Our net investment income amounted to RMB10,403 million, representing a year-on-year increase of 25.9%; net investment yield was 5.12%, representing a year-on-year increase of 0.48 percentage points. The increase in net investment yield was mainly due to the fact that we greatly increased our allocation of fixed-income investments in 2017 and at the beginning of 2018, resulting in a year-on-year increase in interest income. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Key Financial Indicators

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

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

	For the year ended 31 December		
	2018	2017	Change (%)
Gross written premiums	**122,257**	105,336	16.1
Profit before tax	**5,085**	6,951	(26.8)
Net profit	**3,899**	5,336	(26.9)
Net profit attributable to equity shareholders of the parent company	**3,730**	5,256	(29.0)
Earnings per share (RMB)	**0.09**	0.12	(29.0)
Weighted average return on equity (%)[1]	**4.90**	7.22	Decrease of 2.32 percentage points

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

MANAGEMENT DISCUSSION AND ANALYSIS

Unit: in RMB millions, unless otherwise stated

	As at 31 December 2018	As at 31 December 2017	Change (%)
Total assets	**340,907**	242,800	40.4
Total liabilities	**253,653**	167,430	51.5
Total equity	**87,254**	75,370	15.8
Net assets per share attributable to equity shareholders of the parent company (RMB)	**1.84**	1.75	5.3

The total assets and total liabilities of the Group at the end of the Reporting Period recorded a year-on-year increase due to the business development of subsidiaries of China Re Group, the acquisition of Chaucer, the introduction of strategic investors by China Continent Insurance, the issuance of capital supplementary bonds by China Re P&C and China Re Life and other factors. In 2018, the net profit attributable to equity shareholders of the parent company of the Group amounted to RMB3,730 million, representing a year-on-year decrease of 29.0%, mainly due to the fact that the Group's total investment income decreased year on year as a result of the significant downturn in domestic and overseas equity markets.

P&C REINSURANCE

The businesses of P&C reinsurance segment mainly includes domestic P&C reinsurance business, overseas P&C reinsurance business, CNIP business and legacy P&C reinsurance business. This segment includes the financial information of HIIH after the date of acquisition. The acquisition of Chaucer has no significant impact on the net assets, profit and weighted average return on equity of this segment, and no analysis is made for Chaucer in this segment as yet. We will disclose further details of Chaucer's operation in the 2019 interim report.

In 2018, we made efforts to strengthen our position as a leading domestic reinsurer. We continued to facilitate the establishment of platforms for domestic commercial business and national policy-oriented business, accelerated the implementation of strategic initiatives, and strengthened the innovation-driven model and technological application. We actively grasped the market opportunities brought by the rapid growth of non-motor insurance business and accelerated development of emerging insurance products. We continued to strengthen the capability of our underwriting team, to upgrade our customer service system, and to increase our efforts in the expansion of innovative business. We also continued to develop our business in emerging sectors such as construction inherent defects insurance (IDI), short-term health insurance and new types of liability insurance, which contributed to the continuous optimisation of business structure.

Under strict risk control, we continued to actively develop overseas P&C reinsurance business. We expanded Asia-Pacific market through our Singapore Branch, and explored new insurance products and new clients by utilizing talents and channels of the Lloyd's, thereby further optimizing the insurance product structure, diversifying the business portfolio and achieving relatively rapid growth in business scale.

In 2018, gross written premiums from our P&C reinsurance segment amounted to RMB28,947 million, representing a year-on-year increase of 14.7%, accounting for 23.3% of gross written premiums of the Group (before inter-segment eliminations). Net profit amounted to RMB1,205 million, and weighted average return on equity reached 5.89%. The combined ratio was 99.6%, representing a year-on-year decrease of 3.5 percentage points. Of such combined ratio, the loss and expense ratio components were 57.1% and 42.5% respectively, representing a year-on-year decrease of 4.3 percentage points and an increase of 0.8 percentage points respectively.

Business Analysis

Domestic P&C Reinsurance Business

Domestic P&C reinsurance business mentioned in this section refers to domestic P&C reinsurance business operated by China Re P&C. In 2018, reinsurance premium income from our domestic P&C reinsurance business amounted to RMB24,970 million, representing a year-on-year increase of 14.2%. The combined ratio was 99.4%, representing a year-on-year decrease of 1.3 percentage points. Of such combined ratio, the loss and expense ratio components were 55.8% and 43.6% respectively, representing a year-on-year decrease of 1.5 percentage points and an increase of 0.2 percentage points respectively. The year-on-year decrease of combined ratio was mainly due to a year-on-year decrease of loss from disasters in 2018, and improvement of agriculture insurance business quality.

In terms of types of reinsurance arrangement and forms of cession, our domestic P&C reinsurance business primarily consisted of treaty reinsurance and proportional reinsurance respectively, which was generally in line with the business mix in the domestic P&C reinsurance market. Meanwhile, as a result of our active development of facultative reinsurance business, the reinsurance premium income amounted to RMB1,337 million, representing a year-on-year increase of RMB544 million or 68.6%. In particular, reinsurance premium income from facultative reinsurance business of construction inherent defects insurance (IDI), liability insurance and short-term health insurance amounted to RMB714 million in total, representing a year-on-year increase of RMB298 million or 71.7%. In terms of business channels, by virtue of our good cooperation with domestic clients, the majority of our domestic P&C reinsurance business was on direct basis.

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

Unit: in RMB millions, except for percentages

Type of reinsurance arrangement	**For the year ended 31 December**			
	2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Treaty reinsurance	**23,633**	**94.6**	21,069	96.4
Facultative reinsurance	**1,337**	**5.4**	793	3.6
Total	**24,970**	**100.0**	21,862	100.0

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

Unit: in RMB millions, except for percentages

Form of cession	For the year ended 31 December 2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Proportional reinsurance	**24,608**	**98.6**	21,503	98.4
Non-proportional reinsurance	**362**	**1.4**	359	1.6
Total	**24,970**	**100.0**	21,862	100.0

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

Unit: in RMB millions, except for percentages

Business channel	For the year ended 31 December 2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Direct	**23,304**	**93.3**	20,562	94.1
Via broker	**1,666**	**6.7**	1,300	5.9
Total	**24,970**	**100.0**	21,862	100.0

Lines of business

As the largest domestic specialised P&C reinsurance company in the PRC, we offer a wide variety of P&C reinsurance coverage catering to the characteristics of the PRC market. Our lines of business cover a wide range of P&C insurance types in the PRC, primarily including motor, commercial and household property, agriculture, liability and engineering insurance. Benefited from the rapid growth of non-motor business in primary insurance market and our active development in non-motor reinsurance business, the proportion of non-motor reinsurance business in domestic P&C reinsurance business for the year 2018 increased by 6.3 percentage points on a year-on-year basis, resulting in further optimisation of business structure.

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

Unit: in RMB millions, except for percentages

Line of business	For the year ended 31 December			
	2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Motor	**8,705**	**34.9**	9,003	41.2
Commercial and household property	**4,740**	**19.0**	3,996	18.3
Agriculture	**3,840**	**15.4**	3,665	16.8
Liability	**2,996**	**12.0**	2,207	10.1
Engineering	**1,687**	**6.8**	1,182	5.4
Others[1]	**3,002**	**11.9**	1,809	8.2
Total	**24,970**	**100.0**	21,862	100.0

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

Motor reinsurance. In 2018, the reinsurance premium income from motor insurance amounted to RMB8,705 million, representing a year-on-year decrease of 3.3%, mainly due to the changes in certain customers' demand for motor reinsurance, and their adjustment to the cession arrangement.

Commercial and household property reinsurance. In 2018, the reinsurance premium income from commercial and household property insurance amounted to RMB4,740 million, representing a year-on-year increase of 18.6%, mainly due to the fact that we actively explored property reinsurance business, and enhanced the business participation of some major customers.

Agriculture reinsurance. In 2018, the reinsurance premium income from agriculture insurance amounted to RMB3,840 million, representing a year-on-year increase of 4.8%, mainly due to the fact that we fully catered to the demand for reinsurance of agriculture business from our clients, and also exerted strict control over business quality and adjusted our business mix to maintain reasonable growth.

Liability reinsurance. In 2018, the reinsurance premium income from liability insurance amounted to RMB2,996 million, representing a year-on-year increase of 35.7%, mainly due to the fact that we actively captured the market opportunities arising from the rapid growth of primary liability insurance business and increased our input for development and efforts in promotion of new types of liability insurance products.

Engineering reinsurance. In 2018, the reinsurance premium income from engineering insurance amounted to RMB1,687 million, representing a year-on-year increase of 42.7%, mainly due to the fact that we actively seized business opportunities of engineering insurance brought by infrastructure construction, made intensive efforts in business development, expanded our business channels and increased the depth and breadth of business participation.

Clients and client services

In 2018, we continued to maintain good client relationships. We have maintained long-term stable relationships with major P&C insurance companies in the PRC and strengthened our relationships through business cooperation, exchange of technical know-how and client services. As at the end of the Reporting Period, we maintained business relationships with 82 domestic P&C insurance companies, covering 93.2% of P&C insurance companies in the PRC. In 2018, 33% of our reinsurance contracts were entered into as a lead reinsurer.

Overseas P&C Reinsurance Business

Overseas P&C reinsurance business mentioned in this section refers to the overseas P&C reinsurance business operated by China Re P&C, Singapore Branch, and China Re Syndicate 2088, as well as overseas primary P&C insurance business operated by China Re Syndicate 2088.

In 2018, gross written premiums from our overseas P&C reinsurance business amounted to RMB4,149 million (before intra-segment eliminations), representing a year-on-year increase of 23.0%. The combined ratio was 102.3%, representing a year-on-year decrease of 21.4 percentage points. Of such combined ratio, the loss and expense ratio components were 67.4% and 34.9% respectively, representing a year-on-year decrease of 18.5 percentage points and 2.9 percentage points respectively. Our combined ratio improved significantly as compared with that of 2017 but we still recorded underwriting loss, mainly due to the fact that although the total loss caused by global disasters in 2018 was lower than 2017, the total loss was still higher than the average of the last decade.

In terms of types of reinsurance arrangement, our overseas P&C reinsurance business is still dominated by treaty reinsurance. However, the proportion of treaty reinsurance business decreased year on year due to the increase of primary insurance business from Lloyd’s channel and the expansion of facultative reinsurance business by our Singapore Branch.

The following table sets forth the gross written premiums from our overseas P&C reinsurance business by type of reinsurance arrangement for the reporting periods indicated:

Unit: in RMB millions, except for percentages

	For the year ended 31 December			
Type of reinsurance arrangement	**2018**		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Treaty reinsurance	**3,737**	**90.1**	3,190	94.5
Facultative reinsurance and others[1]	**412**	**9.9**	184	5.5
Total	**4,149**	**100.0**	3,374	100.0

Note: 1. Including primary premium income from the overseas primary P&C insurance business operated by China Re Syndicate 2088 amounting to RMB346 million in 2018 (2017: RMB143 million).

In terms of geographic areas, Asia, America and Europe were the main source regions of our overseas P&C reinsurance business, representing 41.5%, 33.3% and 22.1% of its total gross written premiums, respectively. In 2018, we achieved good progress through active business development in the Asia-Pacific region, and also increased our participation in the business in America, which contributed to the year-on-year increase in gross written premiums from our business in Asia and America.

The following table sets forth the gross written premiums from our overseas P&C reinsurance business by source region of business for the reporting periods indicated:

Unit: in RMB millions, except for percentages

	For the year ended 31 December			
Source region of business	**2018**		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Asia	**1,722**	**41.5**	1,100	32.6
America	**1,381**	**33.3**	1,248	37.0
Europe	**916**	**22.1**	954	28.3
Oceania	**118**	**2.8**	60	1.8
Africa	**12**	**0.3**	12	0.3
Total	4,149	**100.0**	3,374	100.0

In terms of lines of business, our overseas P&C reinsurance business primarily provided coverage for non-marine, specialty and liability insurance. Business portfolio consisted mainly of short tail business. We achieved rapid growth in aviation and energy insurance business, leveraged on the Lloyd's channel to actively expand primary liability insurance, and also actively developed new business such as renewable energy insurance and accident and health insurance, striving to facilitate the diversification of overseas business portfolio.

In terms of business channels, we always adhered to long-term cooperation and mutual benefit in order to establish a balanced and stable network of business channels. We insisted on taking brokers as our main source, paid attention to consolidating and strengthening the cooperation with reputable international brokers, actively explored the opportunities of cooperation with distinctive regional brokers, and made certain efforts in developing underwriting agency channel. In addition, we continuously strengthened our direct cooperation with quality clients and built up a closer business connection.

In terms of clients, we continuously developed quality clients based on the management philosophy of prioritizing profitability and efficiency while paying attention to service quality. We established long-term and stable business relationships with quality and core clients to target at their profitable ceding business. We have established comprehensive cooperation relationships with various internationally renowned major ceding companies and increased our efforts in development of quality regional clients by utilising the geographical advantages of different international platforms, which contributed to significant progress in expansion of quality client base.

In terms of service ability, our quotation ability in Lloyd's and the Asia-Pacific region continued to improve, and our service quality became better recognised by the clients. Leveraging on the talents and technology advantages as well as years of experience in international business operation, we were able to better serve domestic clients in China by providing more products and international cooperation plans of reinsurance business, and thus our advantages of the synergy between domestic and overseas business could be well leveraged.

CNIP Business

The Group Company, together with China Re P&C and China Continent Insurance, underwrites global nuclear insurance business via CNIP. In 2018, our reinsurance premium income from CNIP business amounted to RMB128 million.

Financial Analysis

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December		
	2018	2017	Change (%)
Gross written premiums	**28,947**	25,239	14.7
Less: premiums ceded to retrocessionaires	**(962)**	(781)	23.2
Net written premiums	**27,985**	24,458	14.4
Changes in unearned premium reserves	**(804)**	30	(2,780.0)
Net premiums earned	**27,181**	24,488	11.0
Reinsurance commission income	**98**	98	0.0
Investment income	**1,747**	2,101	(16.8)
Exchange (losses)/gains, net	**(159)**	197	(180.7)
Other income	**42**	52	(19.2)
Total income	**28,909**	26,936	7.3
Claims and policyholders' benefits	**(15,529)**	(15,033)	3.3
Handling charges and commissions	**(11,059)**	(9,820)	12.6
Finance costs	**(274)**	(40)	585.0
Other operating and administrative expenses	**(719)**	(607)	18.5
Total benefits, claims and expenses	**(27,581)**	(25,500)	8.2
Share of profits of associates	**52**	57	(8.8)
Profit before tax	**1,380**	1,493	(7.6)
Income tax	**(175)**	(197)	(11.2)
Net profit	**1,205**	1,296	(7.0)

Gross Written Premiums

Gross written premiums for our P&C reinsurance segment increased by 14.7% from RMB25,239 million in 2017 to RMB28,947 million in 2018, mainly due to the fast growth of domestic reinsurance business from liability insurance, commercial and household property insurance, engineering insurance and the overseas P&C reinsurance business from Asia and America.

Premiums Ceded to Retrocessionaires

Premiums ceded to retrocessionaires for our P&C reinsurance segment increased by 23.2% from RMB781 million in 2017 to RMB962 million in 2018, mainly due to the fact that based on our business needs, we increased the outward retrocession in order to achieve better risk diversification.

Investment Income

Investment income for our P&C reinsurance segment decreased by 16.8% from RMB2,101 million in 2017 to RMB1,747 million in 2018. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our P&C reinsurance segment increased by 3.3% from RMB15,033 million in 2017 to RMB15,529 million in 2018. The relatively low growth rate was mainly due to the year-on-year decrease in claims settlement for catastrophe loss.

Handling Charges and Commissions

Handling charges and commissions for our P&C reinsurance segment increased by 12.6% from RMB9,820 million in 2017 to RMB11,059 million in 2018, which was generally in line with the increase in gross written premiums.

Share of Profits of Associates

Share of profits of associates for our P&C reinsurance segment decreased by 8.8% from RMB57 million in 2017 to RMB52 million in 2018, mainly due to the decrease of profits of associates in 2018.

Net Profit

As a result of the foregoing reasons, net profit for our P&C reinsurance segment decreased by 7.0% from RMB1,296 million in 2017 to RMB1,205 million in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

LIFE AND HEALTH REINSURANCE

The businesses of life and health reinsurance segment comprise the life and health reinsurance business operated by China Re Life, and the life and health reinsurance business operated by the Group Company through China Re Life. In 2018, under the continuing strict regulation and the combined effect of the product transformation, channel quality improvement, service upgrade and technology empowerment, domestic life and health insurance industry showed a trend of refocusing on protection function and in-depth transformation. On the one hand, life insurance business presented negative growth in new policies after failing to make a good start at the beginning of 2018, it recorded a year-on-year decrease of 3.4% despite of the month-by-month recovery in the rest of the year. On the other hand, the protection-type insurance business such as health insurance experienced rapid growth at a rate of over 20% for the whole year. Affected by the RMB depreciation, the RMB-denominated policies in the Hong Kong life insurance market continued to be sluggish, and the proportion of USD-denominated policies continued to increase during the US interest rate hike cycle. We timely adjusted our market and product strategy, adhered to seeking progress while maintaining stability and innovation development, and strengthened risk awareness. We achieved fast growth in the domestic protection-type reinsurance business, moderate growth in the financial reinsurance business and a year-on-year decline in the savings-type reinsurance business. China Re Life has a stable position in the domestic market and the cross-border savings-type reinsurance market in Hong Kong, with around 80% of all of its reinsurance contracts being entered into as a lead reinsurer.

In 2018, reinsurance premium income from our life and health reinsurance segment amounted to RMB52,454 million, representing a year-on-year increase of 18.4%, accounting for 42.3% of gross written premiums of the Group (before inter-segment eliminations). Net profit amounted to RMB1,533 million, and weighted average return on equity reached 6.95%. In particular, reinsurance premium income from China Re Life amounted to RMB52,365 million, representing a year-on-year increase of 18.4%; total written premiums ("TWPs") amounted to RMB57,089 million (including TWPs of RMB4,724 million for savings-type non-insurance business), representing a year-on-year increase of 26.3%.

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

Business Analysis

In terms of business lines, the protection-type reinsurance business developed rapidly, the financial reinsurance business remained stable with a moderate growth, and the savings-type reinsurance business declined on a year-on-year basis.

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

Unit: in RMB millions, except for percentages

Business line	For the year ended 31 December			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Domestic protection-type reinsurance	12,412	23.7	7,119	16.1
Domestic savings-type reinsurance	4,795	9.2	9,581	21.7
Domestic financial reinsurance	30,439	58.1	23,826	53.9
Domestic in total	47,646	91.0	40,526	91.7
Overseas savings-type reinsurance	4,364	8.3	3,194	7.2
Other overseas business	355	0.7	489	1.1
Overseas in total	4,719	9.0	3,683	8.3
Total	52,365	100.0	44,209	100.0

In addition, we also proactively developed savings-type non-insurance business. The following table sets forth the TWPs of the savings-type non-insurance business for the reporting periods indicated:

Unit: in RMB millions, except for percentages

Non-insurance business	For the year ended 31 December			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Domestic savings-type non-insurance	3,971	84.1	300	30.2
Overseas savings-type non-insurance	753	15.9	695	69.8
Total	4,724	100.0	995	100.0

Domestic Life and Health Reinsurance Business

In 2018, the reinsurance premium income from our domestic life and health reinsurance business amounted to RMB47,646 million, representing a year-on-year increase of 17.6%; and the TWPs amounted to RMB51,617 million (including TWPs from savings-type non-insurance business of RMB3,971 million), representing a year-on-year increase of 26.4%.

In respect of the protection-type reinsurance business, reinsurance premium income amounted to RMB12,412 million in 2018, representing a year-on-year increase of 74.4%. In particular, reinsurance premium income from the yearly renewable term reinsurance business (i.e., "YRT" reinsurance business, which is a kind of reinsurance arrangement entered into by ceding companies based on certain proportion of net amount at risk at an annual rate) amounted to RMB7,435 million, representing a year-on-year increase of 68.2%, accounting for 59.9% of reinsurance premium income from the protection-type reinsurance business. On the one hand, we focused on promoting the model of "Product + Platform" and "Product + Service", innovatively facilitated the business cooperation with online and offline platform companies. Reinsurance premium income from the mid-end medical care insurance and the accident insurance for drivers and passengers of private-owned motor vehicles amounted to RMB3,107 million, representing a year-on-year increase of 167.1%, which became a new business growth driver. On the other hand, we actively carried out risk prevention and mitigation of major business and achieved a significant progress in "Data + Risk Prevention and Control" to adhere to the bottom line of risk management and improve the business safety margin.

In respect of the savings-type reinsurance business, reinsurance premium income amounted to RMB4,795 million in 2018, representing a year-on-year decrease of 50.0%; and the TWPs amounted to RMB8,766 million (including TWPs from savings-type non-insurance business of RMB3,971 million), representing a year-on-year decrease of 11.3%. On the one hand, we made accurate judgement on the tightened cash flow caused by the negative growth in new policies in the industry, and captured the opportunity of low interest rate and secured business income from large contracts at the beginning of 2018. On the other hand, we tackled strong intervention and other challenges from competitors, extensively developed new clients, innovated our business model, actively developed savings-type non-insurance business, and held the bottom line of cost with relatively stable business scale.

In respect of the financial reinsurance business, reinsurance premium income amounted to RMB30,439 million in 2018, representing a year-on-year increase of 27.8%. We paid attention to the changes in the regulatory policies, carefully monitored the credit risk of counterparties, continued to maintain our leading market position in the financial reinsurance business and achieved profitable development.

Overseas Life and Health Reinsurance Business

In 2018, reinsurance premium income from our overseas life and health reinsurance business amounted to RMB4,719 million, representing a year-on-year increase of 28.1%; and the TWPs amounted to RMB5,472 million (including TWPs from savings-type non-insurance business of RMB753 million), representing a year-on-year increase of 25.0%.

In respect of the overseas savings-type reinsurance business, reinsurance premium income amounted to RMB4,364 million in 2018, representing a year-on-year increase of 36.6%; and the TWPs amounted to RMB5,117 million (including TWPs from savings-type non-insurance business of RMB753 million), representing a year-on-year increase of 31.6%. We overcame the continued downturn in the sales of RMB-denominated policies in Hong Kong, extensively explored the market demand, and leveraged on the dual drivers of new policies and renewal business, thereby achieving stable development in the overseas savings-type reinsurance business with a steady growth.

In respect of other overseas business, reinsurance premium income amounted to RMB355 million in 2018, representing a year-on-year decrease of 27.4%.

In terms of types of reinsurance arrangement and forms of cession, our life and health reinsurance business primarily consisted of treaty reinsurance and proportional reinsurance respectively.

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December			
Type of reinsurance arrangement	**2018**		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Treaty reinsurance	**52,058**	**99.4**	44,012	99.6
Facultative reinsurance	**307**	**0.6**	197	0.4
Total	**52,365**	**100.0**	44,209	100.0

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December			
Form of cession	**2018**		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Proportional reinsurance	**52,324**	**99.9**	44,173	99.9
Non-proportional reinsurance	**41**	**0.1**	36	0.1
Total	**52,365**	**100.0**	44,209	100.0

In terms of insurance product types covered, the life and health reinsurance business was primarily comprised of life insurance. The business mix remained generally stable despite the slight decrease in proportion of life insurance business due to the rapid year-on-year growth of the protection-type health insurance business.

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

Unit: in RMB millions, except for percentages

Insurance product type	For the year ended 31 December			
	2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Life	**40,458**	**77.3**	36,849	83.4
Health	**9,756**	**18.6**	5,061	11.4
Accident	**2,151**	**4.1**	2,299	5.2
Total	**52,365**	**100.0**	44,209	100.0

Financial Analysis

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December		
	2018	2017	Change (%)
Gross written premiums	**52,454**	44,311	18.4
Less: premiums ceded to retrocessionaires	**(5,155)**	(2,225)	131.7
Net written premiums	**47,299**	42,086	12.4
Changes in unearned premium reserves	**(1,531)**	(547)	179.9
Net premiums earned	**45,768**	41,539	10.2
Reinsurance commission income	**453**	469	(3.4)
Investment income	**3,365**	3,418	(1.6)
Exchange losses, net	**(58)**	(141)	(58.9)
Other income	**1,440**	717	100.8
Total income	**50,968**	46,002	10.8
Claims and policyholders' benefits	**(45,854)**	(41,933)	9.4
Handling charges and commissions	**(2,241)**	(1,647)	36.1
Finance costs	**(315)**	(90)	250.0
Other operating and administrative expenses	**(1,575)**	(865)	82.1
Total benefits, claims and expenses	**(49,985)**	(44,535)	12.2
Share of profits of associates	**919**	923	(0.4)
Profit before tax	**1,902**	2,390	(20.4)
Income tax	**(369)**	(492)	(25.0)
Net profit	**1,533**	1,898	(19.2)

Gross Written Premiums

Gross written premiums for our life and health reinsurance segment increased by 18.4% from RMB44,311 million in 2017 to RMB52,454 million in 2018, mainly due to the growth in the protection-type reinsurance business and the financial reinsurance business.

Premiums Ceded to Retrocessionaires

Premiums ceded to retrocessionaires for our life and health reinsurance segment increased by 131.7% from RMB2,225 million in 2017 to RMB5,155 million in 2018, mainly due to the growth in retrocession from the protection-type reinsurance business.

Investment Income

Investment income for our life and health reinsurance segment decreased by 1.6% from RMB3,418 million in 2017 to RMB3,365 million in 2018. For details of analysis on changes of investment income, please refer to relevant contents in the asset management business segment.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our life and health reinsurance segment increased by 9.4% from RMB41,933 million in 2017 to RMB45,854 million in 2018, which was generally in line with the increase in gross written premiums.

Handling Charges and Commissions

Handling charges and commissions for our life and health reinsurance segment increased by 36.1% from RMB1,647 million in 2017 to RMB2,241 million in 2018, mainly due to the growth in the protection-type reinsurance business.

Share of Profits of Associates

Share of profits of associates for our life and health reinsurance segment decreased by 0.4% from RMB923 million in 2017 to RMB919 million in 2018, which was basically flat year-on-year.

Net Profit

As a result of the foregoing reasons, net profit for the life and health reinsurance segment decreased by 19.2% from RMB1,898 million in 2017 to RMB1,533 million in 2018.

PRIMARY P&C INSURANCE

The business of primary P&C reinsurance segment refers to the property and casualty insurance business operated by China Continent Insurance. In 2018, we fully promoted the strategic transformation and established a customer-oriented comprehensive operation system. We actively dealt with the market-oriented reform of commercial motor insurance rates, increased our efforts to develop non-motor insurance business such as personal loan surety insurance, accident and short-term health insurance, liability insurance and cargo insurance, and maintained rapid growth in gross written premiums. We adhered to facilitating the development through innovation, and continued to improve our ability of technology innovation and application. The application of innovative technology achieved positive results in terms of cost control and claims settlement.

In 2018, gross written premiums from our primary P&C insurance segment amounted to RMB42,622 million, representing a year-on-year increase of 14.4% and accounting for 34.4% of gross written premiums of the Group (before inter-segment eliminations), of which the primary premium income was RMB42,395 million, representing a year-on-year increase of 14.2%. Net profit amounted to RMB908 million, and weighted average return on equity reached 4.61%. The combined ratio was 100.3%, representing a year-on-year increase of 0.4 percentage points. Of such combined ratio, the loss and expense ratio components were 55.6% and 44.7% respectively, representing a year-on-year decrease of 0.3 percentage points and an increase of 0.7 percentage points respectively. The year-on-year increase in the combined ratio was mainly attributable to the increase in overall cost of motor insurance resulting from intensified competition in motor insurance market with the continuously deepened market-oriented reform of commercial motor insurance rates.

Based on primary premium income of P&C insurance companies in the domestic market in 2018 published by the CBIRC, the market share of our primary P&C insurance business segment reached 3.61%, representing a year-on-year increase of 0.09 percentage points, jumping to No. 5 in ranking of all primary P&C insurance companies in the domestic market.

Business Analysis

Analysis by Line of Business

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

Unit: in RMB millions, except for percentages

Line of Business	For the year ended 31 December			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Motor	**27,241**	**64.3**	27,301	73.5
Surety	**4,993**	**11.8**	2,623	7.1
Accident and Short-term Health	**4,927**	**11.6**	3,169	8.5
Liability	**1,665**	**3.9**	1,326	3.6
Commercial Property	**1,001**	**2.4**	941	2.5
Cargo	**949**	**2.2**	448	1.2
Others[1]	**1,619**	**3.8**	1,315	3.6
Total	**42,395**	**100.0**	37,123	100.0

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

Motor Insurance. In 2018, primary premium income from our motor insurance amounted to RMB27,241 million, representing a year-on-year decrease of 0.2%. We continued to push forward the strategy of "identifying, controlling and introducing", and released the Xcar index. By introducing factors such as vehicle factor, people factor, credit factor, and driving behaviour factor, we effectively improved our pricing capability. We also improved business quality by controlling the proportion of high-risk businesses such as specialty vehicles and trucks. And we effectively increased the average premiums per motor insurance policy and ensured the quality of motor insurance business by increasing the coverage ratio of profitable products and promoting the third-party liability insurance to be fully insured.

Surety Insurance. In 2018, primary premium income from surety insurance amounted to RMB4,993 million, representing a year-on-year increase of 90.4%. We continued to develop the personal loan surety insurance business, continuously innovated products, channels, technologies and development models. In 2018, we opened 185 stores/business outlets under the personal loan surety insurance business department, covering 110 cities in 29 provinces. The risk control was at a good level, with a bad debt ratio of 6.35%. We mainly cooperated with commercial banks. With good risk management ability and stable development strategy, we have cooperated with various national or local joint stock banks.

Accident and Short-term Health Insurance. In 2018, primary premium income from accident and short-term health insurance amounted to RMB4,927 million, representing a year-on-year increase of 55.5%, of which primary premium income from accident insurance amounted to RMB3,020 million, representing a year-on-year increase of 74.8%; primary premium income from short-term health insurance (critical illness insurance not included) amounted to RMB1,465 million, representing a year-on-year increase of 36.4%; primary premium income from critical illness insurance amounted to RMB442 million, representing a year-on-year increase of 20.4%. Our "Motor + Personal Accident" business maintained a rapid growth. Under strengthened risk management and control, we continued to expand the Million Medical Care, overseas critical illness, cancer prevention for the elderly and other personal health insurance businesses, and actively promoted critical illness insurance for urban and rural residents, employee supplemental medical insurance, and care insurance, so as to assume the function of insurance in serving the society.

Liability Insurance. In 2018, primary premium income from liability insurance amounted to RMB1,665 million, representing a year-on-year increase of 25.6%. We captured the insurance opportunities from the changes in government management functions, focused on people's livelihood, and made great efforts in promoting innovative businesses including compulsory safe production liability insurance, construction and residential projects quality liability insurance, prototype equipment scheme comprehensive insurance and litigation property preservation liability insurance, achieving relatively rapid growth in liability insurance business.

Commercial Property Insurance. In 2018, primary premium income from commercial property insurance amounted to RMB1,001 million, representing a year-on-year increase of 6.4%. We integrated resources within the Group, gave full play to the technical advantages of professionals in various fields, expanded the number of key projects, underwrote as a leading insurer or sole insurer and enhanced the level of insurance services for strategic cooperative clients. At the same time, we focused on the smart cities relying on Internet of Things technology, the Belt and Road Initiative, environmental protection, "Insurance + Service" and other emerging fields, and increased our efforts in business expansion. On the premise of strengthening risk management and control, our commercial property insurance business has maintained steady growth.

Cargo Insurance. In 2018, primary premium income from cargo insurance amounted to RMB949 million, representing a year-on-year increase of 111.8%. On the one hand, with the rapid development of domestic online shopping platform and logistics industry, domestic road transportation insurance has achieved relatively rapid development; on the other hand, traditional business such as export cargo insurance has maintained steady development.

Analysis by Distribution Channel

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

Unit: in RMB millions, except for percentages

Business Channel	For the year ended 31 December			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Insurance agents	**26,528**	**62.6**	21,890	59.0
Of which: Individual insurance agents	**16,592**	**39.2**	13,914	37.6
Ancillary insurance agencies	**3,907**	**9.2**	4,247	11.4
Professional insurance agencies	**6,029**	**14.2**	3,729	10.0
Direct sales	**12,528**	**29.6**	13,206	35.6
Insurance brokers	**3,339**	**7.8**	2,027	5.4
Total	**42,395**	**100.0**	37,123	100.0

Analysis by Region

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

Unit: in RMB millions, except for percentages

Region	For the year ended 31 December			
	2018		2017	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shanghai	**7,092**	**16.7**	4,545	12.2
Zhejiang	**3,511**	**8.3**	3,070	8.3
Shandong	**3,032**	**7.2**	3,049	8.2
Yunnan	**2,924**	**6.9**	2,785	7.5
Guangdong	**2,500**	**5.9**	1,942	5.2
Inner Mongolia	**1,773**	**4.2**	1,743	4.7
Jiangsu	**1,535**	**3.6**	1,548	4.2
Jiangxi	**1,381**	**3.3**	1,285	3.5
Henan	**1,321**	**3.1**	1,166	3.1
Hebei	**1,297**	**3.1**	1,254	3.4
Others	**16,029**	**37.7**	14,736	39.7
Total	**42,395**	**100.0**	37,123	100.0

Combined Ratio

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

	For the year ended 31 December	
	2018	2017
Loss ratio (%)	**55.6**	55.9
Expense ratio (%)[1]	**44.7**	44.0
Combined ratio (%)	**100.3**	99.9

Note: 1. The calculation of the expense ratio takes into account of the effect of government grants.

Financial Analysis

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

Unit: in RMB millions, except for percentages

	For the year ended 31 December		
	2018	2017	Change (%)
Gross written premiums	**42,622**	37,268	14.4
Less: Premiums ceded to reinsurers	**(3,509)**	(2,876)	22.0
Net written premiums	**39,113**	34,392	13.7
Changes in unearned premium reserves	**(2,788)**	(2,134)	30.6
Net premiums earned	**36,325**	32,258	12.6
Reinsurance commission income	**1,266**	1,006	25.8
Investment income	**1,708**	1,758	(2.8)
Exchange gains/(losses), net	**82**	(91)	(190.1)
Other income	**232**	171	35.7
Total income	**39,613**	35,102	12.9
Claims and policyholders' benefits	**(20,189)**	(18,012)	12.1
Handling charges and commissions	**(6,783)**	(5,810)	16.7
Finance costs	**(150)**	(20)	650.0
Other operating and administrative expenses	**(11,190)**	(9,689)	15.5
Total benefits, claims and expenses	**(38,312)**	(33,531)	14.3
Share of profits of associates	**8**	15	(46.7)
Profit before tax	**1,309**	1,586	(17.5)
Income tax	**(401)**	(416)	(3.6)
Net profit	**908**	1,170	(22.4)

Gross Written Premiums

Gross written premiums for our primary P&C insurance segment increased by 14.4% from RMB37,268 million in 2017 to RMB42,622 million in 2018, mainly due to the rapid growth of non-motor insurance businesses, including personal loan surety insurance, accident and short-term health insurance, liability insurance, cargo insurance, etc.

Premiums Ceded to Reinsurers

Premiums ceded to reinsurers for our primary P&C insurance segment increased by 22.0% from RMB2,876 million in 2017 to RMB3,509 million in 2018, mainly due to the growth in business scale which led to the increase in premiums ceded.

Reinsurance Commission Income

Reinsurance commission income for our primary P&C insurance segment increased by 25.8% from RMB1,006 million in 2017 to RMB1,266 million in 2018, mainly due to the continuous increase in premiums ceded, and the improvement in claims settlement in reinsurance contracts compared with the past.

Investment Income

Investment income for our primary P&C insurance segment decreased by 2.8% from RMB1,758 million in 2017 to RMB1,708 million in 2018. For details of analysis on changes of investment income, please refer to relevant contents in asset management business segment.

Claims and Policyholders' Benefits

Claims and policyholders' benefits for our primary P&C insurance segment increased by 12.1% from RMB18,012 million in 2017 to RMB20,189 million in 2018, mainly due to the increase in loss ratio for motor insurance, and the growth in business scale also led to an increase in claims.

Handling Charges and Commissions

Handling charges and commissions for our primary P&C insurance segment increased by 16.7% from RMB5,810 million in 2017 to RMB6,783 million in 2018, mainly due to the continuous growth in business scale which led to the increase in handling charges.

Net Profit

As a result of the foregoing reasons, net profit for our primary P&C insurance segment decreased by 22.4% from RMB1,170 million in 2017 to RMB908 million in 2018.

ASSET MANAGEMENT

The Group principally commissions China Re AMC to manage its investment assets. As at the end of the Reporting Period, the total investment assets balance of the Group was RMB217,955 million, of which RMB198,378 million was under the management of China Re AMC. In addition, China Re AMC managed third party assets under commissions of RMB24,416 million.

In 2018, we continued to improve the investment risk management mechanism, steadily promoted the construction of the investment risk management framework and information system, and further improved the investment risk management. We continuously optimised the risk monitoring scheme, set key risk indicators and thresholds based on overall risk appetites, continued to conduct investment risk monitoring, and timely conducted risk warnings and reporting. In order to cope with the extreme risk condition, we used scenario analysis, stress test and other methods to measure the potential loss extent, focused on the impact of market volatility and interest rate changes on the investment income and the solvency of the Group, and closely monitored risk exposure. Faced with the frequent occurrence of defaults in the bond market and the accelerated exposure of credit risks in 2018, we further enhanced credit risk management and control, strengthened the penetrative risk management and trading counterparty credit management, comprehensively reviewed the credit risk condition, and evaluated full-calibre credit risk exposure of every single client of the Group to maintain overall risk controllability.

Investment Portfolio

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

Unit: in RMB millions, except for percentages

Investment assets	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Cash and short-term time deposits	**12,400**	**5.7**	10,754	5.7
Fixed-income investments	**153,733**	**70.5**	126,727	67.3
Time deposits	**4,409**	**2.0**	5,240	2.8
Bonds	**88,123**	**40.5**	70,276	37.3
Government bonds	**982**	**0.5**	756	0.4
Financial bonds	**11,241**	**5.2**	13,641	7.2
Enterprise (corporate) bonds	**66,716**	**30.6**	47,519	25.3
Subordinated bonds	**9,184**	**4.2**	8,360	4.4
Investments classified as loans and receivables	**41,065**	**18.8**	32,871	17.4
Other fixed-income investments[1]	**20,136**	**9.2**	18,340	9.8
Equity and investment funds	**39,600**	**18.2**	41,062	21.8
Investment funds[2]	**17,740**	**8.2**	16,000	8.5
Stocks	**11,575**	**5.3**	17,473	9.3
Embedded derivatives	**226**	**0.1**	192	0.1
Unlisted equity shares[3]	**10,059**	**4.6**	7,397	3.9
Other investment	**26,416**	**12.1**	17,577	9.3
Investments in associates	**21,186**	**9.7**	14,876	7.9
Others[4]	**5,230**	**2.4**	2,701	1.4
Less: securities sold under agreements to repurchase	**(14,194)**	**(6.5)**	(7,711)	(4.1)
Total investment assets	**217,955**	**100.0**	188,409	100.0

Notes: 1. Primarily including financial assets held under resale agreements, statutory deposits and reinsurers' share of policy loans, etc.

2. Including monetary funds and the senior tranche of structured index funds.

3. Including assets management products, unlisted equity investments and equity investment schemes.

4. Including investment properties, derivative financial instruments, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, we strengthened the dynamic balance mechanism of tactical asset allocation, with which we promoted the improvement of investment management. We optimised the allocation structure and increased the allocation proportion of fixed-income investment, which laid a solid foundation for obtaining stable income in the future. We actively captured the opportunities arising from the significant adjustment in the bond market, increased the allocation of high-quality mid-to-long-term debentures, and the allocation proportion of bonds was significantly higher than the industry average. We controlled the proportion of equity allocation in the secondary market, strengthened market risk management and control, and decreased the allocation proportion of our equity and investment funds, which reduced the risk of market retracement.

As at the end of the Reporting Period, our significant investments held mainly include Bairong World Trade Center Real Estate Debt Investment Scheme and investments in associate companies, namely China Everbright Bank Co., Ltd. ("China Everbright Bank") and China Great Wall Asset Management Co., Ltd. ("Great Wall Asset").

On 23 June 2016, China Re P&C, China Re Life and China Continent Insurance entered into a trust contract respectively with China Re AMC, to subscribe for the real estate debt investment scheme of Bairong World Trade Center with a term of 11 years. The subscription amount by China Re P&C, China Re Life and China Continent Insurance was RMB8,000 million in total. A principal of RMB1,000 million in total for such scheme was repaid to the investors on 27 June 2017 and 27 June 2018, respectively. In 2018, the underlying assets of such scheme, Towers A, B and C of Bairong World Trade Center, were under normal rental operation, and the repayment entity maintained a normal financial condition.

In 2018, China Everbright Bank recorded favourable growth in revenue and the profit growth was generally in line with the market expectation. As at the end of the Reporting Period, China Re Group held approximately 4.42% of China Everbright Bank's equity share in aggregate. China Everbright Bank is expected to bring us long-term and stable investment returns in the future.

On 6 July 2018, China Re P&C and China Continent Insurance entered into share subscription agreements with Great Wall Asset respectively to subscribe for newly issued shares of Great Wall Asset. China Re P&C and China Continent Insurance respectively held approximately 3.64% and 2.86% of Great Wall Asset's total issued shares and the subscription was approved by the CBIRC on 14 August 2018. The highest applicable percentage ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) in respect of the subscription exceeds 5% but is less than 25%, hence the subscription constitutes a discloseable transaction of the Company. For further details, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company on 6 July 2018 and 22 August 2018.

On 15 December 2018, China Continent Insurance (the buyer) entered into a sale and purchase agreement with Shanghai Fuyuan Binjiang Development Co. Ltd. (the vendor), and agreed to acquire a property from the vendor at a consideration of approximately RMB3,085 million, payable in cash. The target of the acquisition is Building No. 1 (located at No. 6 Lane 38, Yuanshen Road) of the Shanghai Fuyuan Landmark Plaza Project located at the land plot Nos. 04-4 of Huangpu Riverbank Unit E10, Pudong New District, Shanghai, the PRC. The property is an investment property for commercial use and is a impermanent self-owned property of the Group. The delivery of the property is expected to be completed by 2020. The highest applicable percentage ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) in respect of the acquisition exceeds 5% but is less than 25%, hence the acquisition constitutes a discloseable transaction of the Company. For further details, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 16 December 2018.

Investment Performance

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

Unit: in RMB millions, except for percentages

Investment income	**For the year ended 31 December**	
	2018	2017
Cash and fixed-income investments	**7,790**	5,818
Interest income	**7,722**	5,865
Realised gains/(losses)	**38**	(71)
Unrealised gains	**30**	24
Equity and investment funds	**(495)**	1,857
Dividend income	**980**	742
Realised (losses)/gains	**(603)**	1,472
Unrealised (losses)/gains	**(174)**	244
Impairment losses	**(698)**	(601)
Other investment	**1,903**	3,216
Investment income from investment in associates	**1,915**	2,462
Other (losses)/gains[1]	**(12)**	754
Less: interest expenses on securities sold under agreements to repurchase	**(668)**	(191)
Total investment income	**8,530**	10,700
Total investment yield (%)[2]	**4.20**	6.01
Net investment income	**10,403**	8,260
Net investment yield (%)[3]	**5.12**	4.64

Notes: 1. Including rental income of investment properties, disposal income of investment properties and gains or losses from changes in fair value of derivative financial instruments.

2. Total investment yield = Total investment income ÷ average of investment assets as at the beginning and end of the period;

   Total investment income = Investment income + share of profits of associates - interest expenses on securities sold under agreements to repurchase;

   Investment assets = cash and short-term time deposits + financial assets at fair value through profit or loss + financial assets held under resale agreements + time deposits + available-for-sale financial assets + held-to-maturity investments + investments classified as loans and receivables + reinsurers' share of policy loans + investments in associates + statutory deposits + derivative financial instruments + investment properties - securities sold under agreements to repurchase.

3. Net investment yield = Net investment income ÷ average of investment assets as at the beginning and end of the period;

   Net investment income equals to the sum of interest, dividends, rental income and share of profits of associates.

In 2018, the Group's total investment income amounted to RMB8,530 million, representing a year-on-year decrease of 20.3%; total investment yield was 4.20%, representing a year-on-year decrease of 1.81 percentage points. The decrease in total investment yield was mainly due to the year-on-year decrease in equity and fund investment income affected by the significant downturn in domestic and overseas equity markets. Our net investment income amounted to RMB10,403 million, representing a year-on-year increase of 25.9%; net investment yield was 5.12%, representing a year-on-year increase of 0.48 percentage points. The increase in net investment yield was mainly due to the fact that we greatly increased our allocation of fixed-income investments in 2017 and at the beginning of 2018, resulting in a year-on-year increase in interest income.

INSURANCE INTERMEDIARY

Insurance intermediary business refers to the insurance intermediary business operated by Huatai Insurance Agency and Consultant Service Limited and its subsidiary, Huatai Surveyors & Adjusters Company Limited. In 2018, under the increasingly fierce competition in the insurance intermediary market, we adhered to the overall development strategy of "market-oriented development, institutionalised management and professional service", firmly promoted the "Go Global" marketing initiative, increased our efforts in optimizing market deployment and persisted in facilitating collaborative development. In addition to consolidating our advantages in traditional fields such as infrastructure, finance and shipping, we also actively expanded to innovative fields such as internet, health management, environmental pollution control and renewable energy vehicles to promote sustainable development.

In 2018, revenue from insurance intermediary business amounted to RMB296 million, representing a year-on-year increase of 14.3%. The revenue of all business lines has maintained a stable growth. Profit before tax amounted to RMB1.58 million.

SOLVENCY

The following table sets forth the relevant data of the Group, the Group Company and major reinsurance and insurance subsidiaries of the Group as at the dates indicated:

Unit: in RMB millions, except for percentages

	As at 31 December 2018	As at 31 December 2017	Change (%)
China Re Group			
Core capital	**66,377**	55,465	19.7
Available capital	**75,373**	55,465	35.9
Minimum capital	**40,946**	28,145	45.5
Core solvency adequacy ratio (%)	**162**	197	Decrease of 35 percentage points
Aggregated solvency adequacy ratio (%)	**184**	197	Decrease of 13 percentage points
Group Company			
Core capital	**56,761**	54,157	4.8
Available capital	**56,761**	54,157	4.8
Minimum capital	**13,639**	9,857	38.4
Core solvency adequacy ratio (%)	**416**	549	Decrease of 133 percentage points
Aggregated solvency adequacy ratio (%)	**416**	549	Decrease of 133 percentage points
China Re P&C			
Core capital	**18,608**	18,003	3.4
Available capital	**22,607**	18,003	25.6
Minimum capital	**10,429**	8,243	26.5
Core solvency adequacy ratio (%)	**178**	218	Decrease of 40 percentage points
Aggregated solvency adequacy ratio (%)	**217**	218	Decrease of 1 percentage point
China Re Life			
Core capital	**17,021**	17,425	(2.3)
Available capital	**22,018**	17,425	26.4
Minimum capital	**10,278**	7,461	37.8
Core solvency adequacy ratio (%)	**166**	234	Decrease of 68 percentage points
Aggregated solvency adequacy ratio (%)	**214**	234	Decrease of 20 percentage points
China Continent Insurance			
Core capital	**24,392**	13,360	82.6
Available capital	**24,392**	13,360	82.6
Minimum capital	**5,626**	5,007	12.4
Core solvency adequacy ratio (%)	**434**	267	Increase of 167 percentage points
Aggregated solvency adequacy ratio (%)	**434**	267	Increase of 167 percentage points

Notes:
1. Core solvency adequacy ratio = core capital ÷ minimum capital; aggregated solvency adequacy ratio = available capital ÷ minimum capital.
2. Due to rounding adjustments, figures shown may not be arithmetic aggregation of the figures preceding them.
3. The data of the Group Company, China Re P&C, China Re Life and China Continent Insurance is the same as the data submitted to the CBIRC.

At the end of 2018, China Re Group, the Group Company, China Re P&C, China Re Life and China Continent Insurance were all in compliance with the regulatory requirement regarding their respective solvency. Compared with the end of 2017, the solvency adequacy ratio of China Re Group decreased to a certain extent, mainly due to the increase of minimum capital resulting from the acquisition of Chaucer and business growth of China Re Group. In particular, the solvency adequacy ratio of the Group Company decreased, mainly due to the acquisition of Chaucer and the internal retrocession arrangement of China Re Group. The solvency adequacy ratio of China Re Life decreased, mainly due to the rapid growth of its business. The solvency adequacy ratio of China Re P&C generally remained stable and that of China Continent Insurance increased significantly, mainly due to the fact that introduction of strategic investors through capital increase significantly increased its available capital.

According to the requirements of The Solvency Regulatory Rules (No. 1–17) for Insurance Companies（《保險公司償付能力監管規則（1–17號）》）issued by the CBIRC, the "Summary of Solvency Reports" for the fourth quarter of 2018 of the Group Company and its subsidiaries, namely China Re P&C, China Re Life and China Continent Insurance, will be disclosed on their official websites respectively and the website of Insurance Association of China in due course. Shareholders and investors are advised by the Board to pay attention to the following key operation indicators extracted from the Summary of Solvency Report as of the end of the fourth quarter of 2018:

Unit: in RMB millions

	Entities			
Indicators	**Group Company**	**China Re P&C**	**China Re Life**	**China Continent Insurance**
As at 31 December 2018				
Net assets	57,506	18,639	14,197	25,334
For the year ended 31 December 2018				
Insurance income	18,799	26,688	52,365	42,622
Net profit	2,284	935	1,235	1,016

Note: As the consolidated scope is larger than these four companies and affected by offsetting factors when calculating the consolidated net profit of the Group, the consolidated net profit of the Group is not equal to the sum of net profits of these four companies.

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

EXCHANGE RATE FLUCTUATION RISK

Substantial amount of assets and liabilities of the Group are denominated in Renminbi, but certain assets and liabilities are denominated in Hong Kong dollars, US dollars and other foreign currencies. The fluctuations of the value of Renminbi against such currencies expose us to foreign exchange risks. We control the adverse impacts of the fluctuations of exchange rates through enhancing management of the assets and liabilities matching in different currencies, keeping foreign exchange positions under control and using foreign currency hedging instruments appropriately. As at 31 December 2018, the Group holds a currency swap of RMB175 million.

DETAILS OF ASSETS CHARGED AND BORROWINGS

As at 31 December 2018, the bonds with market value of RMB22,783 million (31 December 2017: RMB14,844 million) are deposited in the collateral pool as the securities sold under agreements to repurchase of the Group. Securities sold under agreements to repurchase are generally repurchased within three months from the date the securities are sold.

As at 31 December 2018, the Group holds a short-term unsecured borrowing of GBP60 million with a coupon rate of Libor plus 1.85%, which will be repayable within one year.

As at 31 December 2018, the Group holds a long-term borrowing of USD524 million with a coupon rate of 4.70%, which will be repayable within 60 months.

CONTINGENCIES

As at 31 December 2018, the Group has issued the following guarantees:

As at 31 December 2018, the Group Company provided maritime guarantee of RMB2,514 million (31 December 2017: RMB2,313 million) for domestic and overseas ship mutual insurance associations or overseas insurance institutions which provided 100% of counter guarantee for the aforesaid maritime guarantee.

As at 31 December 2018, the Group Company provided letter of credit to Lloyd's to support China Re Syndicate 2088's underwriting business of GBP100 million (31 December 2017: GBP125 million).

As at 31 December 2018, HIIH provided letter of credit to Lloyd's to support Syndicate 1084 and Syndicate 1176's underwriting business of GBP275 million.

MAJOR EVENTS

Material Litigation and Arbitration

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

Material Connected Transactions

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

In addition, the related-party transactions set out in Note 58 to the financial statements do not constitute the connected transactions under the Hong Kong Listing Rules. Therefore, they do not need to comply with the requirements of reporting, announcement or independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Use of Proceeds

The Company's shares were listed and traded on the Main Board of the Hong Kong Stock Exchange on 26 October 2015. The total proceeds from the initial public offering (including the partial exercise of the over-allotment option as stated in the Prospectus) amounted to approximately HKD16,392 million. As of 31 December 2018, the invested proceeds from the initial public offering of the Company amounted to HKD9,611 million, of which:

(1) HKD7,167 million was used for the capital increase of the subsidiaries and overseas branches of the Company;

(2) HKD876 million was used for the payment of underwriting expenses and general corporate purposes; and

(3) HKD1,568 million was used to pay the consideration for acquisition of subsidiaries by the Company.

During the Reporting Period, the Company utilised the proceeds from the initial public offering of HKD1,568 million to pay the consideration for acquisition of subsidiaries.

As of 31 December 2018, the balance of the proceeds from the Company's initial public offering amounted to HKD6,781 million, of which: GBP160 million was proposed to be used for the increase of registered capital of China Re UK; and SGD95 million was proposed to be used for the increase of registered working capital of Singapore Branch, which were planned to be fully utilised by 31 December 2019 after obtaining the approval from regulatory authorities. The remaining proceeds will be utilised in accordance with the purposes as disclosed in the Prospectus.

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

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

Other Major Events

Acquisition of Chaucer

On 13 September 2018, the Company and The Hanover Insurance Group, Inc. entered into an agreement to acquire 100% equity interests in Chaucer. Chaucer mainly includes HIIH, CIC and HAH. The Company has completed the acquisition of HIIH on 28 December 2018[1], the closing of the acquisition of CIC on 14 February 2019[1] and the closing of the acquisition of HAH on 10 April 2019[1].

Note: 1. The above closing dates are Eastern Standard Time (EST).

For further details, please refer to the announcements of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 13 September 2018, 29 October 2018, 31 December 2018 and 11 April 2019 and the circular dated 14 September 2018.

Transfer of Certain Domestic Shares of the Company to the NSSF by Ministry of Finance

On 27 April 2018, the Ministry of Finance, a shareholder of the Company, transferred 10% of its equity interest in the Company (i.e. 540,253,904 domestic shares) to the National Council for Social Security Fund ("NSSF") on a one-off basis (the "Transfer"), and completed the registration of the equity change. After the Transfer, the Ministry of Finance holds 4,862,285,131 domestic shares of the Company, representing 11.45% of the total share capital of the Company; NSSF newly holds 540,253,904 domestic shares of the Company, representing 1.27% of the total share capital of the Company.

For further details, please refer to the announcement of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 29 April 2018.

PROSPECTS

Market Environment

Looking forward to 2019, China will remain in an important period of strategic opportunities, and its economy will shift to high quality development at a faster pace. The insurance industry will further promote the national strategies, serve the real economy, strengthen its risk protection function and enjoy a favourable trend of development in the long term. Strict regulation and risk prevention will be the main focus of insurance regulation in the complicated and intensifying market competition. Insurance technology has become a new driver of industry development, and with the support of technology, insurance companies may achieve precise pricing, enhance operation efficiency and improve customer loyalty.

In the primary P&C insurance market, it is expected that the industry's growth driver and focus will shift faster to non-motor insurance. The intensification of market-oriented reform of commercial motor insurance rates continues, and the motor insurance market will experience slow growth in premium volume with operational differentiation among market entities. Further development of non-motor insurance business will remain to be driven by key factors such as policy support, financial subsidy and consumption upgrade. Agriculture insurance, liability insurance, health insurance and surety insurance will maintain high growth trends.

For the primary life and health insurance market, under the guidance of strict regulation, risk prevention and high-quality development policies, the industry will refocus on the protection function in a faster pace and carry out in-depth transformation in products, sales and operations. Products will have more intrinsic value with faster upgrade and become more closely integrated with services. Sales and operations will be shifted from human-driven to technology-driven, and third party sales platforms, internet platforms and other new channels will nurture new momentum for high quality development. As a result, protection-type businesses will face new opportunities.

For the P&C reinsurance market, the shift of growth towards non-motor insurance in primary insurance market will push the domestic P&C reinsurance market into a new growth cycle. The proportion of non-motor reinsurance businesses will further increase. Reinsurance businesses from agriculture insurance, liability insurance, surety insurance and accident and short-term health insurance are expected to maintain rapid growth; innovative businesses such as construction quality inherent defects insurance (IDI), catastrophe insurance and insurance business for the Belt and Road Initiative are expected to grow at a faster pace. Reinsurance market participants are becoming more diversified, with service and innovation capabilities increasingly recognised as important means of competition. The impacts from frequent catastrophic events in the last two years may boost the reinsurance demand in overseas P&C reinsurance market. However, the rates are expected to remain basically stable due to abundant capital supply and persistent underwriting overcapacity.

For the life and health reinsurance market, the overall development of domestic protection-type business will have favourable momentum. The health insurance products will be integrated with the health industry chain in a faster pace, which will increase the operation complexity and lead to the continuous increase in demand for comprehensive reinsurance solutions. China market has good growth potential, and competition among market entities continuously intensifies. For overseas markets, as the pressure of RMB depreciation eases and the two-way fluctuation intensifies, the prospect of RMB-denominated business will be clouded with uncertainty while foreign currency denominated business will enjoy certain development opportunities.

For the deployment of insurance funds and the development of capital markets, preparing for risk prevention and mitigation will be an important policy guideline for the country and the insurance industry. Affected by the domestic deleveraging, trade war and US Federal Reserve rate hike, the complexity and volatility of changes in capital market rise, which increase the difficulty in market trend prediction and asset allocation, hence posing greater challenges to the ability of active management of insurance fund and asset allocation.

Outlook of China Re Group

In 2019, China Re Group will focus on three major strategies, namely, platform operation, technology advancement and globalisation, adhere to “stabilising growth, adjusting structure and increasing profitability”, to ensure orderly business deployment and to enhance the quality and efficiency of operation. We will also accelerate the implementation of the “One-Three-Five” Strategy and the transformation to high quality development, thereby achieving stable growth in overall value.

For the P&C reinsurance business, we will accelerate the optimisation and transformation of our business structure, to achieve steady growth of domestic business and rapid development of overseas business. We will stabilise the business with traditional competitiveness, consolidate our position as a leading domestic reinsurer, strive to develop non-motor reinsurance business and facilitate the business deployment in emerging fields. We will improve the innovative mechanism, increase innovation investment and facilitate market development. We will also strengthen intra-group collaboration, build up an external cooperation network, and enhance core competitiveness of our business. We will adhere to being customer-oriented and improve customer service through customised solutions. We will promote the restructuring of overseas business resource, strive to ensure stable and effective integration of Chaucer and establish a collaborative and interactive integrated platform of overseas business. We will also enhance the synergy and complementarity between domestic and overseas businesses.

For the life and health reinsurance business, we will fully capture the opportunity of transformation to high quality development in the industry and optimise business structure to achieve sustainable development. We will focus on the innovation driven concept, actively facilitate the implementation of "Data +" and "Product +" strategies, put great efforts in developing protection-type business, accelerate the integration of health management services and seek opportunity to deploy one health and aged care industries, in order to enhance the quality and efficiency and accelerate the development of protection-type reinsurance business. We will enhance the interaction between reinsurance business and investment business, continuously facilitate the establishment of overseas business and investment dual-platforms, diversify the saving-type reinsurance business, in order to achieve stable growth in saving-type business. We will also actively develop the financial reinsurance business on the premise of controllable risks with capital support.

For the primary P&C insurance business, we will continuously optimise product structure, facilitate development, and consolidate our market position. We will deepen the "Non-motor Insurance Business" strategy, strive to make breakthrough and achieve balanced development in policy-related and profitable insurance types. We will put efforts in optimizing the quality of motor insurance business, fully upgrade the strategy of "identifying, controlling and introducing", strengthen the management and control function of cost resource allocation, so as to ensure sustainable and high-quality development. We will accelerate the business development in motor, consumer finance and grand transportation ecosystems to strengthen the synergy in the industrial chain. We will continue to promote the in-depth implementation of the customer-oriented comprehensive operation model. We will fully initiate the project of turning towards on-line, digitisation, and intelligence, so as to build a brand new model for customer management.

For the asset management business, we will strengthen our investment ability to increase our income. We will strengthen the abilities in asset and liability management and asset allocation and further optimise the interactive mechanism of strategic asset allocation, thereby facilitating the income increase through allocation optimisation. We will continuously improve our abilities in research, innovation and risk control, prevent credit risk and liquidity risk, and strive to achieve long-term and stable investment income.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Name	Month and Year of Birth	Position	Date of Appointment	Duties
Yuan Linjiang	December 1963	Executive Director and Chairman	May 2016	Responsible for overseeing the office of the Board and the human resources department (party organisation department)
He Chunlei	April 1965	Executive Director and Vice Chairman	Executive Director since February 2017, Vice Chairman since September 2018	Responsible for overseeing the operation and planning management department, the asset management department and the information technology centre, and contacting Huatai Insurance Agency
Ren Xiaobing	July 1967	Executive Director	August 2012	Responsible for overseeing the strategic development department, the risk management department and the internal control, compliance and legal affairs department
Lu Xiuli	May 1964	Non-executive Director	December 2014	Responsible for overseeing the overall strategic planning of the Company
Shen Shuhai	March 1959	Non-executive Director	December 2014	Responsible for overseeing the overall strategic planning of the Company
Hao Yansu	July 1958	Independent Non-executive Director	December 2014	Responsible for overseeing and providing independent judgment to the Board of Directors
Li Sanxi	March 1964	Independent Non-executive Director	December 2014	Responsible for overseeing and providing independent judgment to the Board of Directors

Name	Month and Year of Birth	Position	Date of Appointment	Duties
Mok Kam Sheung	December 1959	Independent Non-executive Director	August 2015	Responsible for overseeing and providing independent judgment to the Board of Directors
Jiang Bo	December 1955	Independent Non-executive Director	December 2018	Responsible for overseeing and providing independent judgment to the Board of Directors

Notes:
1. On 9 February 2018, the shareholders' general meeting of the Company approved Mr. Wang Pingsheng's ceasing to be an executive Director of the Company.
2. According to the re-election arrangement of the Board, on 28 June 2018, Ms. Wang Jun has ceased to be an independent non-executive Director of the Company, after the approval of the appointment of all Directors of the fourth session of the Board by the shareholders' general meeting of the Company.
3. According to the re-election arrangement of the Board, on 28 June 2018, the shareholders' general meeting of the Company elected Ms. Jiang Bo as an independent non-executive Director of the fourth session of the Board, effective from 13 December 2018, the date on which the CBIRC approved her qualification as an independent Director.
4. On 13 September 2018, Mr. He Chunlei was elected as the Vice Chairman of the fourth session of the Board at the Board Meeting, effective from 13 September 2018.
5. On 28 March 2019, the shareholders' general meeting of the Company approved Mr. Shen Shuhai's ceasing to be a non-executive Director of the Company, effective from the date of the official performance of Mr. Wen Ning's non-executive directorship of the fourth session of the Board. On 28 March 2019, the shareholders' general meeting of the Company elected Mr. Wen Ning as a non-executive Director of the fourth session of the Board of the Company, subject to approval of his qualification as a Director by the CBIRC and fulfillment of procedures required by the Articles of Association.

Supervisors

Name	Month and Year of Birth	Position	Date of Appointment	Duties
Zhang Hong	September 1964	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	February 2017	Responsible for overseeing the general office (party committee office) ,the party-masses work department, labour union, the audit department/office of the Board of Supervisors, the party committee affairs and assisting in overseeing of the human resources department (party organisation department)
Zhu Yong	June 1969	Shareholder Representative Supervisor	December 2014	Responsible for supervising finance affairs and the performance of duties
Zeng Cheng	July 1980	Shareholder Representative Supervisor	July 2018	Responsible for supervising finance affairs and the performance of duties
Qin Yueguang	October 1976	Employee Representative Supervisor	June 2018	Responsible for supervising finance affairs and the performance of duties
Li Jingye	February 1972	Employee Representative Supervisor	June 2018	Responsible for supervising finance affairs and the performance of duties

Notes:
1. According to the re-election arrangement of the Board of Supervisors, Mr. Cao Shunming and Mr. Tian Bo ceased to be employee representative Supervisors upon the approval by the staff representative assembly on 20 April 2018, effective from the date of the assumption of office of the fourth session of the Board of Supervisors on 28 June 2018.
2. According to the re-election arrangement of the Board of Supervisors, Mr. Qin Yueguang and Mr. Li Jingye were elected as employee representative Supervisors upon the approval by the staff representative assembly on 20 April 2018, effective from the date of the assumption of office of the fourth session of the Board of Supervisors on 28 June 2018.
3. According to the re-election arrangement of the Board of Supervisors, on 28 June 2018, Mr. Wei Shiping ceased to be a shareholder representative Supervisor upon the approval of the appointment of Shareholder Representative Supervisors of the fourth session of the Board of Supervisors by the shareholders' general meeting of the Company.
4. According to the re-election arrangement of the Board of Supervisors, on 28 June 2018, the shareholders' general meeting of the Company elected Mr. Zeng Cheng as a shareholder representative Supervisor, effective from the approval of his qualification as a Supervisor by the CIBRC on 25 July 2018.

Senior Management

Name	Month and Year of Birth	Position	Date of Appointment	Duties
He Chunlei	April 1965	President	President since September 2018	Please refer to the section headed "Directors" above
Ren Xiaobing	July 1967	Vice President, Compliance Controller, Chief Risk Officer	Vice President since August 2012, Compliance Controller since June 2015, Chief Risk Officer since January 2017	Please refer to the section headed "Directors" above
Liu Tianyang	February 1961	Audit Controller	May 2013	Responsible for overseeing the disciplinary inspection department (inspection office), the audit affairs of the audit department/office of the Board of Supervisors
Zhao Wei	October 1971	Vice President, Chief Financial Officer	Vice President since August 2018, Chief Financial Officer since March 2019	Responsible for overseeing the financial management department and the strategic customer department
Tian Meipan	October 1974	Chief Actuary	December 2012	Responsible for performing the relevant duties of the Company's Chief Actuary
Zhu Xiaoyun	August 1975	Board Secretary, Joint Company Secretary	Joint Company Secretary since April 2017, Board Secretary since June 2017	Responsible for performing the relevant duties of the Company's Board Secretary and joint company secretary

Notes: 1. Ms. Yu Qing has ceased to serve as Vice Chairman and Chief Financial Officer since 28 June 2018.

2. Ms. Zhang Xiaohong has ceased to serve as Assistant to the President since 30 January 2019.

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

Directors

Executive Directors

Mr. Yuan Linjiang (袁臨江), is an executive Director and the Chairman of the Company. He is an economist. Before joining the Company, Mr. Yuan had served as the vice president and chief risk officer of Beijing Branch, and the president of Chongqing Branch of China Everbright Bank Company Limited; the non-executive director of Agricultural Bank of China; the deputy director of general department (in charge of daily operation), the director of integrated management department and the second banking institution management department of Central Huijin. He served as the general manager and senior managing director of CIC International (Hong Kong) Co., Ltd. Mr. Yuan joined the Company in March 2016. He has been an executive Director and the Chairman of the Company since May 2016. He is the chairman of the board of directors of China Continent Insurance, the chairman of the board of directors of China Re AMC and the chairman of CNIP. Mr. Yuan did not hold any directorship in any other listed companies during the past three years. Mr. Yuan obtained a bachelor's degree of economics in business economics from Jiangxi Institute of Finance and Economics (currently known as Jiangxi Finance and Economics University) and a degree of Executive Master of Business Administration from Renmin University of China.

Mr. He Chunlei (和春雷), is an executive Director, the Vice Chairman and the President of the Company. Before joining the Company, Mr. He had served in the Economic Research Institute of the Academy of Social Sciences of Shaanxi Province, and the post doctoral programme of Economics of the Chinese Academy of Social Sciences. Mr. He had served as a deputy general manager of China Continent Insurance, a vice chairman of the board of directors and the general manager of China Re P&C, the chief executive officer of the international P&C reinsurance business of the Company, the chairman of the board of directors of China Continent Insurance, a Vice President, the Executive Vice President of the Company (assuming the role of President) and a director of China Re AMC. Mr. He has been an executive Director of the Company since February 2017 and the Vice Chairman and President of the Company since September 2018; he is also currently the chairman of the board of directors of China Re P&C, and the chairman of the board of directors of China Re Life. Mr. He did not hold any directorship in any other listed companies during the past three years. Mr. He obtained a bachelor's degree in political economics from the Northwest College of Political Science and Law (currently known as Northwest University of Political Science and Law), a master's degree in political economics from the Northwest University and a doctoral degree in economics from the Chinese Academy of Social Sciences.

Mr. Ren Xiaobing (任小兵), is an executive Director, the Vice President, the Compliance Controller and the Chief Risk Officer of the Company. Before joining the Company, Mr. Ren served in the People's Bank of China and the former CIRC successively. He served as a vice president and the chief underwriter of Sinosafe General Insurance Co., Ltd., a director of the Company appointed by Central Huijin, and meanwhile, a director of the insurance equity management division of the non-banking department, deputy a director of the insurance institutions management department of Central Huijin, and the chairman of the board of supervisors of China Re AMC. Mr. Ren has been an executive Director and Vice President of the Company since August 2012, the Compliance Controller of the Company since June 2015, and the Chief Risk Officer of the Company since January 2017. Mr. Ren did not hold any directorship in any other listed companies during the past three years. Mr. Ren obtained a bachelor's degree of economics in insurance and a certificate of post-graduate study in finance (insurance) from Nankai University.

Non-executive Directors

Ms. Lu Xiuli (路秀麗), is a non-executive Director of the Company. She is a senior auditor and a certified public accountant (non-practising member) in the PRC. Ms. Lu had served at the department of finance audit of the NAO, where she served as deputy divisional director, divisional director and deputy-departmental level auditor. Ms. Lu has been a non-executive Director of the Company since December 2014. Ms. Lu did not hold any directorship in any other listed companies during the past three years. Ms. Lu obtained a bachelor's degree in finance and a master's degree in international finance from Renmin University of China.

Mr. Shen Shuhai (申書海), is a non-executive Director of the Company. Mr. Shen had served as the divisional director of the general affairs division of the asset and capital verification office of the Ministry of Finance, the deputy director of the statistics and assessment department of State-owned Assets Administration Bureau, the deputy director of the stated-owned capital statistics & assessment department and the deputy director and inspector of the customs department of the Ministry of Finance. Mr. Shen has been a non-executive Director of the Company since December 2014. Mr. Shen did not hold any directorship in any other listed companies during the past three years. Mr. Shen obtained a bachelor's degree in finance and a master's degree in finance from Shaanxi Institute of Finance and Economics (currently as Xi'an Jiaotong University), and a doctoral degree in applied economics from Xi'an Jiaotong University.

Independent Non-executive Directors

Mr. Hao Yansu (郝演蘇), is an independent non-executive Director of the Company and a professor. Mr. Hao had served as the dean of insurance department at Liaoning University, the dean of the insurance department of the Central Institute of Finance and Economics, the managing director of Hong Kong Zhongqing Insurance and Risk Management Consulting Company (香港中青保險與風險管理顧問公司), and the dean of Central University of Finance and Economics, School of Insurance. He has been a director of the Academic Committee of the Central University of Finance and Economics, School of Insurance, an independent director of An Hua Agricultural Property Insurance Company Ltd. and an independent director of Dinghe Property Insurance Co., Ltd. Mr. Hao has been an independent non-executive Director of the Company since December 2014. Mr. Hao did not hold any directorship in any other listed companies during the past three years. Mr. Hao obtained a bachelor's degree of economics in finance from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics).

Mr. Li Sanxi (李三喜), is an independent non-executive Director of the Company and a senior auditor. Mr. Li had served at the administrative affairs department and audit research institute of the NAO and Beijing Zhong Tian Heng Certified Public Accountants. Mr. Li is currently the chairman of the board of directors of Beijing Zhong Tian Heng Management Consulting Co., Ltd. and the general manager of Beijing Zhong Tian Heng Da Engineering Consulting Company. Since December 2014, Mr. Li has been appointed as an independent non-executive Director of the Company. Mr. Li did not hold any directorship in any other listed companies during the past three years. Mr. Li obtained a bachelor's degree of economics in accounting from Lanzhou Commercial College.

Ms. Mok Kam Sheung (莫錦嫦), is an independent non-executive Director of the Company. Ms. Mok has over 22-year working experience of legal affairs. Ms. Mok is now a partner of CFN Lawyers. Since August 2015, Ms. Mok has been appointed as an independent non-executive Director of the Company. Ms. Mok did not hold any directorship in any other listed companies during the past three years. Ms. Mok obtained a Bachelor of Arts (honours) degree from the University of Plymouth in England, a Common Professional Examination diploma in laws from the University of the West of England. She was also granted a certificate by the Law Society of England and Wales evidencing the passing of the Solicitors' Final Examination. Ms. Mok is qualified to practise as a solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales. She is also qualified as a China-appointed attesting officer by the Ministry of Justice of the PRC.

Ms. Jiang Bo (姜波), is an independent non-executive Director, a senior accountant and a senior economist. Ms. Jiang was appointed as the chief financial officer and the chairman of the labour union of China Everbright Group Limited, a managing director, the vice president, the chief audit officer of China Everbright Bank Co. Ltd., a director of China Everbright Holdings Company Limited (Hong Kong), Sun Life Everbright Life Insurance Co., Ltd., Everbright Financial Holding Asset Management Co., Ltd. and Shenyin & Wanguo Securities Co. Ltd. She is currently an independent director of China Shenhua Energy Company Limited and Sinopec Oilfield Service Corporation. Since December 2018, Ms. Jiang has been appointed as an independent non-executive Director of the Company. Ms. Jiang did not hold any directorship in any other listed companies during the past three years. Ms. Jiang held a doctoral degree in economics from the School of Finance of Renmin University of China.

Supervisors

Mr. Zhang Hong (張泓), is a shareholder representative Supervisor and the Chairman of the Board of Supervisors of the Company, and an economist. Mr. Zhang had served in The People's Insurance Company of China and China Insurance (UK) Co., Ltd. Mr. Zhang joined the Company in January 1996. He had served as President and executive Director of the Company. Mr. Zhang concurrently served as the chairman of the board of directors of China Re Life, the chairman of the board of directors and the general manager of China Re P&C, a director of China Continent Insurance, a director of China Re AMC and the chairman of CNIP. Since February 2017, he has been the Chairman of the Board of Supervisors of the Company. Since March 2017, he has been the director of labour union committee of the Company. He currently also serves as the non-executive director of Shanghai Insurance Exchange Company Limited (上海保險交易所股份有限公司). Mr. Zhang did not hold any directorship in any other listed companies during the past three years. Mr. Zhang obtained a bachelor's degree of arts in English from University of International Relations.

Mr. Zhu Yong (朱永), is a shareholder representative Supervisor of the Company and a senior auditor. Mr. Zhu worked for the department of monetary audit of the NAO as the deputy divisional director. Mr. Zhu served as the general manager of the legal and audit department and the general manager of the human resources department of Tianjin Binhai Rural Commercial Bank, the divisional director of China Export & Credit Insurance Corporation. Mr. Zhu serves as the senior manager of the office of the board of supervisors/internal audit department and the leader of the working group of the board of supervisors of China Investment Corporation. Since December 2014, Mr. Zhu has been a shareholder representative Supervisor of the Company. Mr. Zhu did not hold any directorship in any other listed companies during the past three years. Mr. Zhu obtained a doctoral degree in history of economics philosophy from Peking University.

Mr. Zeng Cheng (曾誠), is a shareholder representative Supervisor of the Company and a senior accountant. Mr. Zeng was the manager of the financial department of Central Huijin and the senior deputy manager of the financial department of China Investment Corporation. Mr. Zeng is currently the senior manager of the financial department of China Investment Corporation. Since July 2018, Mr. Zeng has been a shareholder representative Supervisor of the Company. Mr. Zeng did not hold any directorship in any other listed companies during the past three years. Mr. Zeng holds a doctoral degree in accounting from the Research Institute for Fiscal Science of MOF (now known as Chinese Academy of Fiscal Sciences) and was qualified as a Chartered Global Management Accountant (CGMA) and a Fellow of the Chartered Institute of Management Accountant (FCMA) and the Chartered Institute of Management Accountants (CIMA).

Mr. Qin Yueguang (秦躍光), is an employee representative Supervisor of the Company and a certified public accountant (non-practising member) in the PRC. Prior to joining the Company, Mr. Qin had worked in Konka Group Co., Ltd., Ping An Insurance (Group) Company of China, Ltd., China Taiping Insurance Group Ltd. and New China Life Insurance Company Ltd. Mr. Qin has been the deputy general manager of the risk management department of the Company (in charge of daily operation) since April 2017, and is concurrently serving as a director of China Re Life. Since June 2018, Mr. Qin has been an employee representative Supervisor of the Company. Mr. Qin did not hold any directorship in any other listed companies during the past three years. Mr. Qin obtained a bachelor's degree in accounting from Central University of Finance and Economics.

Mr. Li Jingye (李靖野), is an employee representative Supervisor of the Company and a senior economist. Mr. Li worked in the Central Financial Work Committee of the Communist Party of China, the former CBRC and CIRC, and as the supervisor at deputy division head level of PICC Holding Company and China Reinsurance (Group) Company appointed by the State Council. Mr. Li was the assistant to general manager of audit department/office of the Board of Supervisors of the Company, and has served as the deputy general manager of audit department/office of the Board of Supervisors of the Company since August 2017, and is currently serving as the Audit Controller of China Re AMC. Since June 2018, Mr. Li has been an employee representative Supervisor of the Company. Mr. Li did not hold any directorship in any other listed companies during the past three years. Mr. Li obtained a bachelor's degree in management information system from the Economic Information Department of Dongbei University of Finance and Economics, a master's degree in monetary and banking from the Department of Finance of Dongbei University of Finance and Economics, and a doctoral degree in finance from the Fiscal Science Research Institute of the Ministry of Finance (now known as Chinese Academy of Fiscal Sciences).

Senior Management

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

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

Ms. Liu Tianyang (劉天洋), is the Secretary of the commission for discipline inspection and the Audit Controller of the Company. Ms. Liu used to serve as the deputy director of China Foreign Economy and Trade Trust Co., Ltd., and the chairman of China Foreign Economy and Trade Trust Co., Ltd. (Hainan Branch), the deputy general manager of the enterprise department of China National Chemicals Import and Export Corporation, the general manager of the industry department of Chinese Commercial Enterprise Group, the general manager of the guarantee business department and vice chairman of the labour union of China Export & Credit Insurance Corporation, and the vice president of Dagong Global Credit Rating Co., Ltd. Ms. Liu has served as the secretary of the commission for discipline inspection since September 2009. She has been the Audit Controller of the Company since May 2013 and has also served as the chairman of the board of supervisors of China Re P&C. Ms. Liu did not hold any directorship in any other listed companies during the past three years. Ms. Liu obtained a master's degree of economics in international finance from Renmin University of China, a doctoral degree in management science and engineering from Huazhong University of Science and Technology.

Mr. Zhao Wei (趙威), is the Vice President and the Chief Financial Officer of the Company. Mr. Zhao used to serve in China Life Insurance (Group) Company and China Life Asset Management Company Limited, and used to serve as the president of China Life Franklin Asset Management Company Limited and the vice president of New China Asset Management Corporation Limited. Mr. Zhao used to be the general manager, the vice chairman of China Re AMC, and an assistant to the president of China Re, the chairman of China Re AMC Hong Kong, the chairman of China Re Capital Management Company Limited, a non-executive director of Beijing Jingneng Clean Energy Co., Limited. Since August 2018, he has served as the Vice President of the Company and since March 2019, he has served as the Chief Financial Officer of the Company. He is concurrently serving as a non-executive director of China Everbright Bank Company Limited and a director of Asian Reinsurance Corporation. Mr. Zhao did not hold any directorship in any other listed companies during the past three years. Mr. Zhao obtained a master's degree in national economic planning and management from Jilin University, and a doctoral degree in finance from the Fiscal Science Research Institute of the Ministry of Finance (now known as Chinese Academy of Fiscal Sciences).

Mr. Tian Meipan (田美攀), is the Chief Actuary of the Company. Before joining the Company, Mr. Tian served as a lecturer at the insurance department of Nankai University. Mr. Tian served at the commercial business division of life insurance business department of the Company. Mr. Tian served as a controller of risk management department, a deputy general manager and the chief actuary of China Re Life. Mr. Tian is now an executive director and the general manager of China Re Life, and he has been the Chief Actuary of the Company since December 2012. Mr. Tian did not hold any directorship in any other listed companies during the past three years. Mr. Tian obtained a bachelor's degree in international finance and a master's degree in finance from Nankai University. He is also the Fellow of Society of Actuaries, and has obtained the qualification of actuary in the PRC.

Ms. Zhu Xiaoyun (朱曉雲), is the Board Secretary and a joint company secretary of the Company, and an economist. Ms. Zhu joined the Company in July 1998 and had served as the deputy head of the office of the board of directors and deputy head of general office (party committee office) of the Company. Ms. Zhu currently serves as the head of general office (party committee office) of the Company. Ms. Zhu has been the joint company secretary of the Company since April 2017 and the Board Secretary of the Company since June 2017. Ms. Zhu used to serve as a director in Huatai Insurance Agency and currently also serves as a director of China Insurance Media Company Ltd. Ms. Zhu did not hold any directorship in any other listed companies during the past three years. Ms. Zhu obtained a bachelor's degree in insurance from Capital University of Economics and Business and a master's degree in finance from the University of International Business and Economics.

Joint Company Secretaries[1]

For the biography of **Ms. Zhu Xiaoyun**, please refer to the paragraphs headed "Senior Management" above.

Ms. Ng Sau Mei (伍秀薇), has been appointed as a joint company secretary of the Company since April 2017. Ms. Ng is an associate director of the listing services department of TMF Hong Kong Limited. Ms. Ng has over 18 years of professional experience in the company secretarial field and is responsible for providing corporate secretarial and compliance services to listed company clients. She has extensive knowledge and experience in corporate governance and compliance matters for listed companies and currently serves as joint company secretary of several companies listed on the main board of Hong Kong Stock Exchange, including Shandong Gold Mining Co., Ltd. and China BlueChemical Ltd., and is responsible for the corporate secretarial matters of several other companies listed on the main board of Hong Kong Stock Exchange, including COSCO SHIPPING Development Co., Ltd., New China Life Insurance Company Ltd. and China Development Bank Financial Leasing Co., Ltd. Ms. Ng obtained a bachelor's degree in Laws from City University of Hong Kong and a Master of Laws degree from the University of London and is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK.

Note: 1. TMF Hong Kong Limited and KCS Hong Kong Limited (the former company secretary service provider) have been amalgamated since 1 January 2018, and the amalgamated company is TMF Hong Kong Limited.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THEIR INFORMATION

Changes of Directors and Their Information

Name	Original Position	Present Position	Changes of Biographies
Wang Pingsheng	Executive Director	None	Since February 2018, Mr. Wang Pingsheng has ceased to be an executive Director of the Company.
He Chunlei	Executive Director, Executive Vice President (assuming the role of President)	Executive Director, Vice Chairman, President	Since September 2018, Mr. He Chunlei has ceased to be an Executive Vice President of the Company (assuming the role of President). Since September 2018, he has been the Vice Chairman and President of the Company. Since October 2018, he has ceased to be a director of China Re AMC.
Jiang Bo	None	Independent Non-executive Director	Since December 2018, Ms. Jiang Bo has been an independent non-executive Director of the Company.

For details of Mr. Wang Pingsheng's retirement and Mr. He Chunlei and Ms. Jiang Bo's appointment, please refer to the announcements and circulars of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 26 December 2017, 28 December 2017, 9 February 2018, 7 May 2018, 11 May 2018, 28 June 2018, 13 September 2018 and 18 December 2018.

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

Changes of Supervisors and Their Information

Name	Original Position	Present Position	Changes of Biographies
Wei Shiping	Shareholder Representative Supervisor	None	Since June 2018, Mr. Wei Shiping ceased to be a shareholder representative Supervisor.
Zeng Cheng	None	Shareholder Representative Supervisor	Since July 2018, Mr. Zeng Cheng has been a shareholder representative Supervisor.
Cao Shunming	Employee Representative Supervisor	None	Since June 2018, Mr. Cao Shunming ceased to be an employee representative Supervisor.
Tian Bo	Employee Representative Supervisor	None	Since June 2018, Mr. Tian Bo ceased to be an employee representative Supervisor.
Qin Yueguang	None	Employee Representative Supervisor	Since June 2018, Mr. Qin Yueguang has been an employee representative Supervisor.
Li Jingye	None	Employee Representative Supervisor	Since June 2018, Mr. Li Jingye has been an employee representative Supervisor.

For details of the retirement of Mr. Wei Shiping, Mr. Cao Shunming and Mr. Tian Bo and the appointment of Mr. Zeng Cheng, Mr. Qin Yueguang and Mr. Li Jingye, please refer to the announcements of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 23 April 2018, 7 May 2018, 28 June 2018 and 30 July 2018.

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

Changes of Senior Management and Their Information

Name	Original Position	Present Position	Changes of Biographies
He Chunlei	Executive Director, Executive Vice President (assuming the role of President)	Executive Director, Vice Chairman, President	Please refer to the section headed "Changes of Directors and Their Information" above.
Yu Qing	Vice President, Chief Financial Officer	None	Since 28 June 2018, Ms. Yu Qing ceased to be the Vice President and Chief Financial Officer of the Company.
Zhao Wei	Assistant to the President	Vice President, Chief Financial Officer	Since August 2018, Mr. Zhao Wei has been the Vice President of the Company; since September 2018, he ceased to be the chairman and a director of China Re AMC HK; since September 2018, he ceased to be the chairman and a director of China Re Capital Management Company Limited; since October 2018, he ceased to be the vice chairman of China Re AMC; since January 2019, he ceased to be a non-executive director of Beijing Jingneng Clean Energy Co., Limited; since March 2019, he has served as the Chief Financial Officer of the Company.
Zhang Xiaohong	Assistant to the President	None	Since January 2019, Ms. Zhang Xiaohong ceased to be an assistant to the President of the Company.

For details of Mr. He Chunlei's appointment, please refer to the announcement of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 13 September 2018.

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

EMPLOYEES

As of 31 December 2018, China Re Group had a total of 57,463 employees. The Group's staff remuneration comprises three components, namely basic salary, performance bonus and income benefits. We always uphold the guidance of "combining the market practice with the real situation of China Re", follow the distribution concept of "giving priority to the front-line staff, the front office staff, the core backbones and the best-performing staff", and have established a fair, competitive and motivating remuneration system. We provide employees with competitive remuneration packages with reference to market benchmarks and have established an annuity plan and a supplementary medical insurance plan to provide employees with more comprehensive benefits, which plays an important role in attracting, motivating and retaining talents.

The Group is devoted to realising a win-win situation between corporate development and employee improvement, and has fully implemented talent protection to train young employees, backbone employees, and core staff in a targeted manner, in which we have increased investment in talent cultivation, strengthened employee career planning management, cleared the obstacles on the career growth channels, and established a talent training system with our characteristics through multi-level training, internal rotation and exchange, and overseas training to create a high-quality, professional and international team of employees.

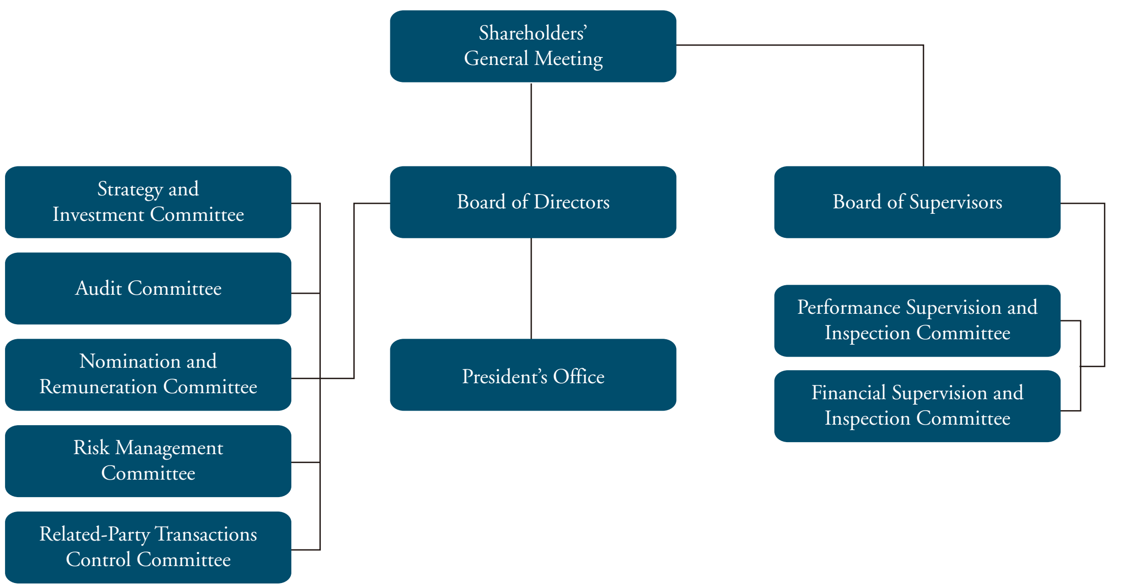
CORPORATE GOVERNANCE REPORT

OVERVIEW

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

The Company has adopted the Corporate Governance Code as its corporate governance code since 26 October 2015 on which the Company has been listed on the Main Board of the Hong Kong Stock Exchange. During the Reporting Period, the Company had been in compliance with the code provisions stipulated in the Corporate Governance Code and adopted recommended best practices under appropriate circumstances. In 2018, the Company received an excellent rating in corporate governance assessment conducted by the CBIRC, and it is the third year in succession that the Company received top-level appraisal from the regulatory department.

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



SHAREHOLDERS' GENERAL MEETING

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

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

- Resolution on Matters Regarding Remuneration of Relevant Directors and Supervisors of China Reinsurance (Group) Corporation for the Year 2016;
- Resolution on Mr. Wang Pingsheng's Ceasing to Serve as the Executive Director of China Reinsurance (Group) Corporation;
- Resolution on the Amendments to the Articles of Association of China Reinsurance (Group) Corporation;
- Resolution on the Report of the Board of Directors of China Reinsurance (Group) Corporation for the Year 2017;
- Resolution on the Report of the Board of Supervisors of China Reinsurance (Group) Corporation for the Year 2017;
- Resolution on the Amendments to the Rules of Procedures of the Shareholders' General Meetings of China Reinsurance (Group) Corporation;
- Resolution on the Amendments to the Rules of Procedures of the Board of Directors of China Reinsurance (Group) Corporation;

- Resolution on the Amendments to the Rules of Procedures of the Board of Supervisors of China Reinsurance (Group) Corporation;
- Resolution on the Final Financial Accounts Report of China Reinsurance (Group) Corporation for the Year 2017;
- Resolution on the Profit Distribution Plan of China Reinsurance (Group) Corporation for the Year 2017;
- Resolution on the Investment Budget for Fixed Assets of China Reinsurance (Group) Corporation for the Year 2018;
- Resolution on the Re-appointment of PricewaterhouseCoopers Zhong Tian LLP as the Statutory Financial Reporting Auditors of China Re Group and the Related Fees for Year 2018;
- Resolution on the Election of Directors for the Fourth Session of the Board of Directors of China Reinsurance (Group) Corporation;
- Resolution on the Election of Shareholder Representative Supervisors for the Fourth Session of the Board of Supervisors of China Reinsurance (Group) Corporation;
- Resolution on the Acquisition of the Equity Interest of Chaucer by China Reinsurance (Group) Corporation and the Transactions Contemplated Thereunder.

Methods of Convening Extraordinary General Meetings and Proposing Resolutions by Shareholders

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

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

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

BOARD OF DIRECTORS

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

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

Composition

As at the end of the Reporting Period, the Board comprised nine Directors, consisting of three executive Directors, two non-executive Directors and four independent non-executive Directors.[1]

Directors serve a term of three years and may serve consecutive terms if re-elected. Details are as follows:

Name	Position
Yuan Linjiang	Chairman, Executive Director
He Chunlei	Vice Chairman, Executive Director
Ren Xiaobing	Executive Director
Lu Xiuli	Non-executive Director
Shen Shuhai	Non-executive Director
Hao Yansu	Independent Non-executive Director
Li Sanxi	Independent Non-executive Director
Mok Kam Sheung	Independent Non-executive Director
Jiang Bo	Independent Non-executive Director

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

Due to the re-election arrangement of the Board, during the period of the appointment of Ms. Jiang Bo as the independent non-executive Director and the vice chairman of Audit Committee by the Company on 28 June 2018 to the approval of her qualification by the CBIRC on 13 December 2018, the composition of the Audit Committee of the Board was not in compliance with Rule 3.21 of the Hong Kong Listing Rules provisionally which requires that the independent non-executive directors must be the majority of the members of the Audit Committee.

Note: 1. Since 9 February 2018, Mr. Wang Pingsheng has ceased to be the executive Director. Since 13 September 2018, Mr. He Chunlei has been the Vice Chairman. Since 13 December 2018, Ms. Jiang Bo has been the independent non-executive Director. Since 28 June 2018, Ms. Wang Jun has ceased to be the independent non-executive Director.

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

Corporate Governance Functions

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

Duties and Responsibilities

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

(1) convening shareholders' general meetings and reporting its work to the shareholders' general meeting; (2) implementing the resolutions of the shareholders' general meetings; (3) determining the operation plans and investment plans of the Company; (4) formulating the development strategies of the Company; (5) formulating the annual financial budget and final accounts of the Company; (6) formulating the profit distribution plan and loss recovery plan of the Company; (7) formulating proposals for increase or reduction of the registered capital or proposals for the issue of bonds, shares, warrants or other securities or the listing of the Company; (8) formulating plans for major acquisition of the Company, the acquisition of shares of the Company or merger, division, dissolution and changes of the form of the Company; (9) formulating proposals for any amendment to the Articles of Association; (10) formulating the procedural rules of the shareholders' general meetings and the Board and the working rules for specialised committees under the Board; (11) formulating the basic management system of the Company; (12) deciding on the establishment of internal management departments, branches and subsidiaries of the Company; (13) regularly evaluating and improving the corporate governance of the Company; (14) appointing or removing senior management of the Company, and implementing reviews as well as determining remuneration and rewards and punishment arrangements with respect to such personnel; appointing or removing members of each specialised committee under the Board; (15) reviewing and deciding on evaluation plans for the results of operation of our major subsidiaries; (16) reviewing annual financial reports and major disclosure of information of the Company; (17) proposing to the shareholders' general meeting on the appointment or removal of accounting firms which provide regular statutory audit on the financial statements of the Company; (18) considering and approving, or authorising the Related-Party Transactions Control Committee under the Board to approve related-party transactions, except for those which shall be considered and approved by the shareholders' general meeting as required by laws; (19) considering and approving the Company's matters such as external investment, acquisition of assets, disposal and write-off of assets, external donations and asset mortgage, except for the matters regulated under the functions and powers attributable to the shareholders' general meeting as stipulated in Article 69 of the Articles of Association; (20) listening to the report from the Company's President on the operation and management and inspecting the work of the President; (21) recruiting an external auditor to carry out the audit of the Directors and senior management of the Company; and (22) exercising such other functions and powers as granted by the PRC laws, administrative regulations, regulatory requirements or the Articles of Association and as empowered by the shareholders' general meeting.

Summary of Work Undertaken

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

Name	Attended in person/ eligible to attend	Percentage of attendance in person (%)
Yuan Linjiang	3/3	100
He Chunlei	3/3	100
Ren Xiaobing	3/3	100
Lu Xiuli	2/3	67
Shen Shuhai	3/3	100
Hao Yansu	3/3	100
Li Sanxi	2/3	67
Mok Kam Sheung	3/3	100
Jiang Bo	0/0	N/A
Wang Pingsheng	0/1	0
Wang Jun	0/2	0

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

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy (%)
Yuan Linjiang	11/11	100	0/11	0
He Chunlei	10/11	91	1/11	9
Ren Xiaobing	11/11	100	0/11	0
Lu Xiuli	11/11	100	0/11	0
Shen Shuhai	11/11	100	0/11	0
Hao Yansu	11/11	100	0/11	0
Li Sanxi	10/11	91	1/11	9
Mok Kam Sheung	11/11	100	0/11	0
Jiang Bo	1/1	100	0/1	0
Wang Pingsheng	0/0	N/A	0/0	N/A
Wang Jun	3/5	60	2/5	40

During the Reporting Period, the Board held a total of eleven meetings, at which 69 resolutions were considered and approved and 10 reports were received. The Board has facilitated the amendments to the Articles of Association and the ancillary corporate governance system, the election of the new session of the Board, the acquisition of the equity interest of Chaucer and other important matters, and further reinforced its fundamental management, with new progress and breakthroughs made in many areas.

CORPORATE GOVERNANCE REPORT

Directors

Responsibility with Respect to Financial Statements

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

The Board has confirmed that it is responsible for the preparation of the financial statements of the Company for the year ended 31 December 2018. The Company is not subject to any material uncertainties or circumstances which might cast significant doubt on the Company's ability to continue as a going concern.

Securities Transactions

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

Training of Directors

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

Chairman/President

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

The Chairman is responsible for providing leadership to the Board, ensuring that the Company has good corporate governance practices and procedures, and maintaining the effective operation of the functions of Board. The President is responsible for leading the operation and management of the Company, organising the implementation of Board resolutions, annual operation plans and investment proposals, formulating the internal management organisation plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of the Vice President of the Company and other senior management (other than the Audit Controller and the Board Secretary). Details of the duties and responsibilities of the Chairman, and the President are set out in the Articles of Association.

Term of Office of Non-executive Directors

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

Independence of Independent Non-executive Directors

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

Nomination of Directors

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

Remuneration of Directors

The Board has established the Nomination and Remuneration Committee to conduct research on the remuneration packages of the Directors and make recommendations to the Board.

The Articles of Association provide that the Company shall enter into written contracts with the Directors in respect of remuneration matters with prior approval by the shareholders' general meetings. The Directors receive remuneration in the form of basic salaries, fees, performance-based bonuses and income benefits. In 2018, except independent non-executive Directors who received Directors' fees from the Company, all other Directors did not receive any remuneration from the Company in the capacity of Directors. Executive Directors received remuneration in the capacity of senior management from the Company. The remuneration packages of independent non-executive Directors are determined based on the Company's actual situations with reference to market benchmarks.

Specialised Committees of the Board

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

Strategy and Investment Committee

Composition

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

Chairman:	Yuan Linjiang (executive Director)
Members:	He Chunlei (executive Director), Ren Xiaobing (executive Director)[1], Lu Xiuli (non-executive Director), Shen Shuhai (non-executive Director)

Duties and responsibilities

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

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

Note: 1. Since 28 June 2018, Mr. Ren Xiaobing has been a member of the Strategy and Investment Committee.

Summary of work undertaken

During the Reporting Period, the Strategy and Investment Committee held a total of six meetings and considered and approved 11 resolutions.

Attendance records of the meetings were as follows:

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy (%)
Yuan Linjiang	6/6	100	0/6	0
He Chunlei	6/6	100	0/6	0
Ren Xiaobing	2/2	100	0/2	0
Lu Xiuli	6/6	100	0/6	0
Shen Shuhai	6/6	100	0/6	0

During the Reporting Period, the Strategy and Investment Committee studied and considered the operation plans for the year 2018, report on the strategy implementation assessment for the year 2017, the rolling capital plan for the years from 2018 to 2020 and other significant matters related to strategic planning, proposed various measures with respect to "innovation, synergy and fission", and further facilitated the implementation of significant strategies and investment of the Company.

Audit Committee

Composition

As at the end of the Reporting Period, the Audit Committee comprised five Directors including three independent non-executive Directors and two non-executive Directors, with an independent non-executive Director serving as the chairman[1].

Chairman:	Li Sanxi (independent non-executive Director)
Vice Chairlady:	Jiang Bo (independent non-executive Director)[2]
Members:	Lu Xiuli (non-executive Director), Shen Shuhai (non-executive Director), Hao Yansu (independent non-executive Director)

Notes: 1. Since 28 June 2018, Ms. Wang Jun has ceased to be the member of the Audit Committee.

2. Since 13 December 2018, Ms. Jiang Bo has been the vice chairlady of the Audit Committee.

Duties and responsibilities
The Audit Committee examines the basic internal audit system and monitors its implementation, monitors and evaluates the internal audit and internal control of the Company, and makes recommendations on the appointment or change of external auditors and monitors their work. The primary duties include (but not limited to): (1) examining the basic internal audit system of the Company and monitoring its implementation, and inspecting, monitoring and evaluating the internal audit of the Company; (2) monitoring the implementation of the internal control and management system of the Company, inspecting and evaluating the compliance and effectiveness of material operating activities of the Company; reviewing the Corporate Governance Report and Compliance Report of the Company on a regular basis, and providing opinions and recommendations for improvement to the Board; (3) examining the Company's financial information and its disclosure, examining the Company's key financial system and its implementation, monitoring the financial status; monitoring the truthfulness of financial reports and the effectiveness of financial reporting procedures implemented by the management; (4) making recommendations on the appointment, re-appointment, replacement or removal of external auditors, monitoring the independence and objectivity, audit process and works of external auditors, coordinating the communication between the internal audit department and external auditors, examining reports issued by external auditors, and ensuring external auditors' accountability to the Board and the Audit Committee; and (5) other matters as authorised by the Board.

Summary of work undertaken
During the Reporting Period, the Audit Committee held a total of four meetings, considered and approved 11 resolutions, and received six reports.

Attendance records of the meetings were as follows:

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy (%)
Li Sanxi	4/4	100	0/4	0
Jiang Bo	0/0	N/A	0/0	N/A
Lu Xiuli	4/4	100	0/4	0
Shen Shuhai	4/4	100	0/4	0
Hao Yansu	4/4	100	0/4	0
Wang Jun	3/3	100	0/3	0

During the Reporting Period, the Audit Committee carefully performed its duties, considered and studied the re-appointment of domestic and overseas auditors and related fees for the year 2018, the annual results announcement for the year 2017 and the annual report for the year 2017, the interim results announcement for the year 2018 and the interim report for the year 2018, the internal audit working plan for the year 2018 and other important matters, and provided the Board and the management with opinions and advice in relation to finance, internal control and operation management in a timely manner, which played an active role in enhancing corporate governance.

Nomination and Remuneration Committee

Composition

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

Chairman:	Hao Yansu (independent non-executive Director)[1]
Vice Chairman:	Shen Shuhai (non-executive Director)
Members:	Lu Xiuli (non-executive Director), Li Sanxi (independent non-executive Director), Mok Kam Sheung (independent non-executive Director)

Duties and responsibilities

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

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

Note: 1. Since 28 June 2018, Mr. Hao Yansu has been the chairman of the Nomination and Remuneration Committee. Ms. Wang Jun has ceased to be the chairlady of the Nomination and Remuneration Committee.

Summary of work undertaken

During the Reporting Period, the Nomination and Remuneration Committee held a total of eight meetings, considered and approved 19 resolutions and discussed one item.

Attendance records of the meetings were as follows:

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy(%)
Hao Yansu	4/4	100	0/4	0
Shen Shuhai	8/8	100	0/8	0
Lu Xiuli	8/8	100	0/8	0
Li Sanxi	7/8	88	1/8	12
Mok Kam Sheung	8/8	100	0/8	0
Wang Jun	4/4	100	0/4	0

During the Reporting Period, the Nomination and Remuneration Committee focused on the consideration of the appointment and removal of Directors and senior management, the 2018 operating results appraisal plan, matters regarding the 2017 annual remuneration for the general managers of the Company, Provisional Measures on Management of the Employees' Remuneration and other matters, which played an important role in further pushing forward the incentive system of the Company and improving its effectiveness.

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

The Board considers that the diversity in opinions and perspectives is beneficial to the Company and can be achieved through the consideration of factors in various aspects such as a diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Notwithstanding the above, the appointments of the members of the Board will always adhere to the principle of meritocracy, taking into account objective factors and considering the Company's business model and specific needs from time to time as well as the benefits of diversity to the Board. The members of the Board are from diverse educational and professional backgrounds and have extensive experience and expertise in the insurance and finance industry, risk management, financial state-owned assets regulation, financial auditing and legal fields. In addition, the Board comprises members of different genders. The Nomination and Remuneration Committee is of the opinion that the composition of the Board during the Reporting Period had been in compliance with the Board diversity policy.

Risk Management Committee

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

Chairlady:	Jiang Bo (independent non-executive Director)
Vice Chairlady:	Lu Xiuli (non-executive Director)
Members:	He Chunlei (executive Director), Ren Xiaobing (executive Director), Shen Shuhai (non-executive Director)[1]

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

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

Note: 1. Since 28 June 2018, Mr. Shen Shuhai has been the member of the Risk Management Committee, Mr. Yuan Linjiang has ceased to be the chairman and Mr. Hao Yansu has ceased to be the member. Since 13 December 2018, Ms. Jiang Bo has been the chairlady of the Risk Management Committee.

Summary of work undertaken

During the Reporting Period, the Risk Management Committee held a total of six meetings and considered and approved 12 resolutions.

Attendance records of the meetings were as follows:

Name	Attended in person/ eligible to attend	Percentage of attendance in person (%)	Attended by proxy/ eligible to attend	Percentage of attendance by proxy (%)
Jiang Bo	1/1	100	0/1	0
Lu Xiuli	6/6	100	0/6	0
He Chunlei	6/6	100	0/6	0
Ren Xiaobing	6/6	100	0/6	0
Shen Shuhai	3/3	100	0/3	0
Yuan Linjiang	3/3	100	0/3	0
Hao Yansu	3/3	100	0/3	0

During the Reporting Period, the Risk Management Committee considered and approved the risk appetite statement of the Company for the year 2018, the solvency report for each quarter, the internal control assessment report for the year 2017, the report of the non-insurance subsidiaries for the year 2017, the consolidated management report for the year 2017, the risk assessment report for the year 2017 and other matters. It has played an important role in facilitating the Group's risk management work and improving the Group's risk management capabilities.

Related-Party Transactions Control Committee

Composition

As at the end of the Reporting Period, the Related-Party Transactions Control Committee comprised five Directors, including one executive Director and four independent non-executive Directors.

Chairman:	Ren Xiaobing (executive Director)
Vice Chairman:	Hao Yansu (independent non-executive Director)
Members:	Li Sanxi (independent non-executive Director), Mok Kam Sheung (independent non-executive Director), Jiang Bo (independent non-executive Director)[1]

Note: 1. Since 28 June 2018, Mr. Ren Xiaobing has been the chairman of the Related-Party Transactions Control Committee, Mr. Hao Yansu has ceased to be the chairman and has been the vice chairman, Ms. Mok Kam Sheung has been the member, Ms. Wang Jun has ceased to be the member. Since 13 December 2018, Ms. Jiang Bo has been the member of the Related-Party Transactions Control Committee.

Duties and responsibilities

The primary duties of the Related-Party Transactions Control Committee include: (1) identifying the related parties of the Company, and promptly notifying relevant staff of the Company of the related parties identified (the files for related parties should be updated at least once every half year); (2) performing a preliminary review of significant related-party transactions that are to be approved at the shareholders' general meeting and the Board meeting; (3) accepting filings of general related-party transactions; (4) submitting to the Board a special report on the Company's related-party transactions and implementation of policies governing related-party transactions for the year; and (5) other matters as authorised by the Board.

Summary of work undertaken

During the Reporting Period, the Related-Party Transactions Control Committee held a total of five meetings and considered and approved nine resolutions.

Attendance records of the meetings were as follows:

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy (%)
Ren Xiaobing	3/3	100	0/3	0
Hao Yansu	5/5	100	0/5	0
Li Sanxi	4/5	80	1/5	20
Mok Kam Sheung	3/3	100	0/3	0
Wang Jun	2/2	100	0/2	0

During the Reporting Period, the Related-Party Transactions Control Committee amended the Working Rules of the Related-Party Transactions Control Committee of the Board, updated the list of related parties of the Group Company in terms of insurance regulatory requirements and accounting standards, carefully reviewed the related-party transactions on the property lease between the Group Company and subsidiaries, the increase in capital of the overseas subsidiary China Re UK and entrusted investment, as well as the report on related-party transactions, the implementation of the management system of related-party transactions and assessment of internal transactions for the year 2017, which ensured that the related-party transactions of the Company were in compliance with laws and regulations.

Risk Management and Internal Control

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

Main Features of Risk Management and Internal Control System

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

The Risk Management Committee is established under the Board to assist the Board in reviewing, monitoring and assessing material risk management matters of the Company such as risk strategies and risk management procedures, risk management policies and internal control system, risk management organisation methods and risk control performances. The Audit Committee is established under the Board to monitor the implementation of the Company's internal control and management system, and examine and assess the compliance and effectiveness of significant operational activities of the Company. The functional departments, including business, finance and investment departments of the Company are primarily responsible for the risk management and internal control system. The specialised departments, such as risk management and internal control and compliance departments, are responsible for the coordinated planning, organisation and implementation of risk management, internal control and compliance before and during the process. Risk assessment and internal control and compliance assessment work were carried out by the specialised departments on an annual basis. The internal audit department is responsible for monitoring and auditing the performance in risk management and internal control and compliance.

Technologies and Implementation of Risk Management

During the Reporting Period, the Company implemented the following measures to identify, evaluate and manage material risks: (1) The Company operated and managed risk appetite system. The Company's risk appetite system comprises risk appetite, risk tolerance and risk limits, which has been closely integrated with the business plan to play a role in guidance and constraints to business operations. Through the implementation of risk limits and related indicators monitoring, reporting and dynamic management processes, the continuous functioning of risk appetite is assured. (2) The Company continued deepening the construction of the C-ROSS system. Since the official implementation of the C-ROSS system, the Company has carried out a number of works to deepen the construction of C-ROSS, including but not limited to the followings: (i) Solvency reports have been regularly formulated and analyzed so that specific management measures were accordingly adopted to ensure adequate solvency; (ii) The Company improved its risk management capability through promoting the effective implementations of the Company's various policies and establishing the information system of risk management, to ensure the Company's business development; (iii) The Company strengthened its solvency management through assessing the impact of major business activities over its solvency before conducting such business activities; (iv) The Company actively participated in the study for the C-ROSS Phase II project to set the foundation for the implementation of related rules. (3) The Company regularly identified and analyzed all types of major risks. The Company used various risk assessment indicators and adopted a method of combination of qualitative and quantitative to evaluate risks, including using economic scenario generator, catastrophe models, and economic capital models together with stress testing and scenario analysis and other tools to analyze risk profile. Immediate reports and special analysis are prepared for major risks occurred or identified. The Company also managed the retained risks through risk control plan. When risk exposure broke through relevant requirements, internal procedures were triggered, and the Company managed risks beyond its risk tolerance through retrocession arrangements for reinsurance and issuances of catastrophe bonds. (4) The Company maintained its rating management system. The Company received ratings from S&P Global Ratings and A.M. Best, and applied rating methods and models in its daily operation. The Company sought to meet the requirements of such ratings while improving its operation management and risk management. Before conducting major business activities, the Company also assessed the impact of such activities over its ratings so as to balance its business against its ratings.

Establishment and Sound Operation of Internal Control System

During the Reporting Period, the Company implemented the following measures to continuously enhance internal management effectiveness: (1) The Company carried out internal control management activities in accordance with the management rules for internal control, internal control matrix and other systems and documents, and performed routine follow-up evaluation in respect of the major changes in regulatory requirements, changes in the Company's rules and regulations and major decisions in operation or management to dynamically identify the changes of risk factors in internal control and took responding measures in a timely manner. (2) The Company carried out internal control evaluation on a regular basis and arranged subsidiaries to carry out self-examination on key areas. For internal control deficiencies identified, the Company formulated rectification plan in a timely manner to specify the rectification measures, responsible departments and prescribed period for rectification, followed up and facilitated the deficiencies rectification, and performed evaluation on the effectiveness upon the completion of rectification. (3) The Company dynamically adjusted and optimised the authorisation system, improved the important authorisation documents, and clearly identified the approval authority and decision-making process on all levels. (4) The Company promoted the formulation and amendment of the rules and regulations, and organised its subsidiaries to launch an assessment on the rules and regulations, so as to ensure that the systems effectively matched with the strategies and organisational structure of the Company. (5) The Company improved the assessment system for its subsidiaries' internal control and compliance, and further strengthened the management of internal control and compliance. (6) The Company promoted the philosophy and knowledge of internal control through various methods such as internal and external trainings, advocacy of rules and daily face-to-face communication which enhanced the awareness of internal control among the employees. (7) The Company organised financial personnel, internal control management personnel and internal audit personnel to receive relevant professional trainings and provided sufficient training budget, so as to continuously improve the professional skills and comprehensive capability of these personnel.

Procedures for Handling and Disclosing Inside Information and Internal Control Measures

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

Evaluation of Effectiveness of Risk Management and Internal Control System

According to the Guidelines on Risk Management of Insurance Companies (Bao Jian Fa [2007] No. 23) and the Guidelines for Supervision on Consolidation of Accounts of Insurance Groups (Bao Jian Fa [2014] No. 96), the Company comprehensively analyzed and evaluated the risk management system in 2018. The evaluation involved various risks faced by the Company. The emphasis was on the evaluation of the implementation of risk management framework, management mechanisms of various types of risk and risk management process in all types of risk management. The evaluation found that the risk management system of the Company is well operated. The Board and the management approved of the effectiveness of the risk management system.

CORPORATE GOVERNANCE REPORT

In accordance with the Basic Standard for Enterprise Internal Control (Cai Kuai [2008] No. 7) and related guidelines, Basic Rules for the Internal Control of Insurance Companies (Bao Jian Fa [2010] No. 69) and the requirements of the Hong Kong Listing Rules, in light of the actual situations of the Company's internal control system, the Company carried out internal control assessment for 2018, and reviewed the design and operational effectiveness of the internal control systems of the Company and its subsidiaries covering all important aspects including financial control, operational control and compliance control. The Company focused on major business matters, high-risk areas and the Company's capabilities in response to changes of internal and external environments through comprehensive use of individual interviews, walk-through tests, material reviews and special seminars, etc.

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

BOARD OF SUPERVISORS

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

Composition

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

Chairman:	Zhang Hong (shareholder representative Supervisor)
Supervisors:	Zhu Yong (shareholder representative Supervisor), Zeng Cheng (shareholder representative Supervisor), Qin Yueguang (employee representative Supervisor), Li Jingye (employee representative Supervisor)[1]

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

Note: 1. Since 28 June 2018, Mr. Qin Yueguang and Mr. Li Jingye have been the employee representative Supervisors, Mr. Wei Shiping ceased to be the shareholder representative Supervisor, Mr. Cao Shunming and Mr. Tian Bo ceased to be the employee representative Supervisors. Since 25 July 2018, Mr. Zeng Cheng has been the shareholder representative Supervisor.

Duties and Responsibilities

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

The primary duties of the Board of Supervisors include (but not limited to): (1) reporting its work to the shareholders' general meeting; (2) monitoring and examining the Company's financials; (3) supervising the conduct of the Directors and senior management in their performance of duties and proposing the removal of Directors and senior management who have contravened any of the PRC laws, administrative regulations, regulatory requirements, the Articles of Association or resolutions of the shareholders' general meeting; (4) demanding rectification from Directors or any senior management when the acts of such persons are harmful to the Company's interest; (5) proposing to convene an extraordinary general meeting and convening and presiding over the shareholders' general meeting when the Board fails to perform its duty of convening and presiding over the shareholders' general meeting; (6) proposing resolutions at the shareholders' general meeting; (7) representing the Company in negotiations with a Director and bringing an action against a Director or senior management pursuant to the PRC Company Law and the Articles of Association; (8) formulating the rules of procedure of the Board of Supervisors and the working rules of specialised committees under the Board of Supervisors; (9) reviewing financial information such as the financial reports, operation reports and profit distribution plans to be submitted by the Board to the shareholders' general meeting; if there is any doubt, engaging certified public accountants and practicing auditors in the name of the Company to review such financial information; (10) nominating independent Directors; and (11) exercising other duties specified under the PRC laws, administrative regulations, regulatory requirements or the requirements of Articles of Association and authorised by shareholders' general meetings.

Summary of the Work Undertaken

During the Reporting Period, the Board of Supervisors convened five meetings, reviewed and considered 13 resolutions and received 16 reports. The Performance Supervision and Inspection Committee of the Board of Supervisors convened five meetings, while the Financial Supervision and Inspection Committee convened two meetings.

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

Name	Attended in person/eligible to attend	Percentage of attendance in person (%)	Attended by proxy/eligible to attend	Percentage of attendance by proxy (%)
Zhang Hong	5/5	100	0/5	0
Zhu Yong	5/5	100	0/5	0
Zeng Cheng	1/1	100	0/1	0
Qin Yueguang	2/2	100	0/2	0
Li Jingye	2/2	100	0/2	0
Wei Shiping	3/3	100	0/3	0
Cao Shunming	3/3	100	0/3	0
Tian Bo	3/3	100	0/3	0

Please refer to the section "Report of the Board of Supervisors" in this annual report for the work of the Board of Supervisors for the year 2018.

DUTIES AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

According to the Articles of Association, senior management refers to the Company's President, Vice President, Chief Financial Officer, Board Secretary and other management staffs confirmed by the Board. Senior management is responsible for the Company's operation and management, organisation and implementation of the Board resolutions, implementation of the operation and investment plan approved by the Board, preparation of plans for the establishment of the internal management structure and basic management system as well as formulation of specific rules and regulations. The daily management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to entering into any significant transactions by the management. During the Reporting Period, based on the development strategies of the Company, the senior management actively conducted various operation and management work and effectively implemented the operation plan and financial budget approved by the Board, leading to stable and healthy development of all business segments.

JOINT COMPANY SECRETARIES

Ms. Zhu Xiaoyun, as a joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. In order to uphold good corporate governance and ensure compliance with the Hong Kong Listing Rules and applicable Hong Kong laws, during the Reporting Period, the Company also engaged Ms. Ng Sau Mei, an associate director of TMF Hong Kong Limited, as a joint company secretary of the Company to assist Ms. Zhu Xiaoyun to perform her duties as a joint company secretary of the Company. The primary contact person of Ms. Ng Sau Mei in the Company is Ms. Zhu Xiaoyun.

During the Reporting Period, Ms. Zhu Xiaoyun and Ms. Ng Sau Mei had undertaken no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Hong Kong Listing Rules.

AUDITORS' FEES

During the Reporting Period, the Company appointed PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers to provide interim financial statements review services for the year 2018 and annual financial statements audit services for the year 2018 for the Group at a fee of RMB9.738 million. The Company appointed PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch to provide assurance services for solvency pressure tests for the year 2018 for the Group and appointed PricewaterhouseCoopers to provide consultancy services in tax reporting and taxation, such fees have been covered by the above-mentioned audit fee.

In January 2019, the Company appointed PricewaterhouseCoopers Management Consulting (Shanghai) Limited, Beijing Branch as the consultant for the equity incentive scheme of core management of Chaucer at a fee of RMB2.2428 million.

ARTICLES OF ASSOCIATION

On 24 October 2017, the 2017 second extraordinary general meeting was convened by the Company. According to the overall requirement on incorporation of Party-building work into the Articles of Association, and based on the actual circumstances of the Company, the Company amended the Articles of Association, details of which are set out in the Company's announcement and circular published on the websites of the Hong Kong Stock Exchange and the Company on 28 August 2017 and 8 September 2017. On 28 June 2018, the 2017 annual general meeting was convened by the Company. The Company amended the Articles of Association in accordance with the Guidance on Articles of Association for Insurance Companies. Details of the amendments are set out in the Company's announcement and circular published on the websites of the Hong Kong Stock Exchange and the Company on 28 February 2018 and 14 May 2018.

In January 2019, the Company received "Approval Regarding the Amendment to the Articles of Association of China Reinsurance (Group) Corporation" (Yin Bao Jian Fu [2019] No.68) from the CBIRC. The CBIRC considered and approved the revised Articles of Association. Details of the approval and the approved Articles of Association are set out in the Company's announcement published on the websites of the Hong Kong Stock Exchange and the Company on 21 January 2019.

DIVIDEND POLICY

On 21 July 2016, the Board of the Company considered and approved the Resolution on the Dividend Policy of China Reinsurance (Group) Corporation, agreeing that the Company will formulate the profit distribution plan of the Company in accordance with the statutory and regulatory requirements for insurance companies in the PRC imposed by regulatory authorities (including the statutory solvency requirements of the CBIRC and statutory and regulatory restrictions on payment of dividends of the Company), interests and desires of the shareholders of the Company, the financial position (including operating results and cash flows) of the Group, the business development needs and plans of the Group for future development and other factors that the Company deems relevant. In consideration of the above factors and subject to the laws, regulations and regulatory requirements in effect at that time, the Company shall distribute dividends once a year and the profits distributed in form of cash shall be no less than 30% of the consolidated net profit attributable to the equity shareholders of the Company realised for the year. For details of the dividend policy of the Company, please refer to the Company's announcement published on the websites of the Hong Kong Stock Exchange and the Company on 21 July 2016.

INVESTOR RELATIONS

The Company is committed to establishing and maintaining its good relationship with its investors, in strict compliance with the relevant provisions of full disclosure of information to investors, and enhancing communication with investors via different channels, actively and efficiently providing investors with services to enhance positive interaction and information exchanges between investors and the Company. With enhanced understanding and trust of the Company by investors and the open and transparent market image of the Company, the value of the Company can be fully reflected in the market.

CORPORATE GOVERNANCE REPORT

In 2018, the Company increased its efforts in market interaction, actively expanded communication channels, launched over 40 on-site investor relations activities for the entire year, and met over 500 organisation investors and analyst representatives. In particular, the Company held six events including results briefing, innovative reverse roadshows and special communication meetings which covered over 350 major investors and analyst representatives. The Company also participated in 15 investors summits which covered over 120 major investors and analyst representatives. The efficient interactions further deepened the market recognition regarding the investment value of the Company. Promotional materials in relation to the results briefings and corporate presentations have been published on the website of the Company for investors' reference.

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

COMPLIANCE WITH SANCTIONS RELATED UNDERTAKINGS

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

REPORT OF THE BOARD OF DIRECTORS

The Board presents its annual report of the Company for the year ended 31 December 2018, together with the audited financial statements of the Group for the year ended 31 December 2018.

BUSINESS REVIEW

Principal Business

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

Business Review and Analysis of Key Financial Indicators

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

Environmental Policies and Performance of the Company

China Re Group respects and values the legitimate interests of all employees, and strives to create a workplace with equity for employees. We advocate the concept of greening and environment protection and attach great importance to enhancing employees' awareness of energy-saving and environment-protection, and are committed to providing our employees with a safe and comfortable working environment. The Group accelerates the transformation to low-carbon operation by implementing "Digital China Re" Strategy, and has made significant progress in aspects of green office, business development promoted by new technologies and enhancement of customers' information security. We stick to the principle of openness, fairness, justness, honesty and effective procurement, and prefer to purchase energy-saving and environmentally-friendly products. The consumption of water, electricity, coal, gas and other energy is reduced by strengthening the management of energy saving and consumption reduction in office areas. The Group encourages the use of videoconferences and teleconferences and reduces the use of vehicles owned by the Group and business trips in order to lower carbon emission and energy consumption arising from business travels. In addition, the Group has established a safety management system and organised safety supervision, inspection, promotion and training activities to enhance employees' awareness of safety. We prohibit smoking at all workplaces to create a healthy and safe working environment. The Company is preparing the Environmental, Social and Governance Report in accordance with the requirements of Appendix 27 of the Hong Kong Listing Rules and will publish it on websites of the Hong Kong Stock Exchange and the Company in due course.

Compliance with Relevant Laws and Regulations

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

The Company is subject to the following main regulatory requirements:

The insurance regulatory authority and other government departments in the PRC may conduct on-site or off-site inspections or investigations on compliance with the PRC laws and regulations in respect of our state-owned asset management, financial condition and business operation, solvency margin, tax payment, foreign exchange management, and labour and social welfare from time to time.

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

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

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

Principal Risks and Uncertainties

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

1. As the global economic outlook faces challenges with complicated international environment, we may face uncertainties in underwriting and investment businesses;

2. The implementation of the C-ROSS in China will continue to affect the reinsurance demands of insurance companies, in particular at the moment when the construction of C-ROSS Phase II project is in progress and the impact of relevant policy changes is uncertain, and the further intensification of market-oriented reform of commercial motor insurance rates will increase the competition in the primary P&C insurance market, which would increase uncertainties of our operating results;

3. The surplus underwriting capacity of the reinsurance industry and the occurrence of domestic and overseas catastrophic events will have impacts on our underwriting business.

Non-adjusting Post Balance Sheet Date Events

Details are set out in Note 62 to the financial statements.

Future Business Development of the Group

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

RESULTS AND PROFIT DISTRIBUTION

The Group's profit for the year ended 31 December 2018 and the financial performance of the Group as at that date are set out in the financial statements from pages 117 to 125.

Final Dividend

The Board recommends the payment of final dividend for the year ended 31 December 2018 of RMB0.031 per share (tax inclusive), totalling approximately RMB1,317 million (the "2018 Final Dividend"). The 2018 Final Dividend is subject to the approval of shareholders of the Company at the 2018 annual general meeting, and is expected to be paid to the shareholders of the Company on Tuesday, 20 August 2019 whose names appear on the register of members of the Company as at Tuesday, 2 July 2019 and will be denominated and declared in Renminbi, while the dividend for H shares will be paid in Hong Kong dollars, which shall be calculated at the average central parity rate of Hong Kong dollars against Renminbi in the interbank foreign exchange market for the last five business days up to and including the date of the 2018 annual general meeting published by China Foreign Exchange Trade System as authorised by the People's Bank of China.

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

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

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation on the Issues Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》 (國稅函[2011]348號)), the Announcement of the State Administration of Taxation in relation to the Administration Measures on Preferential Treatment of Non-residents under Tax Treaties (SAT Announcement 2015 No. 60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) and other relevant laws, regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the 2018 Final Dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between mainland China and Hong Kong (Macau). In this regard, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on the dividends for the individual holders of H shares:

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

- For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend.

- For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of the dividend.

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

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

For non-resident enterprise holders of H shares, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding and Payment of the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No.897) (國家税務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)).

The cash dividends for the investors of H shares of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect will be paid in RMB. Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for dividends received by domestic individual investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the H share companies shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H share companies will not withhold and pay the income tax of dividends received by domestic enterprise investors from investing in the company of H shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and those domestic enterprise investors shall declare and pay the relevant tax themselves.

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

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

SHARE CAPITAL

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

No.	Name of shareholder	Class of shares	Number of shares	Percentage of total share capital (%)
1	Central Huijin Investment Ltd.	Domestic shares	30,397,852,350	71.56
2	HKSCC (Nominees) Limited	H shares	6,666,236,580	15.69
3	Ministry of Finance of the PRC	Domestic shares	4,862,285,131	11.45
4	National Council for Social Security Fund	Domestic shares	540,253,904	1.27
5	Other H shareholders	H shares	13,180,120	0.03
Total			42,479,808,085	100

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

REPORT OF THE BOARD OF DIRECTORS

PUBLIC FLOAT

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

DISTRIBUTABLE RESERVES

As at the end of the Reporting Period, the retained profit of the Company available for distribution to its shareholders was RMB3,594 million. Details are set out in Note 61(1) to the financial statements.

BUILDINGS, EQUIPMENT AND INVESTMENT PROPERTIES

During the Reporting Period, changes in the buildings, equipment and investment properties of the Group are set out in Note 36 and Note 35 to the financial statements respectively. On 15 December 2018, China Continent Insurance acquired a property. For details, please refer to the chapter headed "Management Discussion and Analysis".

Save as disclosed above, as at the end of the Reporting Period, the Group did not own any other 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 Hong Kong Listing Rules) exceed 5%.

RETIREMENT BENEFITS

The Group provides retirement benefits to employees, including enterprise annuity and defined benefit retirement plan. In 2018, the enterprise annuity contribution amounted to approximately RMB28.56 million and its defined benefit retirement plan contribution was approximately RMB5.06 million. Total annual enterprise annuity contribution shall be provided at certain percentage of the total employee salaries of the previous year, and defined benefit retirement plan contribution will be paid from the accrued defined benefit retirement liabilities of the Company. Provided that employees are dismissed or break laws or regulations, unvested enterprise annuity contributions will be transferred back to the Company's enterprise annuity account to reduce any future contributions by the employees. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

REMUNERATION OF SENIOR MANAGEMENT[1]

During the Reporting Period, details of the remuneration of Directors and Supervisors are set out in Note 15 to the financial statements. The range of remuneration of non-director senior management in the Group is set out as follows:

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

HIGHEST PAID INDIVIDUALS[2]

Details of the remuneration of five highest paid individuals of the Group during the Reporting Period are set out in Note 16 to the financial statements.

MAJOR CLIENTS

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

	Percentage of insurance income of the Group (%)
Largest insurance client	11.69
Top five insurance clients in total	31.16

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

Notes: 1. The remuneration standards for the Chairman, executive Directors, Chairman of the Board of Supervisors and senior management of the Company are determined in accordance with the relevant requirements of the Ministry of Finance and the Group Company. As of the Latest Practicable Date, the remuneration standards of the above personnel for 2018 have not been finally determined, and such remuneration is estimated figure (including income benefits). The remuneration of senior management members is determined based on their actual term of office.

2. As of the Latest Practicable Date, the Group has not completed the payment of performance bonus for the year 2018 and such remuneration is estimated figure.

REPORT OF THE BOARD OF DIRECTORS

RELATIONSHIP WITH CLIENTS

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

RELATIONSHIP WITH EMPLOYEES

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

MAJOR SUBSIDIARIES

As at the end of the Reporting Period, the Company directly controlled eight major subsidiaries, namely China Re P&C, China Re Life, China Continent Insurance, China Re AMC, Huatai Insurance Agency, China Re UK, China Re Underwriting Agency Limited and China Re Hong Kong Company Limited. Details are set out in Note 32(1) to the financial statements.

PRE-EMPTIVE RIGHT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

ISSUANCE OF CAPITAL SUPPLEMENTARY BONDS

On 17 August 2018, China Re P&C successfully issued the capital supplementary bonds with a total principal amount of RMB4,000 million publicly in the National Interbank Bond Market. The capital supplementary bonds are ten-year fixed-rate bonds, with an annual coupon rate of 4.97% for the first five years, and China Re P&C has conditional redemption rights at the end of the fifth year. In the event that China Re P&C does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 5.97% in the remaining five years. On 29 November 2018, China Re Life successfully issued the capital supplementary bonds with a total principal amount of RMB5,000 million publicly in the National Interbank Bond Market. The capital supplementary bonds are ten-year fixed-rate bonds, with an annual coupon rate of 4.80% for the first five years, and China Re Life has conditional redemption rights at the end of the fifth year. In the event that China Re Life does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 5.80% in the remaining five years.

The funds raised by the issuance of the capital supplementary bonds will be used to supplement the capital of China Re P&C and China Re Life in accordance with the applicable laws and regulatory approvals so as to improve their solvency, create conditions for the sound business development of China Re P&C and China Re Life business, and support the sustainable and steady development of their business.

For details, please refer to the announcements of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 13 July 2018, 17 August 2018, 15 November 2018 and 29 November 2018.

CHARITABLE AND OTHER DONATIONS

During the Reporting Period, the Group had charitable and other donations of approximately RMB26.62 million in aggregate.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Ms. Lu Xiuli
Mr. Shen Shuhai

Independent Non-executive Directors

Mr. Hao Yansu
Mr. Li Sanxi
Ms. Mok Kam Sheung
Ms. Jiang Bo

For details of Ms. Wang Jun's retirement and Ms. Jiang Bo's appointment, please refer to the announcements of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 7 May 2018, 28 June 2018 and 18 December 2018.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with the Directors and Supervisors. During the Reporting Period, none of the Directors or Supervisors entered into any service contract with the Company or its subsidiaries which would not be terminated within one year without payment of compensation other than statutory compensation.

REPORT OF THE BOARD OF DIRECTORS

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

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

PERMITTED INDEMNITY

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE INCENTIVE SCHEME FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

Name of shareholders	Nature of interest and capacity	Class	Number of shares	Approximate percentage of interests of the Company (%)	Approximate percentage of relevant class of shares of the Company (%)
Central Huijin Investment Ltd.	Beneficial owner	Domestic Share	30,397,852,350 (Long position)	71.56	84.91
Ministry of Finance of the PRC	Beneficial owner	Domestic Share	4,862,285,131 (Long position)	11.45	13.58
National Council for Social Security Fund	Beneficial owner	H Share	607,219,700 (Long position)	1.43	9.09
		Domestic Share	540,253,904 (Long position)	1.27	1.51
Great Wall Pan Asia International Investment Co., Ltd.	Beneficial owner	H Share	431,050,000 (Long position)	1.01	6.45
BlackRock, Inc.	Interest of Controlled Corporations	H Share	403,263,311 (Long position)	0.95	6.04
			2,145,000 (Short position)	0.01	0.03

Notes: 1. The information disclosed above were mainly based on the information provided on the website of the Hong Kong Stock Exchange at www. hkexnews.hk.

2. According to Section 336 of the SFO, shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. When the shareholdings of the shareholders in the Company change, it is not necessary for the shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the shareholders in the Company may be different from the shareholdings filed with the Hong Kong Stock Exchange.

3. Great Wall Pan Asia International Investment Co., Ltd. is the wholly-owned subsidiary of China Great Wall Asset Management Corporation in Hong Kong.

4. BlackRock, Inc. holds equity interest in the shares of the Company through the companies controlled or indirectly controlled by it.

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

ADMINISTRATION AND MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the audited financial statements of the Group for the year ended 31 December 2018.

CORPORATE GOVERNANCE

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

AUDITORS

In accordance with the relevant requirements of the Administrative Measures on Tendering Procedures for the Election and Appointment of Accounting Firms by Financial Enterprises (Provisional)（《金融企業選聘會計師事務所招標管理辦法（試行）》）(Cai Jin [2010] No. 169) issued by the Ministry of Finance and the Financial and Accounting Work Standards for Insurance Companies（《保險公司財會工作規範》）(Bao Jian Fa [2012] No. 8) issued by the former CIRC in relation to the service term of auditors continuously engaged by an insurance company, KPMG Huazhen LLP and KPMG retired as the auditors of the Group on 20 June 2016. On the same day, PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers were appointed as the domestic and overseas auditors of the Group respectively, and were re-appointed at the 2016 annual general meeting and the 2017 annual general meeting with a term till the conclusion of the 2018 annual general meeting. Save as disclosed above, the Group did not change its auditors in the past three years.

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers.

By order of the Board
China Reinsurance (Group) Corporation

Yuan Linjiang
Chairman

Beijing, the PRC
28 March 2019

REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, all members of the Board of Supervisors had diligently and prudently performed their duties, pragmatically and efficiently carried out the work in accordance with the relevant requirements of the PRC Company Law, the Articles of Association and other laws and regulations, regulatory requirements, internal rules and regulations of the Company, actively and effectively protected the interests of shareholders and the Company and played an effective role in constructive supervision, in order to help and serve the realization of the "One-Three-Five" Strategy of the Company.

RE-ELECTION OF THE BOARD OF SUPERVISORS

On 28 June 2018, the Board of Supervisors successfully completed the re-election of the Board of Supervisors with approval by the shareholders' general meeting. The chairman of the Board of Supervisors and one shareholder representative Supervisor were re-elected to serve consecutive terms, while another shareholder representative Supervisor and two employee representative Supervisors were replaced. The re-election of members of the Performance Supervision and Inspection Committee and the Financial Supervision and Inspection Committee under the fourth session of the Board of Supervisors was also completed.

MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIALISED COMMITTEES

During the Reporting Period, the Board of Supervisors held five meetings, considered 13 proposals and received 16 reports; the Performance Supervision and Inspection Committee under the Board of Supervisors held five meetings and considered five proposals; the Financial Supervision and Inspection Committee under the Board of Supervisors held two meetings and considered three proposals. All Supervisors and members of the specialized committees attended all of the meetings above.

On 1 March 2018, the 14th (extraordinary) meeting of the third session of the Board of Supervisors was convened, during which the Resolution on Amending the Rules of Procedures of the Board of Supervisors of China Reinsurance (Group) Corporation was considered and unanimously approved, and three reports, including the Report on 2018 Annual Operation Plan of China Reinsurance (Group) Corporation, were received.

On 28 March 2018, the 15th meeting of the third session of the Board of Supervisors was convened, during which five resolutions, including the Resolution on the 2018 Annual Work Plan of the Board of Supervisors of China Reinsurance (Group) Corporation, were considered and unanimously approved, and four reports, including the Report on the 2017 Compliance Report of China Reinsurance (Group) Corporation, were received.

On 7 May 2018, the 16th (extraordinary) meeting of the third session of the Board of Supervisors was convened, during which three resolutions, including the Resolution on the Report of the Assessment of Duty Performance by the Board of Supervisors of China Reinsurance (Group) Corporation for the year 2017, were considered and unanimously approved, and seven reports, including the Performance Report of the Directors of China Reinsurance (Group) Corporation for the year 2017, were received.

REPORT OF THE BOARD OF SUPERVISORS

On 28 June 2018, the 1st (extraordinary) meeting of the fourth session of the Board of Supervisors was convened, during which three resolutions, including the Resolution on the Election of Chairman for the fourth session of the Board of Supervisors of China Reinsurance (Group) Corporation, were considered and unanimously approved.

On 29 August 2018, the 2nd meeting of the fourth session of the Board of Supervisors was convened, during which the Resolution of the Report on the Supervision of Performance Remuneration and Business Expenses of the Board of Supervisors of China Reinsurance (Group) Corporation for the First Half of 2018 was considered and unanimously approved, and two reports, including the Operation Report of China Reinsurance (Group) Corporation for the First Half of 2018, were received.

PERFORMANCE MONITORING

Through attending shareholders' general meetings, the meetings of the Board and its specialized committees, members of the Board of Supervisors continuously paid attention to the Group's overall operation and management and related results, closely monitored the financial and internal control risks of the Group and supervised the performance of duties by Directors and senior management.

In accordance with the requirements of the Articles of Association and in conjunction with the requirements of shareholders, the Board of Supervisors organised the assessment of duty performance for the year of 2017 and issued an assessment opinion report. In accordance with the relevant working system requirements, the Board of Supervisors organised and completed the supervision and inspection on performance remuneration and business expenses for the year 2017 and the first half of 2018 and issued the related working report.

FINANCIAL MONITORING

During the Reporting Period, the Board of Supervisors continued to carry out a monthly monitoring on the consolidated and segment financial conditions of the Group, paid attention to tendency issues and abnormal situations and carefully reviewed the annual final accounts. It strengthened the communication with external auditors in respect of annual financial report audit and interim financial report review, reminding them of the key issues of auditing.

SUPERVISION WORKS ON INTERNAL RISK CONTROL AND OTHER AREAS

During the Reporting Period, the Board of Supervisors received reports on the meetings of the Board of Supervisors or held special communication meetings to understand the Group's work in risk management, internal control compliance, related-party transactions, internal audit, and other areas. It especially exchanged opinions on relevant circumstances of the optimisation projects on the remuneration management system of the Group Company, the cash flow of the Group, the scientific and technological innovation of the Group and the implementation of "Digital China Re" and other matters and provided opinions and suggestions on the related works. The Board of Supervisors and the board of supervisors of China Continent Insurance jointly organised the research work of lower branches of China Continent Insurance, focusing on the operation and management of branches, the implementation of CICS project and the commissions consistency of motor insurance, and put forward specified opinions and suggestions for improving the related works.

REPORT OF THE BOARD OF SUPERVISORS

ESTABLISHMENT OF INFORMATION SYSTEM OF SUPERVISION WORKS FOR THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors had carried out the development and establishment of the second phase of information system of supervision works for the Board of Supervisors and the construction of the digital supervisory board is progressing steadily. The main objective of the second phase of information system is to develop a financial monitoring indicator analysis module, which would digitally produce and intelligently present various financial monitoring indicators results and therefore help the Board of Supervisors grasp the financial and operational status of the Group more comprehensively and improve the efficiency of financial supervision.

FACILITATE THE ESTABLISHMENT OF COMMUNICATION AND COLLABORATION MECHANISM OF SUPERVISION WORKS

During the Reporting Period, the Board of Supervisors further promoted the communication and collaboration mechanism of the Board of Supervisors within China Re Group and the implementation of the supervision and communication mechanism of the supervision departments of the Group Company. Through joint research, joint training, and special conferences, the communication and collaboration among the board of supervisors within the Group has been strengthened, and the joint efforts of the supervisory departments have been exerted to further improve the supervision effectiveness.

PERFORMANCE OF DUTIES BY THE SUPERVISORS

During the Reporting Period, all Supervisors actively performed their supervisory duties, attended all meetings of the Board of Supervisors and its specialized committees, prudently expressed their opinions and participated in the voting. The Supervisors actively participated in the supervision and inspection work organised by the Board of Supervisors to ensure that the Board of Supervisors successfully completed the tasks for the whole year. The Supervisors also actively participated in the internal and external training activities of the Company and continuously improved their performance ability and business level. The employee representative Supervisors participated in the employee representative assembly of the Company and presented annual reports on their works. The Board of Supervisors believes that all Supervisors performed their duties in accordance with the PRC Company Law, the Articles of Association and other laws and regulations, regulatory requirements, internal rules and regulations of the Company and have achieved fruitful results in all supervision works.

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

Zhang Hong
Chairman of the Board of Supervisors

Beijing, the PRC
30 January 2019

To the Directors of China Reinsurance (Group) Corporation

Dear Sirs,

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

INTRODUCTION

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

As one of the core parts of this engagement, we have been asked to quantify and report on embedded value ("**EV**") and value of one year's new business ("**1-year VNB**") of the Covered Business. This report has been prepared for inclusion in China Re Group 2018 Annual Report. The report summarises the scope of work carried out by EY, valuation methodology, valuation results as well as valuation assumptions used for the above mentioned work.

The China Association of Actuaries ("**CAA**") issued the "Actuarial Practice Standards: Life and Health Insurance Embedded Value Reporting Guidelines" ("**EV standards**") in November 2016, which indicated the formal implementation of EV under the China Risk Oriented Solvency System ("**C-ROSS**"). Based on those standards, we performed China Re Group EV and 1-year VNB calculation as at 31 December 2018.

SCOPE OF WORK

The scope of our work is as follows:

- Quantifying embedded value of China Re Group as at 31 December 2018 under EV standards;
- Quantifying value of one year's new business underwritten by the Group during the 12 months prior to 31 December 2018 under EV standards;

EMBEDDED VALUE

- Reviewing the assumptions used for value of in-force business ("**VIF**") and value of one year's new business valuation of China Re Group;

- Performing movement analysis of embedded value; and

- Performing sensitivity tests under alternative assumptions.

VALUATION METHODOLOGY

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

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

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

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

- Net asset value of China Re Group on a consolidated basis with allowance for the reserve difference between PRC GAAP basis and EV standards for the Covered Business;

- The asset value adjustments, which reflect the after-tax difference between market value and book value for certain relevant assets, together with the relevant adjustments to liabilities.

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

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

VALUATION RESULTS

The embedded value and value of one year's new business results as at 31 December 2018 and the corresponding results as at prior valuation date are summarised as below.

Table 1: EV and 1-year VNB as at 31 December 2018 and 31 December 2017
(in RMB millions)

Valuation Date	**31 Dec 2018**	31 Dec 2017
Embedded value		
Adjusted net worth ("**ANW**")	**81,175**	76,174
Value of in-force business before CoC	**8,456**	6,860
Cost of Capital ("**CoC**")	**(2,896)**	(2,546)
Value of in-force business after CoC	**5,560**	4,314
Embedded value	**86,735**	80,488
including:		
adjusted net worth of life and health reinsurance business	**16,361**	15,971
value of in-force business after CoC of life and health reinsurance business	**5,402**	4,145
embedded value of life and health reinsurance business	**21,763**	20,116

Value of new business of life and health reinsurance business		
Value of one year's new business before CoC	**2,352**	2,402
Cost of Capital	**(1,011)**	(932)
Value of one year's new business after CoC	**1,341**	1,470

Note 1: Figures may not add up due to rounding.

Note 2: Figures related to life and health reinsurance business only include business of China Re Life, which accounts for more than 99.5% of total life and health reinsurance business.

MOVEMENT ANALYSIS

The table below shows the movement analysis of China Re Group's EV from 31 December 2017 to 31 December 2018.

Table 2: Movement analysis of EV from 31 December 2017 to 31 December 2018
(in RMB millions)

No.	Item	Amount	Details
1	EV of life and health reinsurance business as at 31 December 2017	20,116	EV as at 2017 year end under EV standards
2	Model change	(15)	Model improvement
3	Modified EV of life and health reinsurance business as at 31 December 2017	20,101	EV as at 2017 year end under EV standards after model improvement
4	Expected return on EV	1,456	Expected return on EV in the year of 2018
5	Impact of new business	1,295	Impact of new business in the year of 2018
6	Impact of market value adjustments and other adjustments	263	Changes from asset market value adjustments and other adjustments
7	Economic experience variances	(427)	Difference between actual investment income and expected investment income in the year of 2018
8	Operating experience variances	(189)	Difference between actual operational experience and expected operational results in the year of 2018
9	Change in assumptions	93	Adjustments to assumptions at 31 December 2018
10	Others	(200)	
11	Capital injection and shareholder dividend payment	(628)	Capital injection to China Re Life and dividend paid to the Group Company by China Re Life
12	EV of life and health reinsurance business as at 31 December 2018	21,763	EV as at 2018 year end under EV standards
13	EV of other business of the Group as at 31 December 2017	60,372	
14	Profit from other business in the year of 2018	2,732	
15	Impact of market value adjustments and other adjustments	676	Changes from asset market value adjustments and other adjustments
16	Others	2,603	
17	Capital injection and shareholder dividend payment	(1,411)	Capital injection to subsidiaries, dividend paid to the Group Company by subsidiaries and dividend paid to shareholders by China Re Group

No.	Item	Amount	Details
18	EV of other business of the Group as at 31 December 2018	64,972	
19	EV of the Group as at 31 December 2018	86,735	

Note: Figures may not add up due to rounding.

VALUATION ASSUMPTIONS

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

The assumptions applied in the valuation of EV and 1-year VNB of China Re Group as at 31 December 2018 are summarised as below.

Risk Discount Rate

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

Investment Return Rates

The following table summarises the assumptions of investment return rates used for VIF and 1-year VNB valuation as at 31 December 2018:

Table 3: Assumptions of investment return rates used for VIF and 1-year VNB valuation as at 31 December 2018

	2019	2020	2021	2022–2028	2029+
Non asset-driven business	5.0%	5.0%	5.0%	5.0%	5.0%
Asset-driven business — Domestic Universal Life	6.0%	6.0%	5.0%	5.0%	5.0%
Asset-driven business — Domestic Other	6.0%	6.0%	6.0%	6.0%	5.0%
Asset-driven business — Overseas	6.0%	6.0%	6.0%	6.0%	5.0%

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

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

EMBEDDED VALUE

Policyholder Dividend

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

Mortality and Morbidity Rates

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

Short-term Reinsurance Business

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

Claim Ratio

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

Discontinuance Rates

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

Expenses

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

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

Tax

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

SENSITIVITY

We have performed a series of sensitivity tests on alternative assumptions for value of in-force business and value of one year's new business of the life and health reinsurance business of China Re Group as at 31 December 2018. For each test, only the referred assumption is changed, while the other assumptions are kept unchanged. Results of the sensitivity tests are shown as below:

Table 4: Sensitivity Test Results of VIF and 1-year VNB of China Re Group as at 31 December 2018
(in RMB millions)

Scenarios	Value of in-force business after Cost of Capital	Value of one year's new business after Cost of Capital
Base scenario	5,402	1,341
Risk discount rate increased by 100 basis points	4,801	1,153
Risk discount rate decreased by 100 basis points	6,097	1,561
Annual investment return rates increased by 50 basis points	6,543	1,651
Annual investment return rates decreased by 50 basis points	4,257	1,029
Mortality and morbidity rates increased by 10%	5,346	1,339
Mortality and morbidity rates decreased by 10%	5,460	1,342
Discontinuance rates increased by 10%	5,220	1,296
Discontinuance rates decreased by 10%	5,591	1,387
Management expenses increased by 10%	5,315	1,288
Management expenses decreased by 10%	5,490	1,393
Combined ratio of short-term reinsurance contracts increased by 1% on absolute basis	5,121	1,180
Combined ratio of short-term reinsurance contracts decreased by 1% on absolute basis	5,678	1,496

RELIANCE AND LIMITATIONS

In performing our work, we have relied on the information provided verbally and in writing by, or on behalf of, China Re Group for periods up to 31 December 2018.

In particular, we have relied on:

- Information regarding the in-force reinsurance contracts and retrocession reinsurance contracts of the Group Company and China Re Life;
- Policy data covering the in-force long-term reinsurance contracts of the Group Company and China Re Life;
- Model points of the in-force yearly renewable term reinsurance contracts of the Group Company and China Re Life;
- Information regarding the accumulated amount of the in-force survival benefit and policy dividend of the Group Company and China Re Life;

- Information regarding the C-ROSS reserve and accounting reserve of the Group Company and China Re Life;
- Information regarding the gross written premium from short-term reinsurance contracts of the Group Company and China Re Life;
- Information regarding the ceded gross premium for short-term retrocessional contracts of the Group Company and China Re Life;
- Information relevant to adjusted net worth and historical financial information of the Group Company and China Re Life;
- Information regarding the experience statistics and experience analysis results of the Group Company and China Re Life in 2016, 2017 and 2018;
- Information regarding the future investment strategy and tax exempted proportion of investment income of the Group Company and China Re Life; and
- Information regarding the foreign currency policies and foreign exchange rate of the Group Company and China Re Life.

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

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

This report is based on the information obtained by EY as at 31 December 2018, and any future development and changes of such information after that date will not be accounted for.

DISCLOSURE

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

On behalf of
Ernst & Young (China) Advisory Limited

Bonny Fu, FSA
Partner, Actuarial and Insurance Advisory Services

INDEPENDENT AUDITOR'S REPORT

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

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of China Reinsurance (Group) Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 117 to 252, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

INDEPENDENCE

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Significant insurance risk test — reinsurance contracts	
Refer to notes 2(26), 3(2)(a), 6 and 44 to the consolidated financial statements. The Group performed significant insurance risk test for its assumed reinsurance contracts to determine the classification of these contracts and the corresponding accounting treatment. When performing the quantitative test, the Group uses certain actuarial assumptions, such as loss ratio, mortality and morbidity rates, and the mean and standard deviation of the loss distribution. The Group determines such assumptions based on its historical experiences and estimation on future development trends for its insurance products. For the year ended 31 December 2018, the gross written premiums for reinsurance contracts that passed the testing of significant insurance risk was RMB79.52 billion, representing 66.3% of the Group's total income. On the other hand, the contracts that did not pass the testing of significant insurance risk were recognised as investment contract liabilities and were measured at amortised cost of RMB15.81 billion, representing 6.2% of the Group's total liabilities as at year end. We focused on this area because the development of assumptions requires the use of significant management judgement.	We, with the assistance of our own actuarial experts, performed the audit procedures listed below. We obtained an understanding of the Group's policies and procedures of significant insurance risk test by performing inquiries of management and inspection of supporting documentation. We compared the policies and procedures adopted in management's test to the industry practice. On a sample basis, we checked the appropriateness of the actuarial assumptions, including loss ratio, mortality and morbidity rates, and the mean and standard deviation of the loss distribution, applied by the management by comparing them to the Group's historical data. We also recalculated the Group's computation of the significant insurance risk test and checked the classification of the selected contracts according to the test result. Based on our audit procedures performed above, we found no material exception.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of insurance contract liabilities — long-term life and health reinsurance contract liabilities	
Refer to notes 3(2)(b) and 45 to the consolidated financial statements. As at 31 December 2018, the Group had significant long-term life and health reinsurance contract liabilities of RMB76.33 billion, representing 30.1 % of the Group's total liabilities. The valuation of long-term life and health reinsurance contract liabilities is determined using multiple complex models which were set up based on the terms of the Group's reinsurance contracts. The main actuarial assumptions adopted in the valuation models include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, and expense assumptions. The determination of assumptions used at the balance sheet date requires the use of management judgement and it involves significant uncertainty of future events and hence we focused our work in this area.	We, with the assistance of our own actuarial experts, performed the audit procedures listed below. We assessed the Group's methodology for calculating long-term life and health reinsurance contract liabilities against recognised actuarial practices. We assessed the reasonableness of key assumptions including discount rates, mortality and morbidity rates, surrender rates and expense assumptions used in the valuation models by comparing them to the Group's historical experiences. On a sample basis, we accessed the appropriateness of actuarial models by independently modelling selected contracts. Based on our audit procedures performed, we found no material exception.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of insurance contract liabilities — claim reserves	
Refer to notes 3(2)(b) and 45 to the consolidated financial statements. As at 31 December 2018, the Group had significant claim reserves of RMB58.72 billion, representing 23.1% of the Group's total liabilities. The valuation of claim reserves is determined using multiple complex models which were set up based on the terms of the Group's insurance contracts. The main assumption in measuring the claim reserves is developed using the Group's experience of historical claims, which can be used to project the trend of future claims and hence ultimate claim costs. Accordingly, management extrapolates the amount of paid and incurred losses, average costs per claim and claim number of primary insurance contracts, based on the observed development of earlier years to develop the expected loss ratios for estimating the claim reserves. The determination of the main assumption on future claims requires the use of management judgement and it involves significant uncertainty of future events and hence we focused our work in this area.	We, with the assistance of our own actuarial experts, performed the audit procedures listed below. For major lines of business, we assessed the reasonableness of the key assumptions, such as ultimate loss ratio, risk factor, claims adjustment expenses, which were used in the valuation models by comparing them to the Group's historical data. For the selected lines of business, we also compared the Group's computation of claim reserves with an estimated range of valuation result independently developed by us. We evaluated the overall reasonableness of the claim reserves by performing the comparison of the actual experiences to previously expected results and assessed the adequacy of the estimated liability as at year end. Based on our audit procedures performed, we found no material exception.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of unlisted equity instruments Refer to note 3(2)(c) and 56 to the consolidated financial statements. The Group's unlisted equity instruments stated at RMB 13.46 billion representing 3.9% of the Group's total assets as at the balance sheet date. These unlisted equity instruments were classified under available-for-sale financial assets and financial assets at fair value through profit or loss and derivative financial instruments, and were classified as level 3 for fair value measurement purposes. We focused on the valuation of these instruments because it involves a high degree of estimation uncertainty as they are valued based on models, assumptions and inputs such as credit premium and valuation multiples of comparable companies which are not observable from the market.	We evaluated the design and tested certain key internal controls over management's investment valuation process, such as management's review over key assumptions and inputs. We involved our internal valuation experts in assessing management's or management's expert's valuation model of the Group's investments against industry practice and valuation guidelines. We checked the appropriateness of the unobservable assumptions and inputs such as credit premium and valuation multiples of comparable companies used in the valuation by comparing them with comparable market data. Based on our audit procedures performed, we found no material exception.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Gross written premiums	6	**122,257,197**	105,336,468
Less: Premiums ceded to reinsurers and retrocessionaires	6	**(7,862,106)**	(4,401,329)
Net written premiums	6	**114,395,091**	100,935,139
Changes in unearned premium reserves	7	**(5,122,438)**	(2,651,837)
Net premiums earned		**109,272,653**	98,283,302
Reinsurance commission income		**1,072,508**	953,294
Investment income	8	**7,496,534**	9,260,154
Exchange losses, net		**(44,101)**	(155,896)
Other income	9	**2,126,130**	1,330,047
Total income		**119,923,724**	109,670,901

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Total income		**119,923,724**	109,670,901
Claims and policyholders' benefits	10	**(81,578,125)**	(74,971,977)
— Claims incurred		**(41,848,821)**	(37,098,920)
— Life and health reinsurance death and other benefits paid		**(11,004,304)**	(28,307,952)
— Changes in long-term life and health reinsurance contract liabilities		**(28,725,000)**	(9,565,105)
Handling charges and commissions	11	**(19,332,172)**	(16,653,761)
Finance costs	12	**(1,127,782)**	(429,917)
Other operating and administrative expenses	13	**(14,502,253)**	(12,294,992)
Total benefits, claims and expenses		**(116,540,332)**	(104,350,647)
Share of profits of associates		**1,701,410**	1,630,814
Profit before tax	14	**5,084,802**	6,951,068
Income tax	17	**(1,185,816)**	(1,615,033)
Profit for the year		**3,898,986**	5,336,035
Attributable to:			
Equity shareholders of the parent		**3,729,891**	5,256,296
Non-controlling interests		**169,095**	79,739
Profit for the year		**3,898,986**	5,336,035
Earnings per share (in RMB)	19		
— Basic		**0.09**	0.12
— Diluted		**0.09**	0.12

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Profit for the year		**3,898,986**	5,336,035
Other comprehensive income for the year after tax			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligation	48	**(12,153)**	(12,919)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates, after tax		**(101,069)**	(84,890)
Available-for-sale financial assets, after tax		**(95,665)**	198,924
Exchange differences on translation of financial statements of foreign operations		**(16,905)**	(7,424)
Other comprehensive income for the year after tax	20	**(225,792)**	93,691
Total comprehensive income for the year		**3,673,194**	5,429,726
Attributable to:			
Equity shareholders of the parent		**3,538,674**	5,349,204
Non-controlling interests		**134,520**	80,522
Total comprehensive income for the year		**3,673,194**	5,429,726

The accompanying notes on pages 126 to 252 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**31 December 2018**	31 December 2017
Assets			
Cash and short-term time deposits	21	**13,230,928**	10,753,859
Financial assets at fair value through profit or loss	22	**10,725,714**	7,206,613
Derivative financial instruments	23	**175,403**	—
Financial assets held under resale agreements	24	**2,596,387**	2,558,402
Premiums receivable	25	**11,055,676**	4,367,458
Reinsurance debtors	26	**49,648,266**	24,459,367
Investment contracts receivable	27	**2,831,865**	851,538
Reinsurers' share of insurance contract liabilities	45	**14,890,956**	4,880,801
Time deposits	28	**4,408,928**	5,239,747
Available-for-sale financial assets	29	**91,979,646**	78,948,328
Held-to-maturity investments	30	**35,897,556**	25,982,685
Investments classified as loans and receivables	31	**41,065,284**	32,871,394
Reinsurers' share of policy loans		**454,775**	419,502
Investments in associates	33	**21,185,891**	14,876,449
Statutory deposits	34	**16,073,184**	14,561,460
Investment properties	35	**5,054,425**	2,748,309
Property and equipment	36	**2,778,951**	2,624,086
Intangible assets	37	**2,204,303**	404,002
Goodwill	38	**1,559,664**	1,188,538
Deferred tax assets	39	**1,542,887**	1,122,813
Other assets	40	**11,546,284**	6,734,774
Total assets		**340,906,973**	242,800,125

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**31 December 2018**	31 December 2017
Liabilities and equity			
Liabilities			
Short-term borrowings	41	**521,569**	—
Derivative financial instruments	23	**—**	47,608
Securities sold under agreements to repurchase	42	**14,193,976**	7,710,503
Reinsurance payables	43	**12,929,525**	11,874,955
Income tax payable		**444,972**	483,742
Policyholders' deposits		**1,946,566**	1,669,166
Investment contract liabilities	44	**15,809,209**	12,946,807
Insurance contract liabilities	45	**168,731,390**	108,126,306
Notes and bonds payable	46	**19,192,123**	9,679,806
Long-term borrowings	47	**3,577,107**	—
Deferred tax liabilities	39	**1,136,075**	1,087,946
Other liabilities	48	**15,170,644**	13,802,787
Total liabilities		**253,653,156**	167,429,626
Equity			
Share capital	49	**42,479,808**	42,479,808
Reserves	50	**17,546,922**	14,254,671
Retained profits	50	**18,254,471**	17,632,428
Total equity attributable to equity shareholders of the parent		**78,281,201**	74,366,907
Non-controlling interests		**8,972,616**	1,003,592
Total equity		**87,253,817**	75,370,499
Total liabilities and equity		**340,906,973**	242,800,125

Approved and authorized for issue by the Board of Directors on 28 March 2019.

Yuan Linjiang
Director

He Chunlei
Director

Zhao Wei
Vice President, responsible for accounting

Tian Meipan
Chief Actuary

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the parent											
			Reserves										
	Note	Share capital	Capital reserve	Surplus reserve	General risk reserve	Agriculture catastrophic loss reserve	Defined benefit obligation remeasurement reserve	Fair value reserve	Exchange reserve	Retained profits	Subtotal	Non-controlling interests	Total equity
As at 31 December 2017		42,479,808	8,040,895	1,793,095	4,163,620	9,968	(15,692)	272,582	(9,797)	17,632,428	74,366,907	1,003,592	75,370,499
Impact of change in accounting policy in associates	2(3)	—	—	—	—	—	—	44,005	—	(313,181)	(269,176)	—	(269,176)
Restated total equity as at 1 January 2018		42,479,808	8,040,895	1,793,095	4,163,620	9,968	(15,692)	316,587	(9,797)	17,319,247	74,097,731	1,003,592	75,101,323
Profit for the year		—	—	—	—	—	—	—	—	3,729,891	3,729,891	169,095	3,898,986
Other comprehensive income	20	—	—	—	—	—	(12,153)	(162,159)	(16,905)	—	(191,217)	(34,575)	(225,792)
Total comprehensive income		—	—	—	—	—	(12,153)	(162,159)	(16,905)	3,729,891	3,538,674	134,520	3,673,194
Appropriations to surplus reserve		—	—	228,428	—	—	—	—	—	(228,428)	—	—	—
Appropriations to general risk reserve		—	—	—	527,208	—	—	—	—	(527,208)	—	—	—
Distributions to shareholders of the parent		—	—	—	—	—	—	—	—	(2,039,031)	(2,039,031)	—	(2,039,031)
Dividend paid to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(163,526)	(163,526)
Transaction with non-controlling interests	54	—	2,704,751	—	—	—	—	—	—	—	2,704,751	7,998,151	10,702,902
Others		—	(20,924)	—	—	—	—	—	—	—	(20,924)	(121)	(21,045)
As at 31 December 2018		42,479,808	10,724,722	2,021,523	4,690,828	9,968	(27,845)	154,428	(26,702)	18,254,471	78,281,201	8,972,616	87,253,817

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the parent											
			Reserves										
	Note	Share capital	Capital reserve	Surplus reserve	General risk reserve	Agriculture catastrophic loss reserve	Defined benefit obligation remeasurement reserve	Fair value reserve	Exchange reserve	Retained profits	Subtotal	Non-controlling interests	Total equity
As at 1 January 2017		42,479,808	8,166,044	1,440,315	3,470,711	9,968	(2,773)	159,331	(2,373)	15,460,852	71,181,883	957,970	72,139,853
Profit for the year		—	—	—	—	—	—	—	—	5,256,296	5,256,296	79,739	5,336,035
Other comprehensive income	20	—	—	—	—	—	(12,919)	113,251	(7,424)	—	92,908	783	93,691
Total comprehensive income		—	—	—	—	—	(12,919)	113,251	(7,424)	5,256,296	5,349,204	80,522	5,429,726
Appropriations to surplus reserve		—	—	352,780	—	—	—	—	—	(352,780)	—	—	—
Appropriations to general risk reserve		—	—	—	692,909	—	—	—	—	(692,909)	—	—	—
Distributions to shareholders		—	—	—	—	—	—	—	—	(2,039,031)	(2,039,031)	(34,919)	(2,073,950)
Capital injection from minority shareholders		—	—	—	—	—	—	—	—	—	—	19	19
Others		—	(125,149)	—	—	—	—	—	—	—	(125,149)	—	(125,149)
As at 31 December 2017		42,479,808	8,040,895	1,793,095	4,163,620	9,968	(15,692)	272,582	(9,797)	17,632,428	74,366,907	1,003,592	75,370,499

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Operating activities			
Cash generated from operations	52(a)	**6,717,032**	8,121,128
Income tax paid		**(1,414,700)**	(1,264,012)
Net cash flows generated from operating activities		**5,302,332**	6,857,116
Investing activities			
Interests received		**5,892,859**	5,563,697
Dividends received		**1,396,290**	887,919
Purchases of property and equipment, investment properties and intangible assets		**(4,101,891)**	(493,645)
Proceeds from disposals of property and equipment, investment properties and intangible assets		**31,240**	1,187,910
Acquisition of subsidiary, net of cash and cash equivalent acquired		**(4,997,088)**	—
Purchases of investments		**(137,925,675)**	(140,904,703)
Proceeds from disposals of investments		**114,007,738**	111,668,853
Disposals of associates		**—**	919,323
Investments in associates		**(5,336,861)**	(1,038,798)
Net cash flows used in investing activities		**(31,033,388)**	(22,209,444)

The accompanying notes on pages 126 to 252 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2018	2017
Financing activities			
Changes in third party investors' interests of consolidated structured entities, net		**702,034**	480,528
Capital injection from minority shareholders		**10,702,902**	20
Payment for shares issuance costs		**—**	(75,857)
Proceeds from notes and bonds payable		**9,000,000**	10,248,099
Bank borrowings		**4,095,249**	—
Cash repaid to lenders		**(2,220)**	—
Interests paid		**(1,030,736)**	(354,618)
Dividends paid to equity shareholders of the parent		**(2,047,771)**	(2,034,452)
Dividends paid by subsidiaries to non-controlling interests		**(163,526)**	(34,919)
Net proceeds from securities sold under agreements to repurchase		**6,560,845**	3,255,916
Net cash flows generated from financing activities		**27,816,777**	11,484,717
Net increase/(decrease) in cash and cash equivalents		**2,085,721**	(3,867,611)
Cash and cash equivalents at the beginning of the year		**12,068,596**	16,670,213
Effect of foreign exchange rate changes		**547,543**	(734,006)
Cash and cash equivalents at the end of the year	52(b)	**14,701,860**	12,068,596

The accompanying notes on pages 126 to 252 form part of these financial statements.

FINANCIAL STATEMENTS AND NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

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

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

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

Effective 28 December 2018, the Company acquired The Hanover Insurance International Holdings Limited ("HIIH"), a specialist underwriting group which operates in the Society of Lloyd's ("Lloyd's") (See Note 5). The consolidated financial statements include HIIH's financial information after the date of acquisition.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

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

For the purpose of preparing the consolidated financial statements, the Group has adopted all applicable new and revised IFRSs in issue which are relevant to the Group for the current year's financial statements, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2018 and any new accounting standards and amendments that are effective but temporary exemption is applied by the Group for the financial year beginning on 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Basis of measurement

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

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

— financial instruments classified as available-for-sale or as financial assets and liabilities at fair value through profit or loss and derivative instrument (see Note 2(14) and Note 2(15)).

— reinsurers' share of insurance contract liabilities and insurance contract liabilities, which have been measured based on actuarial methods (see Note 2(27)).

(3) New accounting standards and amendments adopted by the Group for the first time for the financial year beginning on 1 January 2018

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

IFRS 15	Revenue from Contracts with Customers and IFRS 15 Amendments
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfers of investment property
Annual Improvements 2014–2016 Cycle	Improvements Amendments to IFRS 1 and IAS 28
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Some of these apply to interim financial reports prepared under IAS 34 as well as to annual financial statements. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The Group assessed that adopting IFRS 15 would not have a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) New accounting standards and amendments adopted by the Group for the first time for the financial year beginning on 1 January 2018 (continued)

Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The IASB has issued amendments to IFRS 4 Insurance Contracts 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. The amendments provide two optional approaches to deal with the mismatched effective dates of IFRS 9 and the new insurance contracts standard to replace IFRS 4:

(a) The overlay approach: all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and

(b) The deferral approach: companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply IAS 39 Financial Instruments: Recognition and Measurement.

IAS 28 Investments in Associates and Joint Ventures require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:

(a) the entity applies IFRS 9 but the associate or joint venture applies the temporary exemption from IFRS 9; or

(b) the entity applies the temporary exemption from IFRS 9 but the associate or joint venture applies IFRS 9.

The Group concludes that the Group's operation activities are predominantly connected with insurance and decides to apply the temporary exemption for IFRS 9, and not to adopt uniform accounting policies in group level. The disclosures about the Group's temporary exemption from IFRS 9 are disclosed in Note 53.

The Group's material associate, China Everbright Bank Co., Ltd. ("China Everbright Bank") applied IFRS 9 retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives of China Everbright Bank for 2017 were not restated. The adoption of IFRS 9 by China Everbright Bank on 1 January 2018 has decreased the total equity of the Group by RMB285 million as at 1 January 2018.

Amendments to IAS 40, Transfers of investment property
The amendment clarified that to transfer to, or from, investment properties, there must be a change in use. To conclude if a property has changed use, there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The Board confirmed that a change in intention, in isolation, is not enough to support a transfer. This amendment has had no significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) New accounting standards and amendments adopted by the Group for the first time for the financial year beginning on 1 January 2018 (continued)

Annual Improvements 2014-2016 Cycle, Improvements Amendments to IFRS 1 and IAS 28

IFRS 1 — deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.

IAS 28 — clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

These amendments have had no significant impact on the Group's consolidated financial statements.

IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, in order to confirm the foreign exchange rate used in the initial recognition of the relevant projects, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

This interpretation has had no significant impact on the Group's consolidated financial statements.

(4) New accounting standards and amendments that are effective but temporary exemption is applied by the Group for the financial year beginning on 1 January 2018

IFRS 9, Financial Instruments

On 24 July 2014, the IASB issued the complete standard of IFRS 9 (IFRS 9 (2014)).

Classification and measurement of financial assets and financial liabilities

IFRS 9 retains but simplifies the mixed measurement model by allowing three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income, with the basis of classification dependent on the entity's business model and contractual cash flow characteristics of the financial assets. IFRS 9 introduces a new requirement that the gain or loss on a financial liability designated at fair value through profit or loss that is attributable to changes in the entity's own credit risk is recognised in other comprehensive income; the remaining amount of change in fair value is recognised in profit or loss ("own credit risk requirements").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) New accounting standards and amendments that are effective but temporary exemption is applied by the Group for the financial year beginning on 1 January 2018 (continued)

IFRS 9 Financial Instruments

Impairment
The new impairment methodology in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised.

The Group concludes that the Group's operation activities are predominantly connected with insurance and decides to apply the deferral approach. Therefore, the Group did not adopt IFRS 9 on 1 January 2018. Based on the current assessment, the Group expects the adoption of IFRS 9 will have a significant impact on the Group's consolidated financial statements.

(5) New accounting standards and amendments that are not yet effective and have not been early adopted by the Group for the financial year beginning on 1 January 2018
Up to the date of issue of the financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the accounting year ended 31 December 2018 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

IFRS 16	Leases (1)
IFRS 17	Insurance Contracts (2)
Amendment to IAS 28	Investments in associates and joint ventures (3)
Annual Improvements to 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (3)
Amendments to IAS 19	Employee Benefits (3)
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture (4)

(1) Effective for the accounting period beginning on 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time.

(2) The new standard is currently mandatorily effective for the accounting period beginning on or after 1 January 2021, however in November 2018, IASB proposed to defer IFRS17 until the financial period beginning on or after 1 January 2022.

(3) Effective for the accounting period beginning on 1 January 2019.

(4) Originally effective for the accounting period beginning on 1 January 2016. The effective date has now been deferred/removed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) New accounting standards and amendments that are not yet effective and have not been early adopted by the Group for the financial year beginning on 1 January 2018 (continued)

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

The Group has completed the assessment of the impact of IFRS 16, which would not be expected to have material impact on the Group's consolidated financial statements.

IFRS 17, Insurance Contracts

IFRS 17 was published on 18 May 2017. IFRS 17 established principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cashflows, a risk adjustment and a contractual service margin representing the unearned profit of the contract.

Amendments to IAS 28, Investments in associates and joint ventures

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

Annual Improvements to 2015-2017 Cycle, Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

IFRS 3 — The amendments clarify that obtaining control of a business that is a joint operation, is a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.

IFRS 11 — The amendments clarity that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

IAS 12 — The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits were recognised.

IAS 23 — The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) New accounting standards and amendments that are not yet effective and have not been early adopted by the Group for the financial year beginning on 1 January 2018 (continued)

IAS 19, Employee Benefits

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change

- any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling

- separately recognise any changes in the asset ceiling through other comprehensive income.

Amendments to IFRS 10 and IAS 28, sale or contribution of assets between an investor and its associate or joint venture

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

(6) Use of estimates and judgements

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Use of estimates and judgements (continued)

Changes in accounting estimates

In determining insurance contract liabilities, assumptions such as discount rate, mortality and morbidity, surrender rate, and expense assumptions are applied to long term life and health reinsurance contracts. Such assumptions should be determined based on current information available at the end of the reporting period. The Group changed the above assumptions based on current information available as at 31 December 2018 (mainly the risk free discount rate and surrender rate) and updated estimate for future cash flows, with the corresponding impact on insurance contract liabilities taken into the current year's statement of income. As a result of such changes in assumptions, long term life and health reinsurance contracts liabilities were increased by RMB113 million as at 31 December 2018 and the profit before tax for the year ended 31 December 2018 was decreased by RMB113 million.

(7) Subsidiaries and non-controlling interests

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(14)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(9) if applicable).

China Re UK Limited ("China Re UK"), a subsidiary of the Company, became a member of Lloyd's and established China Re Syndicate 2088 since 2011. On 28 December 2018, the Company completed the acquisition of the HIIH, which own Syndicate 1084 and Syndicate 1176. Underwriting members at Lloyd's have several but not joint liability for the transactions of the Lloyd's syndicates in which they participate. Therefore, for each managed syndicate on which the Group participates, only the relevant proportion of the transactions, assets and liabilities of those Lloyd's syndicates are reflected in the consolidated financial statements. As at 31 December 2018, the Group provided 100% of the capital for Syndicate 2088 and Syndicate 1084, and provided 57% of the capital for Syndicate 1176, and therefore relevant proportion of the transactions, assets and liabilities of those Lloyd's syndicates have been included in the Group's financial statements.

(8) Structured entities

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

(9) Associates and joint ventures

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment provisions relating to the investment (see Notes 2 (24)(b)). Any excess over cost at acquisition-date, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statements, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of comprehensive income.

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(14)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

(11) Goodwill

Goodwill represents the excess of

(a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

Goodwill is stated at cost less accumulated impairment provisions. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(24)(b)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(12) Cash and cash equivalents

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

(13) Translation of foreign currencies

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

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

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

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

(14) Investments in debt and equity securities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Investments in debt and equity securities (continued)

Investments in securities held for trading and those designated at fair value through profit or loss are classified as financial assets at fair value through profit or loss. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. Dividends or interest earned on these investments are recognised in accordance with the policies set out in Note 2(30)(c).

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see Note 2(24)(a)).

Debt securities classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, debt securities classified as loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses (see Note 2(24)(a)).

Investments which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(24)(a)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest rate method are recognised in profit or loss in accordance with the policies set out in Note 2(30)(c). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see Note 2(24)(a)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset.

(15) Derivatives and hedging activities

The Group uses derivatives to hedge its exposure on risks. The Group adopts hedge accounting for derivatives designated as hedging instruments if the hedge is effective. Other derivatives are accounted for as trading financial assets or financial liabilities. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as assets while the negative fair value is recognised as liabilities. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(15) Derivatives and hedging activities (continued)

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group records the relationship between the hedging instrument and the hedged item as well as its risk management objectives and the strategy of executing the hedging transaction at the beginning of the transaction. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in profit or loss. The hedging instrument is measured at fair value, with fair value changes recognised in profit or loss. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in profit or loss to offset the effect of the gain or loss on the hedging instrument.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate at each balance sheet date that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(17) Reinsurance debtors and other receivables

Reinsurance debtors represent receivables from reinsurance contracts.

Reinsurance debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate method, less allowance for impairment of doubtful debts (see Note 2(24)(a)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

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

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

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

(19) Offsetting of financial instruments

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

(20) Investment properties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Investment properties (continued)

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

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

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

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

(21) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see Note 2(24)(b)). The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(21) Property and equipment (continued)

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

Construction in progress represents costs of construction of buildings and other items of property as well as costs of equipment under installation. Construction in progress is stated at cost less any impairment losses (see Note 2(24)(b)), and is not depreciated, and is reclassified to the appropriate category of property and equipment when completed and ready for use.

(22) Intangible assets (other than goodwill)

Intangible assets mainly consist of the value of business acquired ("VOBA"), Syndicate capacity, distribution channel and purchased software.

(a) Value of business acquired ("VOBA")

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

VOBA is recognised as an intangible asset on the consolidated statements of financial position, and amortised over the remaining effective policy contract periods.

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

(b) Syndicate capacity

Syndicate capacity is arising from business combination recognised as an intangible asset on the consolidated statements of financial position. Syndicate capacity represents the capacity of Lloyd's Syndicates allowing a company to write insurance business in the Lloyd's market globally and to realise profits from that business. The continuing value of the underwriting capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective syndicate, with any impairment in value being charged to the statement of profit or loss. It is deemed to have indefinite useful lives and are therefore not subject to amortization and is stated at cost less any impairment losses (see Note 2(24)(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Intangible assets (other than goodwill) (continued)

(c) Distribution channel

Distribution channel is arising from business combination, recognised as an intangible asset on the consolidated statements of financial position. Distribution channel represents a network of retail and wholesale brokers worldwide, including specialty and regional brokerages, which allow the Group to form closer relationships with clients and aids business retention. Distribution channel is initially recognised at fair value at the acquisition date and is subsequently measured at cost less accumulated amortisation and impairment provision. It is amortised on a straight-line basis over their estimated useful lives from 10 to 15 years.

(d) Software

Purchased software is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(24)(b)). Software are finite life assets and amortised on a straight-line basis over the assets' estimated useful lives from 3 to 10 years.

(23) Share capital

Ordinary shares

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

(24) Impairment of assets

(a) Impairment of financial assets

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

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

— significant financial difficulty of the borrower or issuer;

— a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— disappearance of an active market for financial assets because of financial difficulties of the issuer;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Impairment of assets (continued)

(a) Impairment of financial assets (continued)

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost, including:

(i) the market price of the equity securities was more than 50% below their cost at the reporting date;

(ii) the market price of the equity securities was more than 20% below their cost for a period of at least six months at the reporting date; and

(iii) the market price of the equity securities was below their cost for a period of more than one year (including one year) at the reporting date.

Investments classified as held-to-maturity and loans and receivables, reinsurance debtors and other receivables

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

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

Available-for-sale financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Impairment of assets (continued)

(b) Impairment of non-financial assets

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

— property and equipment;

— investment properties;

— intangible assets;

— investments in subsidiaries and associates; and

— goodwill.

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(25) Insurance contracts

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

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

(26) Testing the significance of insurance risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(27) Insurance contract liabilities

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

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

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

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

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

Unearned premium reserves

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

(i) The result of applying 1/8 method, 1/24 method or 1/365 method on the difference between written premiums and acquisition costs.

(ii) The discounted net future cash outflows including claim payments, maintenance expenses, loss adjustment expenses, and corresponding risk margin. Risk margin is determined using the 75% percentile approach and the 82.5% percentile approach, with reference to the relevant industry benchmarks.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(27) Insurance contract liabilities (continued)

Claim reserves

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

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

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

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

Long-term life and health insurance contract reserves

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(27) Insurance contract liabilities (continued)

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

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

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

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

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

Liability adequacy test

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

(28) Reinsurance

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

(29) Notes and bonds payable

Notes and bonds payable are initially recognised at fair value, net of transaction costs incurred. Notes and bonds payable are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the notes using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(30) Revenue recognition

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

(a) Gross written premiums

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

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

(b) Investment income

Investment income is comprised of interest income from term deposits, cash and cash equivalents,debt financial assets, financial assets purchased under agreements to resell, reinsurers' share of policy loans, dividend income from equity financial assets, net fair value gains or losses on financial assets at fair value through profit or loss, and realized gains or losses on financial assets at fair value through profit or loss and available for-sale financial assets less impairment loss or plus reversed impairment losses, rental income and disposal gains or losses from investment properties, negative goodwill arising from investments in associates. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognized when the right to receive dividend payment is established.

(c) Other Income

The Group shall recognise revenue when the Group satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset.

The amount of revenue from selling commodities or offering service shall be measured according to the transaction price apportioned to each individual performance obligation. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The Group shall consider the terms of the contract and its customary business practices to determine the transaction price. When determining the transaction price, the Group shall consider the effects of all of the following: variable consideration, the existence of a significant financing component in the contract, non-cash consideration, consideration payable to a customer and so on.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(31) Employee benefits

(a) Short term employee benefits and defined contribution plans

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

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

(b) Defined benefit retirement plan obligation

The Group operates several defined benefit retirement plans.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group measures the obligations under defined benefit pension plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discounts obligations under the defined benefit retirement plans to determine the present value of the defined benefit liability.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in the consolidated statement of comprehensive income. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(32) Operating leases

(a) Operating lease charges

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

(b) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(21). Impairment losses are recognised in accordance with the accounting policies described in Note 2(24)(b). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

(33) Income tax

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(33) Income tax (continued)

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

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

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

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

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

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(34) Provisions and contingent liabilities

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

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

(35) Dividends

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

(36) Related parties

(a) **A person, or a close member of that person's family, is related to the Group if that person:**

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) **An entity is related to the Group if any of the following conditions applies:**

(i) The entity and the Group are members of the same group;

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(36) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(37) Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(a) Classification and significant risk testing of contracts

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

(b) Measurement unit for insurance contracts

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

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

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

(d) Significant influence when less than 20% of voting power is held

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

— representation on the board of directors or equivalent governing body of the investee;

— participation in policy-making processes, including participation in decisions about dividends or other distributions;

— material transactions between the investor and the investee;

— interchange of managerial personnel; or

— provision of essential technical information.

An investee as accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset. The reasons for existence of significant influence over some investees, even though the voting power held by the Group is less than 20%, are disclosed in Note 33 to the financial statements.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty

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

(a) Insurance risk significance test

The Group performs insurance risk significance test at the time when a contract is recognised, and makes necessary review at the end of the reporting period.

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

(i) Property and casualty reinsurance contracts

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

(ii) Life and health reinsurance contracts

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(a) Insurance risk significance test (continued)

(iii) Primary property and casualty insurance contracts

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

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

(b) Insurance contract liabilities

(i) Property and casualty reinsurance contract reserves

- Risk margin

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

  When measuring reserves for property and casualty reinsurance contracts, the risk margin has been calculated using the 75% percentile approach and the 82.5% percentile approach with reference to industry benchmarks.

- Discount rate

  When determining the reserves, the Group discounts relevant future cash flows if the impact of time value of money is significant. Level of impact depends on the "duration" of insurance liability. If the duration of insurance liability is longer than one year, the time value of money is significant and should be included when determining the reserves; otherwise, it is not compulsory for determining the reserves. For reinsurance contracts underwritten by the Syndicates, Lloyd's underwriter, the Group determines the assumption of discount rate according to the risk-free yield curve published by "European Insurance and Occupational Pensions Authority". The assumption of discount rates for the Lloyd's Syndicates used as at 31 December 2018 is -0.3%–2.7%.

  For the other reinsurance contracts, the Group determines the assumption of discount rate according to the "Yield Curve of Insurance Contract Reserves" published by chinabond.com.cn, without considering liquidity risk premium, tax effect, credit risk premium and so on. The assumption of discount rates for the Group's other reinsurance business used as at 31 December 2018 is 2.9%–3.1% (31 December 2017: 2.7%–3.2%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(b) Insurance contract liabilities (continued)

(ii) Life and health reinsurance contract reserves

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

- Discount rate

  For contracts wherein profit in the future is not impacted by the corresponding asset portfolio investment return, the Group uses the "Yield Curve of Insurance Contract Reserves" published by chinabond.com.cn and also considers the liquidity risk, taxation premium and counter-cyclical factors when determining the time value of money.

  The discount rates including the liquidity risk premium used as at 31 December 2018 are 3.3%–6.1% (31 December 2017: 3.2 %–6.1 %).

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

- The probability of insurance event

  The Group determines the probability of insurance event according to historical experience and the expectation in the future. For mortality data, the Group uses "China Life Insurance Mortality Table" issued by the former CIRC in addition to its historical experience. For other assumptions, the Group would mainly refer to its historical experience, the pricing assumption or the industry benchmarks.

- Expense and other assumption

  The Group determines the expense assumption according to its historical experience and the future expectation. The Group would also consider inflation metrics to determine the expense assumption if the assumption is sensitive to inflationary pressures.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(b) Insurance contract liabilities (continued)

(iii) Primary property and casualty insurance contract reserves

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

  The risk margin has been calculated using the 75% percentile approach or the 82.5% percentile approach by the Group, with reference to industry benchmarks.

- Discount rate
  For insurance contracts underwritten by the Lloyd's Syndicates, the Group determines the time value of money according to the risk-free yield curve published by " European Insurance and Occupational Pensions Authority". The assumption of discount rates for the Lloyd's Syndicates used as at 31 December 2018 is -0.3%–2.7%.

  For the other insurance contracts, the Group adopts the "Yield Curve of Insurance Contract Reserves" issued by chinabond.com.cn when determining the time value of money, without considering liquidity risk premium, tax effect, credit risk premium and so on. The assumption of discount rates for the Group's other insurance business used as at 31 December 2018 is 2.7%–3.0% (31 December 2017: 2.6%–2.9%).

(c) Fair value of financial instruments

The Group invests primarily in debt investments, equity investments, time deposits, financial assets held under resale agreements and so on. The Group's significant accounting estimates and judgements regarding investments are related to the recognition of impairment of financial assets and the determination of the fair value. In assessing the impairment, the Group has considered various factors (see Note 2(24)(a)). The fair values of quoted investments are based on current bid prices. The fair value is the price at which two knowing parties transact willingly in a fair trade rather than under on compulsion or in liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(c) Fair value of financial instruments (continued)

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

- Debt investments, notes and bonds payable: usually, fair market value is determined on the basis of its recent quoted market price. If there is no recent quoted market price for reference, fair value is determined by the observed recent transaction price, or comparable investment's recent market price. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques.

- Equity investments: its fair market value is determined on the basis of its recent quoted market price. If there is no recent quoted market price, for the equity investments whose fair value cannot be measured reliably, they can be determined by using valuation techniques.

- Derivatives: its fair market value is determined on the basis of its recent quoted market price. If there is no recent quoted market price, for the derivatives whose fair value cannot be measured reliably, they can be determined by using valuation techniques.

- Time deposits, investments classified as loans and receivables, financial assets held under resale agreements, securities sold under agreements to repurchase, short-term borrowing, long-term borrowing: the book value on the consolidated statements of financial position approximates to fair value.

(d) Pipeline premium

Written premiums include pipeline premiums which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on the information provided by the cedant as well as the historical premium development pattern.

(e) Impairment of goodwill

The Group performs goodwill impairment test annually. The recoverable amount of an asset group or a set of asset groups including goodwill is the higher of its fair value less costs to disposal and its value-in-use, and the principal assumptions used are set out in Note 38 to the financial statements.

(f) Deferred tax assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

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3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(2) Estimation uncertainty (continued)

(f) Deferred tax assets (continued)

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

(g) Retirement benefit liabilities

The Group measured certain employee retirement benefits using projected unit credit method, when these benefit plans met the definition of defined benefit plans as set out in IAS 19. Carrying value of these liabilities and the principal assumptions used in measuring these liabilities are set out in Note 48 to the financial statements.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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4 SEGMENT INFORMATION

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

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

- The property and casualty reinsurance segment, operated by the Company and subsidiaries of the Company China Property and Casualty Reinsurance Company Ltd. ("China Re P&C ") and China Re UK, etc. offers a wide variety of reinsurance products for various property and casualty insurance, such as motor, property, agricultural and liability insurance, etc. The Company completed the acquisition of HIIH on 28 December 2018, and the property and casualty reinsurance segment contains assets and liabilities of HIIH.

- The life and health reinsurance segment, operated by the Company and the subsidiary of the Company China Life Reinsurance Company Ltd. ("China Re Life"), offers a wide range of reinsurance products, such as life, health and accident insurance, etc.

- The primary property and casualty insurance segment, operated by the subsidiary of the Company China Continent Property and Casualty Insurance Company Ltd. ("China Continent Insurance"), offers a wide variety of insurance products to both personal and corporate customers including motor, property and liability insurance, etc.

- The asset management segment, operated by the subsidiary of the Company, China Re Asset Management Company Ltd., ("China Re AMC"), offers asset management services and manages assets and liabilities related to notes issued in overseas.

- Other segments primarily consist of the headquarters that manages and supports the business development of the Group with its strategy, risk management, actuary, finance, legal and human resource functions; the insurance agency business and other businesses provided by the Group.

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

More than 90% of the Group's revenue is derived from its operations in Mainland China.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	2018						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Gross written premiums	28,947,298	52,453,713	42,622,388	—	—	(1,766,202)	122,257,197
Less: Premiums ceded to reinsurers and retrocessionaires	(962,492)	(5,154,646)	(3,509,619)	—	—	1,764,651	(7,862,106)
Net written premiums	27,984,806	47,299,067	39,112,769	—	—	(1,551)	114,395,091
Changes in unearned premium reserves	(803,330)	(1,531,273)	(2,788,044)	—	—	209	(5,122,438)
Net premiums earned	27,181,476	45,767,794	36,324,725	—	—	(1,342)	109,272,653
Reinsurance commission income	98,480	452,734	1,266,434	—	—	(745,140)	1,072,508
Investment income	1,747,144	3,365,438	1,708,449	232,949	1,819,706	(1,377,152)	7,496,534
Exchange (losses)/gains, net	(159,393)	(58,267)	81,952	(19,370)	112,435	(1,458)	(44,101)
Other income	41,625	1,440,486	231,343	424,000	295,475	(306,799)	2,126,130
Total income	28,909,332	50,968,185	39,612,903	637,579	2,227,616	(2,431,891)	119,923,724
— External income	27,286,742	50,934,465	40,521,994	324,283	856,240	—	119,923,724
— Inter-segment income	1,622,590	33,720	(909,091)	313,296	1,371,376	(2,431,891)	—
Claims and policyholders' benefits	(15,528,880)	(45,854,355)	(20,189,121)	—	—	(5,769)	(81,578,125)
— Claims incurred	(15,528,880)	(6,125,051)	(20,189,121)	—	—	(5,769)	(41,848,821)
— Life and health reinsurance death and other benefits paid	—	(11,004,304)	—	—	—	—	(11,004,304)
— Changes in long-term life and health reinsurance contract liabilities	—	(28,725,000)	—	—	—	—	(28,725,000)
Handling charges and commissions	(11,059,346)	(2,240,663)	(6,782,851)	—	—	750,688	(19,332,172)
Finance costs	(274,208)	(315,167)	(150,095)	(366,454)	(21,858)	—	(1,127,782)
Other operating and administrative expenses	(718,995)	(1,574,936)	(11,190,126)	(360,333)	(1,078,839)	420,976	(14,502,253)
Total benefits, claims and expenses	(27,581,429)	(49,985,121)	(38,312,193)	(726,787)	(1,100,697)	1,165,895	(116,540,332)
Share of profits of associates	51,631	919,068	8,355	275	680,467	41,614	1,701,410
Profit before tax	1,379,534	1,902,132	1,309,065	(88,933)	1,807,386	(1,224,382)	5,084,802
Income tax	(174,975)	(368,670)	(400,868)	(33,592)	(207,711)	—	(1,185,816)
Profit for the year	1,204,559	1,533,462	908,197	(122,525)	1,599,675	(1,224,382)	3,898,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	2017						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Gross written premiums	25,238,734	44,311,293	37,268,417	—	—	(1,481,976)	105,336,468
Less: Premiums ceded to reinsurers and retrocessionaires	(781,026)	(2,225,466)	(2,876,050)	—	—	1,481,213	(4,401,329)
Net written premiums	24,457,708	42,085,827	34,392,367	—	—	(763)	100,935,139
Changes in unearned premium reserves	29,967	(546,921)	(2,134,355)	—	—	(528)	(2,651,837)
Net premiums earned	24,487,675	41,538,906	32,258,012	—	—	(1,291)	98,283,302
Reinsurance commission income	97,912	469,218	1,006,453	—	—	(620,289)	953,294
Investment income	2,100,937	3,417,909	1,757,983	353,436	3,167,516	(1,537,627)	9,260,154
Exchange gains/(losses), net	196,641	(141,396)	(91,030)	(37,010)	(65,465)	(17,636)	(155,896)
Other income	53,217	717,248	170,583	488,961	236,671	(336,633)	1,330,047
Total income	26,936,382	46,001,885	35,102,001	805,387	3,338,722	(2,513,476)	109,670,901
— External income	25,511,971	46,001,817	35,887,244	459,883	1,809,986	—	109,670,901
— Inter-segment income	1,424,411	68	(785,243)	345,504	1,528,736	(2,513,476)	—
Claims and policyholders' benefits	(15,033,380)	(41,933,232)	(18,012,189)	—	—	6,824	(74,971,977)
— Claims incurred	(15,033,380)	(4,060,175)	(18,012,189)	—	—	6,824	(37,098,920)
— Life and health reinsurance death and other benefits paid	—	(28,307,952)	—	—	—	—	(28,307,952)
— Changes in long-term life and health reinsurance contract liabilities	—	(9,565,105)	—	—	—	—	(9,565,105)
Handling charges and commissions	(9,819,559)	(1,647,140)	(5,810,135)	—	—	623,073	(16,653,761)
Finance costs	(39,628)	(89,641)	(19,862)	(240,518)	(40,268)	—	(429,917)
Other operating and administrative expenses	(606,481)	(864,175)	(9,689,256)	(415,150)	(1,162,740)	442,810	(12,294,992)
Total benefits, claims and expenses	(25,499,048)	(44,534,188)	(33,531,442)	(655,668)	(1,203,008)	1,072,707	(104,350,647)
Share of profits of associates	56,508	922,802	15,045	(3,884)	674,559	(34,216)	1,630,814
Profit before tax	1,493,842	2,390,499	1,585,604	145,835	2,810,273	(1,474,985)	6,951,068
Income tax	(197,370)	(492,324)	(415,704)	(38,895)	(470,740)	—	(1,615,033)
Profit for the year	1,296,472	1,898,175	1,169,900	106,940	2,339,533	(1,474,985)	5,336,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

4 SEGMENT INFORMATION (continued)

	2018						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Segment assets	99,089,336	143,520,460	65,338,584	12,780,380	56,438,871	(36,260,658)	340,906,973
Segment liabilities	(77,315,725)	(122,027,800)	(40,124,017)	(10,919,571)	(7,375,419)	4,109,376	(253,653,156)
Other segment information							
Capital expenditures	(694,867)	(1,755,777)	(450,489)	(9,456)	(66,607)	—	(2,977,196)
Depreciation and amortisation	(8,292)	(21,733)	(250,782)	(11,604)	(50,134)	—	(342,545)
Interest income	1,966,763	3,369,378	1,677,099	92,069	630,889	(13,958)	7,722,240
Available-for-sale financial assets impairment loss charges	(203,086)	(301,432)	(21,970)	—	(171,507)	—	(697,995)
Other impairment loss charges/ (reversals)	4,256	—	(82,197)	—	(2,117)	—	(80,058)

	2017						
	Property and casualty reinsurance	Life and health reinsurance	Primary property and casualty insurance	Asset management	Others	Elimination	Total
Segment assets	63,522,453	100,630,265	45,036,271	12,135,547	54,373,404	(32,897,815)	242,800,125
Segment liabilities	(44,361,469)	(78,013,811)	(30,812,046)	(10,402,453)	(7,065,315)	3,225,468	(167,429,626)
Other segment information							
Capital expenditures	(14,208)	(9,758)	(389,398)	(10,594)	(27,315)	—	(451,273)
Depreciation and amortisation	(3,659)	(17,049)	(219,086)	(10,655)	(59,225)	—	(309,674)
Interest income	1,342,859	2,380,011	1,100,597	58,522	984,834	(2,145)	5,864,678
Available-for-sale financial assets impairment loss charges	(156,384)	(315,478)	(12,171)	(756)	(115,837)	—	(600,626)
Other impairment loss (reversals)/ charges	(9,508)	—	(38,071)	—	6,316	—	(41,263)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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5 BUSINESS COMBINATION

Effective 28 December 2018, the Company completed its acquisition of HIIH, a specialist underwriting group that operates in Lloyd's.

(a) Details of the purchase consideration is as follows:

Purchase consideration:	
Cash paid	**5,229,863**
Contingent consideration	**118,933**
Total purchase consideration	**5,348,796**

(b) The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash and short-term time deposits(i)	**390,115**
Premiums receivable	**2,802,192**
Reinsurance debtors	**1,383,418**
Reinsurers' share of insurance contract liabilities	**7,846,249**
Available-for-sale financial assets	**12,270,437**
Property and equipment	**9,291**
Intangible assets: Software	**24,232**
Intangible assets: Syndicate capacity	**934,291**
Intangible assets: Distribution channel	**602,493**
Intangible assets: VOBA	**145,219**
Deferred tax assets	**241,711**
Other assets	**1,742,863**
Reinsurance payables	**(2,406,710)**
Income tax payable	**(63,883)**
Policyholders' deposits	**(33,901)**
Insurance contract liabilities	**(19,975,598)**
Other liabilities	**(804,092)**
Deferred tax liabilities	**(130,657)**
Net identifiable assets acquired	**4,977,670**
Add: Goodwill	**371,126**
Net assets acquired	**5,348,796**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

5 BUSINESS COMBINATION (continued)

(c) Purchase consideration — cash outflow

	2018
Outflow of cash to acquire subsidiary, net of cash and cash equivalents acquired	
Cash consideration	5,229,863
Less: Cash and cash equivalents acquired (i)	(232,775)
Net outflow of cash — investing activities	4,997,088

(i) The cash and short-term time deposits of HIIH is RMB390,115 thousand of which RMB157,340 thousand were restricted from use.

6 GROSS AND NET WRITTEN PREMIUMS

(a) Gross written premiums

	2018	2017
Long-term life and health reinsurance	39,790,118	36,629,526
Short-term life and health reinsurance	12,620,441	7,681,767
Property and casualty reinsurance	27,106,861	23,760,397
Primary property and casualty insurance	42,739,777	37,264,778
Total	122,257,197	105,336,468

(b) Premiums ceded to reinsurers and retrocessionaires

	2018	2017
Long-term life and health reinsurance	1,860,199	404,704
Short-term life and health reinsurance	3,294,447	1,820,761
Property and casualty reinsurance	915,382	792,121
Primary property and casualty insurance	1,792,078	1,383,743
Total	7,862,106	4,401,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

6 GROSS AND NET WRITTEN PREMIUMS (continued)

(c) Net written premiums

	2018	2017
Net written premiums	**114,395,091**	100,935,139

7 CHANGES IN UNEARNED PREMIUM RESERVES

	2018	2017
Short-term life and health reinsurance	**1,530,733**	546,921
Property and casualty reinsurance	**898,254**	57,455
Primary property and casualty insurance	**2,693,451**	2,047,461
Total	**5,122,438**	2,651,837

8 INVESTMENT INCOME

	2018	2017
Interest, dividend and rental income (a)	**8,702,084**	6,629,229
Realised (losses)/gains (b)	**(564,667)**	2,131,838
Unrealised (losses)/gains (c)	**(156,511)**	268,184
Negative goodwill arising from investments in associates	**213,623**	831,529
Impairment losses (d)	**(697,995)**	(600,626)
Total	**7,496,534**	9,260,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

8 INVESTMENT INCOME (continued)

(a) Interest, dividend and rental income

	2018	2017
Interest income		
Current and time deposits	**1,052,323**	1,076,983
Fixed maturity investment		
— Held-to-maturity investment	**1,826,338**	1,100,071
— Available-for-sale financial assets	**2,456,078**	1,713,553
— Financial assets at fair value through profit or loss	**61,482**	85,943
— Investments classified as loans and receivables	**2,267,532**	1,830,684
Financial assets held under resale agreements	**49,486**	49,529
Reinsurers' share of policy loans	**9,001**	7,915
Subtotal	**7,722,240**	5,864,678
Dividend income		
— Available-for-sale financial assets	**881,876**	600,773
— Financial assets at fair value through profit or loss	**97,968**	141,522
Subtotal	**979,844**	742,295
Rental income from investment properties	**—**	22,256
Total	**8,702,084**	6,629,229

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

	2018	2017
Dividend income		
Listed securities	**188,207**	139,203
Unlisted securities	**791,637**	603,092
Total	**979,844**	742,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

8 INVESTMENT INCOME (continued)

(b) Realised (losses)/gains

	2018	2017
Fixed maturity investment		
— Available-for-sale financial assets	51,727	(40,129)
— Financial assets at fair value through profit or loss	(13,618)	(30,883)
Equity securities		
— Available-for-sale financial assets	(426,462)	1,486,400
— Financial assets at fair value through profit or loss	(176,314)	325,357
— Investments in associates	—	(340,490)
— Disposal of Investment properties	—	731,583
Total	(564,667)	2,131,838

(c) Unrealised (losses)/gains

	2018	2017
Fixed maturity investment		
— Financial assets at fair value through profit or loss	29,685	24,036
Equity securities		
— Financial assets at fair value through profit or loss	(186,196)	244,148
Total	(156,511)	268,184

(d) Impairment losses

	2018	2017
Equity securities		
— Available-for-sale financial assets	(697,995)	(600,626)
Total	(697,995)	(600,626)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

9 OTHER INCOME

	2018	2017
Fee income from investment contracts and insurance related business	**1,731,251**	996,071
Commission income arising from the tax collection of motor vehicles and vessels	**130,901**	119,472
Management fee income	**126,122**	138,334
Guarantee fee income	**5,978**	7,038
Others	**131,878**	69,132
Total	**2,126,130**	1,330,047

10 CLAIMS AND POLICYHOLDERS' BENEFITS

	2018		
	Gross	**Ceded**	**Net**
Claims incurred	**45,698,705**	**(3,849,884)**	**41,848,821**
— Short-term life and health reinsurance	**9,073,016**	**(2,957,334)**	**6,115,682**
— Property and casualty reinsurance	**14,934,190**	**(273,306)**	**14,660,884**
— Primary property and casualty insurance	**21,691,499**	**(619,244)**	**21,072,255**
Life and health reinsurance death and other benefits paid	**11,932,163**	**(927,859)**	**11,004,304**
Changes in long-term life and health reinsurance contract liabilities	**29,762,961**	**(1,037,961)**	**28,725,000**
Total	**87,393,829**	**(5,815,704)**	**81,578,125**

	2017		
	Gross	Ceded	Net
Claims incurred	39,737,570	(2,638,650)	37,098,920
— Short-term life and health reinsurance	5,468,538	(1,408,363)	4,060,175
— Property and casualty reinsurance	15,017,028	(505,790)	14,511,238
— Primary property and casualty insurance	19,252,004	(724,497)	18,527,507
Life and health reinsurance death and other benefits paid	29,275,823	(967,871)	28,307,952
Changes in long-term life and health reinsurance contract liabilities	9,073,900	491,205	9,565,105
Total	78,087,293	(3,115,316)	74,971,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

11 HANDLING CHARGES AND COMMISSIONS

	2018	2017
Long-term life and health reinsurance	**263,169**	169,963
Short-term life and health reinsurance	**1,952,620**	1,476,473
Property and casualty reinsurance	**10,338,149**	9,221,868
Primary property and casualty insurance	**6,778,234**	5,785,457
Total	**19,332,172**	16,653,761

12 FINANCE COSTS

	2018	2017
Interest expenses		
Securities sold under agreements to repurchase	**668,216**	191,193
Notes and bonds payable	**452,091**	238,724
Bank borrowings	**7,475**	—
Total	**1,127,782**	429,917

13 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2018	2017
Employee costs	**4,165,627**	3,749,028
Advertising and promotion expenses	**1,868,674**	2,250,677
Official and travel expenses	**851,027**	783,385
Interest expenses of policyholders' deposits and investment contracts	**1,145,804**	463,142
Rental expenses	**462,477**	411,607
Consulting and service fees	**1,330,664**	517,971
Depreciation and amortisation	**274,467**	243,720
Insurance guarantee fund	**335,627**	294,051
Taxes and surcharges	**495,166**	463,899
Impairment losses charges	**80,058**	41,263
Outsourcing costs	**1,953,817**	1,393,768
Others	**1,538,845**	1,682,481
Total	**14,502,253**	12,294,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

14 PROFIT BEFORE TAX

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

	2018	2017
Employee costs (including directors' and supervisors' emoluments) (a) (note)	**5,291,772**	4,674,054
Depreciation of property and equipment (note)	**256,163**	239,460
Depreciation of investment properties (note)	**3,656**	10,903
Amortisation of intangible assets (note)	**82,726**	59,311
Rental expenses (note)	**550,870**	473,444
Auditors' remuneration	**9,738**	8,880
Impairment losses on available-for-sale financial assets	**697,995**	600,626
Impairment losses on premiums receivable	**81,649**	39,661
Impairment reversal of reinsurance debtors	**(4,256)**	(605)
Impairment losses on other assets	**2,665**	2,207

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

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

	2018	2017
Salaries, allowances and performance related bonuses	**4,836,714**	4,279,602
Contributions to defined contribution plan	**449,392**	390,202
Contributions to defined benefit retirement plan	**5,666**	4,250
Total	**5,291,772**	4,674,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION

The total compensation package for these directors, and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the relevant PRC authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2018 consolidated financial statements. The final compensation will be disclosed when determined.

	2018							
	Fees	Salaries	Discretionary Bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director/supervisor	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive directors								
Mr. Yuan Linjiang	—	312	315	90	74	—	—	791
Mr. He Chunlei (i)(ix)	—	281	283	90	72	—	—	726
Mr. Wang Pingsheng (ii)(ix)	—	47	46	14	12	—	—	119
Mr. Ren Xiaobing	—	281	275	90	72	—	—	718
Non-executive directors								
Ms. Lu Xiuli	—	—	—	—	—	—	—	—
Mr. Shen Shuhai	—	—	—	—	—	—	—	—
Independent non-executive directors								
Ms. Wang Jun (iii)(ix)	125	—	—	—	—	—	—	125
Mr. Hao Yansu	250	—	—	—	—	—	—	250
Mr. Li Sanxi	250	—	—	—	—	—	—	250
Ms. Mok Kam Sheung	250	—	—	—	—	—	—	250
Ms. Jiang Bo (iv)(ix)	—	—	—	—	—	—	—	—
Supervisors								
Mr. Zhang Hong	—	312	315	90	74	—	—	791
Mr. Wei Shiping (vi)(ix)	—	—	—	—	—	—	—	—
Mr. Zhu Yong	—	—	—	—	—	—	—	—
Mr. Qin Yueguang (v)(ix)(x)	—	—	—	—	—	9	9	18
Mr. Li Jingye (v)(ix)(x)	—	—	—	—	—	9	9	18
Mr. Cao Shunming (vii)(ix)(x)	—	—	—	—	—	9	12	21
Mr. Tian Bo (vii)(ix)(x)	—	—	—	—	—	9	—	9
Mr. Zeng Cheng (viii)(ix)	—	—	—	—	—	—	—	—
Total	875	1,233	1,234	374	304	36	30	4,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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15 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(i) On 13 September 2018, the Board meeting appointed Mr. He Chunlei to be the Vice Chairman of the fourth session of the Board, effective from 13 September 2018.
(ii) On 9 February 2018, the shareholders' general meeting of the Company approved Mr. Wang Pingsheng's ceasing to be an executive Director of the Company.
(iii) On 28 June 2018, Ms. Wang Jun has retired as an Independent Non-executive Director of the Company.
(iv) On 28 June 2018, the shareholders' general meeting of the Company elected Ms. Jiang Bo to be an Independent Non-executive Director of the fourth session of the Board of the Company, effective from 13 December 2018, the date when the China Banking and Insurance Regulatory Commission ("CBIRC") approved her qualification as an Independent Director. In 2018, Ms. Jiang Bo received no remuneration from the Company.
(v) Mr. Qin Yueguang and Mr. Li Jingye had been elected as Employee Representative Supervisors of the Company after the approval by the staff representative assembly on 20 April 2018, effective from the date of the official performance of the fourth session of the Board of Supervisor on 28 June 2018.
(vi) On 28 June 2018, Mr. Wei Shiping retired as a Shareholder Representative Supervisor of the Company.
(vii) Mr. Cao Shunming and Mr. Tian Bo have ceased to be Employee Representative Supervisors of the Company after the approval by the staff representative assembly on 20 April 2018, effective from the date of the official performance of the fourth session of the Board of Supervisors on 28 June 2018.
(viii) On 28 June 2018, the shareholders' general meeting of the Company elected Mr. Zeng Cheng to be a Shareholder Representative Supervisor of the Company, effective from the approval of his qualification as a Supervisor by the CBIRC on 25 July 2018.
(ix) The remuneration for approved and retired directors and supervisors were the compensation during their appointment.
(x) For Employee Representative Supervisors of the Company, the amounts set forth above only included fees for their services as supervisors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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15 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	2017							
	Fees	Salaries	Discretionary Bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director/supervisor	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive directors								
Mr. Yuan Linjiang	—	312	561	84	79	—	—	1,036
Mr. He Chunlei (i)(v)	—	234	347	70	69	—	—	720
Mr. Wang Pingsheng (iv)(v)	—	281	658	84	76	—	—	1,099
Mr. Ren Xiaobing	—	281	658	84	72	—	—	1,095
Non-executive directors								
Ms. Lu Xiuli	—	—	—	—	—	—	—	—
Mr. Shen Shuhai	—	—	—	—	—	—	—	—
Independent non-executive directors								
Ms. Wang Jun	250	—	—	—	—	—	—	250
Mr. Hao Yansu	250	—	—	—	—	—	—	250
Mr. Li Sanxi	250	—	—	—	—	—	—	250
Ms. Mok Kam Sheung	250	—	—	—	—	—	—	250
Supervisors								
Mr. Wang Yonggang (ii)(v)	—	52	353	14	14	—	—	433
Mr. Zhang Hong (iii)	—	312	749	84	78	—	—	1,223
Mr. Wei Shiping	—	—	—	—	—	—	—	—
Mr. Zhu Yong	—	—	—	—	—	—	—	—
Mr. Cao Shunming (vi)	—	—	—	—	—	18	24	42
Mr. Tian Bo (vi)	—	—	—	—	—	18	—	18
Total	1,000	1,472	3,326	420	388	36	24	6,666

(i) On 20 January 2017, Mr. He Chunlei was elected at the shareholders' general meeting of the Company as executive Director of the Board, with effect from his qualification as Director being approved by the former CIRC on 28 February 2017.

(ii) Mr. Wang Yonggang retired as supervisor on 23 February 2017.

(iii) On 20 January 2017, the shareholders' general meeting of the Company approved Mr. Zhang Hong's ceasing to be executive Director of the Company; on 20 January 2017, Mr. Zhang Hong was elected at the shareholders' general meeting of the Company as Supervisor, with effect from his qualification as Supervisor being approved by the former CIRC on 23 February 2017.

(iv) Mr. Wang Pingsheng retired as executive director on 9 February 2018.

(v) The remuneration for approved and retired directors and supervisors were the compensation during their appointment.

(vi) For Employee Representative Supervisors of the Company, the amounts set forth above only included fees for their services as supervisors.

The compensation amounts disclosed above for these directors and supervisors for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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16 INDIVIDUALS WITH HIGHEST EMOLUMENTS

	2018	2017
Salaries, allowances and benefits in kind	**7,135**	5,866
Discretionary bonuses	**8,686**	16,033
Employer's contribution to a retirement benefit scheme	**613**	356
Total	**16,434**	22,255

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

	2018	2017
RMB2,500,001 to RMB3,000,000	**1**	—
RMB3,000,001 to RMB3,500,000	**2**	—
RMB3,500,001 to RMB4,000,000	**2**	2
RMB4,000,001 to RMB4,500,000	**—**	1
RMB4,500,001 to RMB5,000,000	**—**	1
RMB5,000,001 to RMB5,500,000	**—**	—
RMB5,500,001 to RMB6,000,000	**—**	—
RMB6,000,001 to RMB6,500,000	**—**	1
Total	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

17 INCOME TAX

	2018	2017
Current income tax		
Charge for the year	**1,235,270**	1,854,387
Adjustments in respect of prior years	**4,518**	(6,603)
Deferred income tax	**(53,972)**	(232,751)
Total	**1,185,816**	1,615,033

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

	2018	2017
Profit before tax	**5,084,802**	6,951,068
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	**1,271,201**	1,737,767
The effect of different tax rates of other countries and regions (note)	**8,268**	20,587
Tax effect of non-deductible expenses	**108,826**	87,102
Tax effect of non-taxable income	**(354,276)**	(315,872)
Tax effect of unused tax losses not recognised	**114,169**	75,073
Adjustments for prior years	**4,518**	(6,603)
Withheld income tax on dividends received from associates	**33,110**	16,979
Income tax	**1,185,816**	1,615,033

Note: The income tax rate applied to the Company and its subsidiaries in Mainland China is 25% for the year ended 31 December 2018 (the year ended 31 December 2017: 25%). Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

18 DIVIDENDS

	2018	2017
In respect of previous year:		
2017 final dividend (declared in 2018): RMB0.048 per ordinary share	**2,039,031**	
2016 final dividend (declared in 2017): RMB0.048 per ordinary share		2,039,031

19 EARNINGS PER SHARE

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

	2018	2017
Net profit attributable to the equity shareholders of the parent	**3,729,891**	5,256,296
Weighted average number of ordinary shares (in thousands) (a)	**42,479,808**	42,479,808
Basic and diluted earnings per share (in RMB)	**0.09**	0.12

There were no potential diluted ordinary shares in issue during the year ended 31 December 2018 and the year ended 31 December 2017, so the diluted earnings per share were the same as the basic earnings per share.

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

	2018	2017
Weighted average number of ordinary shares at 31 December	**42,479,808**	42,479,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX

	2018	2017
Items that may not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability	**(12,153)**	(12,919)
Sub-total	**(12,153)**	(12,919)
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive income of associates	**(72,874)**	(113,158)
Income tax	**(28,195)**	28,268
Sub-total	**(101,069)**	(84,890)
(Losses)/gains arising from changes in fair value of available-for-sale financial assets	**(1,306,799)**	1,114,066
Less: Reclassification adjustments for amounts transferred to profit or loss		
— Losses/(gains) on disposal	**374,735**	(1,446,271)
— Impairment losses	**697,995**	600,626
Income tax	**138,404**	(69,497)
Sub-total	**(95,665)**	198,924
Exchange differences on translation of financial statements of overseas subsidiaries	**(16,905)**	(7,424)
Total	**(225,792)**	93,691
Attributable to:		
Equity shareholders of the Company	**(191,217)**	92,908
Non-controlling interests	**(34,575)**	783
Total	**(225,792)**	93,691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

21 CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2018	31 December 2017
Cash at banks and on hand	**6,270,431**	7,918,056
Time deposits with original maturity of no more than three months	**6,132,310**	2,444,959
Other monetary deposits	**828,187**	390,844
Total	**13,230,928**	10,753,859

As at 31 December 2018, cash and short-term time deposits of RMB1,125,455 thousand (31 December 2017: RMB1,243,665 thousand) were restricted from use, which are mainly trading deposits and securities settlement deposits.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Listed		
Fixed maturity investment		
Corporate bonds	**635,440**	208,256
Equity securities		
Investment funds	**938,491**	480,762
Stocks	**357,687**	401,263
Sub-total	**1,931,618**	1,090,281
Unlisted		
Fixed maturity investment		
Government bonds	**259,198**	19,232
Equity securities		
Investment funds	**5,133,605**	2,447,836
Embedded derivatives	**226,360**	191,919
Structured notes	**3,174,933**	3,457,345
Sub-total	**8,794,096**	6,116,332
Total	**10,725,714**	7,206,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

23 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are mainly for the Group to hedge in the foreign exchange market. The Group actively manage foreign exchange risk through hedging with external counterparties and ensure that the net risk taken by the Group is within the acceptable risk level. Derivative financial instruments, except for those designated as effective hedging instruments are classified as held for trading purposes. Financial derivatives classified as held for trading purposes include derivatives used for trading purposes as well as used for risk management purposes but does not meet the hedging accounting applicable requirements.

The contract notional amount and fair value of derivative financial instruments is as follows. The contract notional amount of derivative financial instruments is only the basis of comparing fair value of assets or liabilities recognised in balance sheet. It does not reflect the future cash flow or present fair value, therefore cannot reflect the risk faced by the Group. Hedging instruments are derivative financial instruments meeting the hedge accounting applicable requirements. Non hedging instruments are those that do not meet the hedge accounting applicable requirements.

	31 December 2018		
	Nominal amount	**Assets**	**Liabilities**
Hedging Instruments			
Fair value hedge			
— Currency swap(a)	**4,526,819**	**175,403**	**—**
Total	**4,526,819**	**175,403**	**—**

	31 December 2017		
	Nominal amount	Assets	Liabilities
Hedging Instruments			
Fair value hedge			
— Currency swap(a)	4,500,861	—	47,608
Total	4,500,861	—	47,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Derivatives designated as hedging instruments

Fair value hedge

Fair value hedge is adopted to hedge the risk that a financial instrument's fair value will fluctuate because of changes in market interest rates or foreign exchange rates by using interest rate swaps or foreign currency forward contracts.

Net profit/(loss) derived from fair value hedge is as follows:

	2018	2017
Hedging Instruments	**211,844**	(56,377)
Hedged item	**(211,844)**	56,377
Ineffective portion	**—**	—

24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements of the Group contain only securities held under resale agreements, with details as follows:

	31 December 2018	31 December 2017
Securities — bonds		
Stock exchange	**1,431,100**	721,402
Inter-bank market	**1,165,287**	1,837,000
Total	**2,596,387**	2,558,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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25 PREMIUMS RECEIVABLE

	31 December 2018	31 December 2017
Premiums receivable	**11,266,770**	4,496,935
Less: impairment provision	**(211,094)**	(129,477)
Premiums receivable, net	**11,055,676**	4,367,458

(a) Aging analysis

	31 December 2018	31 December 2017
Within 3 months (inclusive)	**10,684,959**	4,176,329
3 months to 1 year (inclusive)	**388,856**	202,395
1 to 2 years (inclusive)	**105,400**	67,314
Over 2 years	**87,555**	50,897
Total	**11,266,770**	4,496,935
Less: impairment provision	**(211,094)**	(129,477)
Net	**11,055,676**	4,367,458

(b) Impairment provision of premiums receivable

	2018	2017
At the beginning of the year	**129,477**	89,816
Charge for the period	**81,649**	39,661
Written off	**(32)**	—
At the end of the year	**211,094**	129,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

26 REINSURANCE DEBTORS

	31 December 2018	31 December 2017
Reinsurance debtors	**49,774,984**	24,578,052
Less: impairment provision	**(126,718)**	(118,685)
Reinsurance debtors, net	**49,648,266**	24,459,367

(a) Aging analysis

	31 December 2018	31 December 2017
Within 3 months (inclusive)	**44,867,509**	20,054,951
3 months to 1 year (inclusive)	**2,452,189**	3,011,856
1 to 2 years (inclusive)	**1,242,676**	818,695
Over 2 years	**1,212,610**	692,550
Total	**49,774,984**	24,578,052
Less: impairment provision	**(126,718)**	(118,685)
Net	**49,648,266**	24,459,367

(b) Impairment provision of reinsurance debtors

	2018	2017
At the beginning of the year	**118,685**	123,345
Acquisition of subsidiaries	**9,437**	—
Charge for the year	**10,120**	3,908
Reversal for the year	**(14,376)**	(4,513)
Exchange difference	**2,852**	(4,055)
At the end of the year	**126,718**	118,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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27 INVESTMENT CONTRACTS RECEIVABLE

	31 December 2018	31 December 2017
Investment contracts receivable	**2,831,865**	851,538
Less: impairment provision	**—**	—
Investment contracts receivable, net	**2,831,865**	851,538
Within 3 months (inclusive)	**2,831,865**	851,538
Total	**2,831,865**	851,538
Less: impairment provision	**—**	—
Net	**2,831,865**	851,538

Investment contracts receivable represents receivable from cedants arising from reinsurance contracts which do not meet the definition of insurance contracts.

28 TIME DEPOSITS

	31 December 2018	31 December 2017
Within 3 months (inclusive)	**1,696,180**	1,568,576
3 months to 1 year (inclusive)	**2,398,904**	3,372,132
1 to 2 years (inclusive)	**—**	5,000
2 to 3 years (inclusive)	**5,000**	—
3 to 4 years (inclusive)	**308,844**	—
4 to 5 years (inclusive)	**—**	294,039
Total	**4,408,928**	5,239,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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29 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2018	31 December 2017
Listed		
Fixed maturity investment		
Government bonds	**452,854**	524,773
Financial bonds	**726,336**	855,258
Corporate bonds	**18,903,974**	12,266,769
Subordinated bonds	**—**	499,700
Assets backed securities	**197,847**	—
Equity securities		
Investment funds	**884,630**	146,176
Stocks	**11,217,096**	17,071,319
Sub-total	**32,382,737**	31,363,995
Unlisted		
Fixed maturity investment		
Government bonds	**5,515,809**	698
Financial bonds	**12,112,484**	11,446,484
Corporate bonds	**24,569,478**	17,698,379
Subordinated bonds	**824,692**	773,770
Other fixed maturity investment	**1,307,662**	800,000
Equity securities		
Investment funds	**7,608,288**	9,467,613
Unlisted equity investment	**6,414,147**	5,862,154
Others	**1,244,349**	1,535,235
Sub-total	**59,596,909**	47,584,333
Total	**91,979,646**	78,948,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

30 HELD-TO-MATURITY INVESTMENTS

	31 December 2018	31 December 2017
Listed		
Government bonds	102,158	100,967
Corporate bonds	12,385,310	8,411,532
Sub-total	12,487,468	8,512,499
Unlisted		
Government bonds	110,703	110,170
Financial bonds	1,038,939	1,339,656
Corporate bonds	13,874,152	8,933,972
Subordinated bonds	8,386,294	7,086,388
Sub-total	23,410,088	17,470,186
Total	35,897,556	25,982,685

31 INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2018	31 December 2017
Debt investment plans	31,200,184	25,275,117
Trust schemes	6,997,253	6,184,111
Subordinated debts	1,000,000	1,200,000
Asset backed securities	1,867,847	212,166
Total	41,065,284	32,871,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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32 SCOPE OF CONSOLIDATION

(1) Particulars of the Company's primary subsidiaries as at 31 December 2018 are as follows:

Name	Place of Incorporation/ registration	Registered Share Capital or paid-in capital	Percentage of equity attributable to the Company		Principal activities/place of operation
			Direct	Indirect	
China Re P&C	Beijing	Registered share capital of RMB11,482,250,000	**100.00%**	**—**	Property and casualty reinsurance, China
China Re Life	Beijing	Registered share capital of RMB8,170,000,000	**100.00%**	**—**	Life and health reinsurance, China
China Continent Insurance (i)	Shanghai	Registered share capital of RMB15,115,918,986	**64.30%**	**—**	Primary property and casualty insurance, China
China Re AMC	Beijing	Registered share capital of RMB1,500,000,000	**70.00%**	**26.43%**	Management of insurance investments, China
Huatai Insurance Agency and Consultant Service Limited ("Huatai Insurance Agency")	Beijing	Registered share capital of RMB50,000,000	**52.50%**	**—**	Insurance brokerage, risk evaluation and management, China
China Re UK	London	Paid-in capital of GBP300,000	**100.00%**	**—**	Property and casualty reinsurance, UK
China Re Underwriting Agency Limited	London	Paid-in capital of GBP18,000,000	**100.00%**	**—**	Underwriting agency, UK
China Re Hong Kong Company Limited ("China Re Hong Kong") (ii)	Hong Kong	Paid-in capital of USD350,000,000	**100.00%**	**—**	Investment Holding, HK
China Re Asset Management (Hong Kong) Company Limited	Hong Kong	Paid-in capital of HKD100,000,000	**—**	**96.43%**	Investment management, Hong Kong
China Continent Insurance E-commerce Co.Ltd	Ningbo	Registered share capital of RMB1,200,000,000	**—**	**64.30%**	E-commerce, China

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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32 SCOPE OF CONSOLIDATION (continued)

(1) Particulars of the Company's primary subsidiaries as at 31 December 2018 are as follows: (continued)

Name	Place of Incorporation/ registration	Registered Share Capital or paid-in capital	Percentage of equity attributable to the Company		Principal activities/place of operation
			Direct	Indirect	
China Continent Insurance Agent Co. Ltd	Shanghai	Registered share capital of RMB150,000,000	—	**64.30%**	Insurance brokerage, China
China Re Catastrophe Risk Management Company Ltd (ii)	Chongqing	Registered share capital of RMB100,000,000	—	**70.00%**	Risk advisory, management consulting, China
China Re International Company Co. (ii)	London	Paid-in capital of USD320,000,000	—	**100%**	Investment Holding, UK
HIIH (ii)	London	Paid-in capital of USD475,919,560	—	**100%**	Investment Holding, UK
Chaucer Holdings Limited ("CHL") (ii)	London	Paid-in capital of GBP139,296,892	—	**100%**	Property and casualty reinsurance, Primary property and casualty insurance, UK

(i) In June 2018, China Continent Insurance issued shares directly to strategic investors, raising RMB10,673 million in total. The Company's shareholding percentage over China Continent Insurance decreased from 93.18% to 64.30% after the new issuance, while the Company still controls China Continent Insurance.

(ii) These entities were newly in scope of consolidation in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

32 SCOPE OF CONSOLIDATION (continued)

(2) As at 31 December 2018, the Company consolidated the following special purpose entities:

Name	Paid-in capital	Attributable equity interest	Principal activities
China Re Zhongzai Alternative Equity Fund	RMB 1,432,525,981	100.00%	Investment in private equity
China Re Ruiqi Asset Management Product	RMB 2,230,400,388	76.37%	Investment in debt/debt investment plan/Trust
China Re Ruiqi 2nd Asset Management Product	RMB 30,000,750	100.00%	Investment in debt
China Re Ruitong 1st Asset Management Product	RMB 139,327,015	58.42%	Investment in equity
China Re Bairong Shimao Mall Debt Investment Plan	RMB 8,000,000,000	90.59%	Investment in loans
China Re Subway Sixteen Equity Investment Plan	RMB 7,000,000,000	65.00%	Investment in loans
China Re Zhongye Zhiye Equity Investment Plan	RMB 1,000,000,000	60.00%	Investment in loans
China Re Fangzheng Hangzhou Real Estate Debt Investment Plans	RMB 500,000,000	100.00%	Investment in loans
China Re Tianjin Zhongjia Ecology Distric Real Estate Debt Investment Plan	RMB 1,394,000,000	64.56%	Investment in loans
China Re Zhongye Hengqin Real Estate Debt Investment Plans	RMB 1,000,000,000	57.00%	Investment in loans
Huaxin Trust Haorui No. 36 Hongdao Trust Investment Plans	RMB 282,630,000	100.00%	Investment in loans
Huaxin Trust Haorui No. 36 Xining Trust Investment Plans	RMB 276,496,371	100.00%	Investment in loans
Huaxin Trust Haorui No. 36 Tongtian Trust Investment Plans	RMB 284,817,345	100.00%	Investment in loans
Huaxin Trust Haorui No. 36 Guangde Trust Investment Plans	RMB 304,445,167	100.00%	Investment in loans
China Reinsurance Finance Corporation Limited	HKD 60,000,000	100.00%	Bond Issue and Investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
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33 INVESTMENTS IN ASSOCIATES

	31 December 2018	31 December 2017
Share of net assets		
— Listed shares	**15,885,680**	14,448,703
— Unlisted shares	**5,300,211**	427,746
Total	**21,185,891**	14,876,449

(a) Particulars of the Group's material associates are as follows:

Name of associate	**Place of incorporation and business**	**Registered capital (RMB million)**	**Principal activities**
China Everbright Bank Company Limited ("CEB")	China	52,489	Commercial banking

	Proportion of ownership interest		
	Group's effective interest	**Held by the Company**	**Held by a subsidiary**
31 December 2018	**4.42%**	**1.50%**	**2.92%**
31 December 2017	4.42%	1.50%	2.92%

The Group has significant influence over CEB through a group representative being a director of CEB. As such, the interest in this associate is accounted for using the equity method.

As at 31 December 2018, the market value of the Group's investment in CEB was RMB7,192 million (31 December 2017: RMB7,491 million).

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33 INVESTMENTS IN ASSOCIATES (continued)

(a) Particulars of the Group's material associates are as follows (continued):

The following table sets out the key financial statements of the Group's material associates, adjusted for fair value adjustments at the time of acquisition and the differences in adopting accounting policies of the Group.

	CEB (in RMB millions)	
	2018	2017
Gross amounts of the associate		
Operating income	**110,386**	92,018
Profit before tax	**40,852**	40,646
Net profit (i)	**33,659**	31,545
Other comprehensive income (i)	**3,500**	(2,354)
Total comprehensive income (i)	**37,159**	29,191
Total assets	**4,357,332**	4,088,243
Total liabilities	**4,034,859**	3,782,807
Net assets (ii)	**285,099**	268,371
Non-controlling interests	**985**	676
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate (ii)	**285,099**	268,371
Group's effective interest	**4.42%**	4.42%
Group's share of net assets of the associate	**12,611**	11,871
Carrying amount in the financial statements	**12,611**	11,871
Dividends received from the associate for the year	**420**	226

(i) Amount attributable to shareholders of the associate.

(ii) Amount attributable to preferred shareholders of the associate and goodwill are not included.

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33 INVESTMENTS IN ASSOCIATES (continued)

(b) Particulars of immaterial associates accounted for using the equity method are summarised as follows:

	2018	2017
Aggregate carrying amount of investments	**8,575,016**	3,005,615
Aggregate amount of share of:		
— Net profit	**286,280**	164,063
— Other comprehensive income	**90,903**	14,485
— Change in capital reserve	**48,506**	(1,112)
Total	**425,689**	177,436

34 STATUTORY DEPOSITS

In accordance with relevant provision of Insurance Law of the PRC, the Company, China Re P&C, China Re Life, China Continent Insurance and Huatai Insurance Agency should place certain portion of its issued capital as restricted statutory deposits, respectively.

Details of the Group's statutory deposits are as follows:

	31 December 2018	31 December 2017
The Company	**8,500,000**	8,500,000
China Re P&C	**2,300,000**	2,300,000
China Re Life	**2,250,000**	1,650,000
China Continent Insurance	**3,023,184**	2,110,415
Huatai Insurance Agency	**—**	1,045
Total	**16,073,184**	14,561,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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35 INVESTMENT PROPERTIES

	Buildings	Construction In progress	Total
Cost			
Balance at 1 January 2017	647,311	2,742,141	3,389,452
Additions during the year	—	6,168	6,168
Disposal	(647,311)	—	(647,311)
Balance at 31 December 2017	—	2,748,309	2,748,309
Additions during the year	**2,366,724**	**93,121**	**2,459,845**
Transfers from Construction in progress to buildings	**2,691,357**	**(2,691,357)**	**—**
Transfers to Property and equipment	**—**	**(150,073)**	**(150,073)**
Balance at 31 December 2018	**5,058,081**	**—**	**5,058,081**
Less: Accumulated depreciation			
Balance at 1 January 2017	(267,644)	—	(267,644)
Charge for the year	(10,903)	—	(10,903)
Disposal	278,547	—	278,547
Balance at 31 December 2017	—	—	—
Charge for the year	**(3,656)**	**—**	**(3,656)**
Balance at 31 December 2018	**(3,656)**	**—**	**(3,656)**
Carrying amount			
Balance at 31 December 2018	**5,054,425**	**—**	**5,054,425**
Balance at 31 December 2017	—	2,748,309	2,748,309

As at 31 December 2018, the fair value of investment properties was RMB5,646 million (31 December 2017: RMB3,408 million).

As at 31 December 2018, the Group was in the process of completing the ownership documentation of certain investment properties with a net carrying value of RMB5,051 million (31 December 2017: RMB2,748 million). The management are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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36 PROPERTY AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Office and electronic equipment	Construction In progress	Leasehold improvement	Total
Cost							
Balance at 1 January 2017	2,625,854	72,884	328,229	672,482	32,245	237,439	3,969,133
Additions during the year	—	7,133	38,488	85,234	141,377	57,458	329,690
Transfers upon completion	119,934	—	—	925	(120,859)	—	—
Disposals during the year	—	(3,166)	(40,835)	(47,307)	—	—	(91,308)
Balance at 31 December 2017	2,745,788	76,851	325,882	711,334	52,763	294,897	4,207,515
Acquisition of subsidiaries	—	—	—	9,291	—	—	9,291
Additions during the year	—	15,798	19,349	133,687	91,094	80,612	340,540
Transfer from investment properties	—	—	—	—	150,073	—	150,073
Transfers upon completion	46,955	—	—	11,362	(58,317)	—	—
Disposals during the year	(119,576)	(6,316)	(32,860)	(49,617)	—	—	(208,369)
Balance at 31 December 2018	**2,673,167**	**86,333**	**312,371**	**816,057**	**235,613**	**375,509**	**4,499,050**
Less: Accumulated depreciation							
Balance at 1 January 2017	(570,662)	(53,170)	(199,949)	(457,451)	—	(140,429)	(1,421,661)
Charge for the year	(87,209)	(5,819)	(31,630)	(66,997)	—	(47,805)	(239,460)
Written back on disposals	—	3,127	38,662	35,903	—	—	77,692
Balance at 31 December 2017	(657,871)	(55,862)	(192,917)	(488,545)	—	(188,234)	(1,583,429)
Charge for the year	(89,045)	(7,124)	(32,328)	(71,939)	—	(55,727)	(256,163)
Written back on disposals	33,798	6,202	30,922	48,571	—	—	119,493
Balance at 31 December 2018	**(713,118)**	**(56,784)**	**(194,323)**	**(511,913)**	**—**	**(243,961)**	**(1,720,099)**
Carrying amount							
Balance at 31 December 2018	**1,960,049**	**29,549**	**118,048**	**304,144**	**235,613**	**131,548**	**2,778,951**
Balance at 31 December 2017	2,087,917	20,989	132,965	222,789	52,763	106,663	2,624,086

As at 31 December 2018, the Group was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of RMB372 million (31 December 2017: RMB263 million). The management are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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37 INTANGIBLE ASSETS

	VOBA	Syndicate capacity	Distribution channel	Software	Total
Cost					
Balance at 1 January 2017	420,059	—	—	485,542	905,601
Additions during the year	—	—	—	115,415	115,415
Disposals during the year	—	—	—	(45)	(45)
Balance at 31 December 2017	420,059	—	—	600,912	1,020,971
Acquisition of subsidiaries	**145,219**	**934,291**	**602,493**	**24,232**	**1,706,235**
Additions during the year	**—**	**—**	**—**	**176,811**	**176,811**
Disposals during the year	**—**	**—**	**—**	**(19)**	**(19)**
Balance at 31 December 2018	**565,278**	**934,291**	**602,493**	**801,936**	**2,903,998**
Less: Accumulated amortisation					
Balance at 1 January 2017	(337,255)	—	—	(220,448)	(557,703)
Charge for the year	(10,640)	—	—	(48,671)	(59,311)
Written back on disposals	—	—	—	45	45
Balance at 31 December 2017	(347,895)	—	—	(269,074)	(616,969)
Charge for the year	**(9,210)**	**—**	**—**	**(73,516)**	**(82,726)**
Balance at 31 December 2018	**(357,105)**	**—**	**—**	**(342,590)**	**(699,695)**
Carrying amount					
Balance at 31 December 2018	**208,173**	**934,291**	**602,493**	**459,346**	**2,204,303**
Balance at 31 December 2017	72,164	—	—	331,838	404,002

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38 GOODWILL

	31 December 2018	31 December 2017
Cost		
— China Re P&C	**650,529**	650,529
— China Re Life	**463,630**	463,630
— China Continent Insurance	**74,379**	74,379
— HIIH (Note 5)	**371,126**	—
Total	**1,559,664**	1,188,538
Less: impairment provision	**—**	—
Carrying amount	**1,559,664**	1,188,538

For China Re P&C, China Continent Insurance, the Group uses discounted cash flow method to conduct goodwill impairment test. It is based on the Group's five years business plans, and cash flows beyond five years are extrapolated using a steady growth rate and terminal value. For China Re Life, the Group used embedded value and value of new business to conduct goodwill impairment test. Key assumptions used include:

	2018
Risk adjusted discount rate	**10.5%–11%**
Investment yield	**3.8%–6%**
Sustainable growth rate	**2%**

The results of cash flow projections exceed the carried amount of each related cash-generating unit or group of units.

39 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities

	31 December 2018	31 December 2017
Deferred tax assets	**1,542,887**	1,122,813
Deferred tax liabilities	**(1,136,075)**	(1,087,946)
Net	**406,812**	34,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

39 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred tax assets and deferred tax liabilities

	2018						
	Balance at 31 December 2017	Impact of change in accounting policy in associates	Restated balance as at 1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) to reserves	Acquisition of subsidiaries	Balance at 31 December 2018
Available-for-sale financial assets	(115,617)	—	(115,617)	—	138,404	—	22,787
Financial assets at fair value through profit or loss	(60,413)	—	(60,413)	11,232	—	—	(49,181)
Impairment provisions	167,677	—	167,677	146,145	—	—	313,822
Premiums and reserves	1,354,951	—	1,354,951	271,976	—	(110,751)	1,516,176
Investment in associates	(1,379,688)	89,731	(1,289,957)	(343,573)	(21,216)	—	(1,654,746)
Payables to employees	175,696	—	175,696	3,972	—	92,730	272,398
Others	(107,739)	—	(107,739)	(35,780)	—	129,075	(14,444)
Total	34,867	89,731	124,598	53,972	117,188	111,054	406,812

	2017			
	Balance at 1 January 2017	Credited/ (charged) to profit or loss	Credited/ (charged) to reserves	Balance at 31 December 2017
Available-for-sale financial assets	(46,120)	—	(69,497)	(115,617)
Financial assets at fair value through profit or loss	(14,778)	(45,635)	—	(60,413)
Impairment provisions	208,517	(40,840)	—	167,677
Premiums and reserves	654,402	700,549	—	1,354,951
Investment in associates	(1,055,351)	(393,952)	69,615	(1,379,688)
Payables to employees	186,740	(11,044)	—	175,696
Others	(131,412)	23,673	—	(107,739)
Total	(198,002)	232,751	118	34,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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39 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred tax assets and deferred tax liabilities (continued)

The estimated schedule of recoverability of deferred tax assets and liabilities is shown as follows:

	31 December 2018	31 December 2017
To be recovered within 12 months (inclusive)	1,782,550	1,455,724
To be recovered after more than 12 months	(1,375,738)	(1,420,857)
Total	406,812	34,867

40 OTHER ASSETS

	31 December 2018	31 December 2017
Investment contract assets	1,115,941	598,808
Subscription prepayment for securities and securities clearance receivable	125,511	368,524
Interest receivables	3,915,944	2,794,715
Deposits retained by other parties	1,752,142	1,530,196
Handling charges prepaid	227,979	407,378
Claims prepaid	958,194	394,510
Deferred expenses	170,513	117,247
Tax prepaid	431,922	203,046
Overseas deposits	795,912	—
Real estate prepaid	1,234,132	—
Others	839,775	340,968
Total	11,567,965	6,755,392
Less: impairment provision	(21,681)	(20,618)
Net	11,546,284	6,734,774

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41 SHORT-TERM BORROWINGS

	31 December 2018	31 December 2017
Short-term borrowings	**521,569**	—
Total	**521,569**	—

As at 31 December 2018, the Group holds an unsecured short-term borrowing of GBP60 million with a coupon rate of Libor plus 1.85%, which will be repayable within one year.

42 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2018	31 December 2017
Securities sold under agreements to repurchase		
— Stock exchange	**12,186,489**	6,560,098
— Inter-bank market	**2,007,487**	1,150,405
Total	**14,193,976**	7,710,503

As at 31 December 2018, the market value of RMB22,783 million bonds (31 December 2017: RMB14,844 million) are deposited in the collateral pool. Securities sold under agreements to repurchase are generally repurchased within 3 months from the date the securities are sold.

43 REINSURANCE PAYABLES

	31 December 2018	31 December 2017
Reinsurance payables	**12,929,525**	11,874,955

(a) Aging analysis

	31 December 2018	31 December 2017
Within 3 months (inclusive)	**9,965,322**	7,567,753
3 months to 1 year (inclusive)	**2,032,918**	3,746,285
1 to 2 years (inclusive)	**525,585**	349,963
Over 2 years	**405,700**	210,954
Total	**12,929,525**	11,874,955

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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44 INVESTMENT CONTRACT LIABILITIES

	2018
At the beginning of the year	12,946,807
Additions	7,609,728
Payments, surrenders, recaptures	(4,060,857)
Fees deducted	(1,151,768)
Interest credited	465,299
At the end of the year	15,809,209

45 INSURANCE CONTRACT LIABILITIES

	31 December 2018		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health reinsurance contracts (a)	76,329,229	(1,983,665)	74,345,564
Short-term life and health reinsurance contracts (b)			
— Claim reserves	6,844,034	(2,424,774)	4,419,260
— Unearned premium reserves	4,047,348	(340,835)	3,706,513
Property and casualty reinsurance contracts (c)			
— Claim reserves	33,846,203	(4,226,966)	29,619,237
— Unearned premium reserves	10,018,068	(767,487)	9,250,581
Primary property and casualty insurance contracts (d)			
— Claim reserves	18,027,205	(3,890,104)	14,137,101
— Unearned premium reserves	19,619,303	(1,257,125)	18,362,178
Total insurance contract liabilities	168,731,390	(14,890,956)	153,840,434

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45 INSURANCE CONTRACT LIABILITIES (continued)

	31 December 2017		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health reinsurance contracts (a)	46,133,081	(945,704)	45,187,377
Short-term life and health reinsurance contracts (b)			
— Claim reserves	4,368,031	(1,278,375)	3,089,656
— Unearned premium reserves	2,457,667	(283,032)	2,174,635
Property and casualty reinsurance contracts (c)			
— Claim reserves	24,342,648	(751,526)	23,591,122
— Unearned premium reserves	7,743,803	(266,555)	7,477,248
Primary property and casualty insurance contracts (d)			
— Claim reserves	8,402,478	(914,137)	7,488,341
— Unearned premium reserves	14,678,598	(441,472)	14,237,126
Total insurance contract liabilities	108,126,306	(4,880,801)	103,245,505

(a) Long-term life and health reinsurance contracts

	Insurance contract liabilities	**Reinsurers' share**	**Net**
At 1 January 2017	37,164,312	(1,436,909)	35,727,403
Additions	37,676,125	(419,350)	37,256,775
Payments	(5,375,574)	888,983	(4,486,591)
Surrenders	(23,900,249)	78,888	(23,821,361)
Others	568,467	(57,316)	511,151
At 31 December 2017	46,133,081	(945,704)	45,187,377
Additions	**40,932,287**	**(1,866,219)**	**39,066,068**
Payments	**(3,567,223)**	**308,487**	**(3,258,736)**
Surrenders	**(8,364,940)**	**619,372**	**(7,745,568)**
Others	**1,196,024**	**(99,601)**	**1,096,423**
At 31 December 2018	**76,329,229**	**(1,983,665)**	**74,345,564**

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45 INSURANCE CONTRACT LIABILITIES (continued)

(b) Short-term life and health reinsurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	3,588,243	(1,335,778)	2,252,465
Claims incurred	5,468,538	(1,408,363)	4,060,175
Claims paid	(4,688,750)	1,465,766	(3,222,984)
At 31 December 2017	4,368,031	(1,278,375)	3,089,656
Claims incurred	**9,073,016**	**(2,957,334)**	**6,115,682**
Claims paid	**(6,597,013)**	**1,810,935**	**(4,786,078)**
At 31 December 2018	**6,844,034**	**(2,424,774)**	**4,419,260**

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	1,832,387	(204,758)	1,627,629
Premiums written	7,681,767	(1,820,761)	5,861,006
Premiums earned	(7,056,487)	1,742,487	(5,314,000)
At 31 December 2017	2,457,667	(283,032)	2,174,635
Premiums written	**12,620,441**	**(3,294,447)**	**9,325,994**
Premiums earned	**(11,030,760)**	**3,236,644**	**(7,794,116)**
At 31 December 2018	**4,047,348**	**(340,835)**	**3,706,513**

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45 INSURANCE CONTRACT LIABILITIES (continued)

(c) Property and casualty reinsurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	24,862,557	(422,278)	24,440,279
Claims incurred	15,017,028	(505,790)	14,511,238
Claims paid	(15,536,937)	176,542	(15,360,395)
At 31 December 2017	24,342,648	(751,526)	23,591,122
Acquisition of subsidiaries	**8,845,039**	**(3,541,259)**	**5,303,780**
Claims incurred	**14,934,190**	**(273,306)**	**14,660,884**
Claims paid	**(14,275,674)**	**339,125**	**(13,936,549)**
At 31 December 2018	**33,846,203**	**(4,226,966)**	**29,619,237**

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	7,793,411	(188,739)	7,604,672
Premiums written	23,760,397	(792,121)	22,968,276
Premiums earned	(23,810,005)	714,305	(23,095,700)
At 31 December 2017	7,743,803	(266,555)	7,477,248
Acquisition of subsidiaries	**1,449,337**	**(516,511)**	**932,826**
Premiums written	**27,106,861**	**(915,382)**	**26,191,479**
Premiums earned	**(26,281,933)**	**930,961**	**(25,350,972)**
At 31 December 2018	**10,018,068**	**(767,487)**	**9,250,581**

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45 INSURANCE CONTRACT LIABILITIES (continued)

(d) Primary property and casualty insurance contracts

(i) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	7,498,552	(917,490)	6,581,062
Claims incurred	19,252,004	(724,497)	18,527,507
Claims paid	(18,348,078)	727,850	(17,620,228)
At 31 December 2017	8,402,478	(914,137)	7,488,341
Acquisition of subsidiaries	**7,690,725**	**(3,079,111)**	**4,611,614**
Claims incurred	**21,691,499**	**(619,244)**	**21,072,255**
Claims paid	**(19,757,497)**	**722,388**	**(19,035,109)**
At 31 December 2018	**18,027,205**	**(3,890,104)**	**14,137,101**

(ii) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	12,441,132	(386,711)	12,054,421
Premiums written	37,264,778	(1,383,743)	35,881,035
Premiums earned	(35,027,312)	1,328,982	(33,698,330)
At 31 December 2017	14,678,598	(441,472)	14,237,126
Acquisition of subsidiaries	**1,990,497**	**(709,368)**	**1,281,129**
Premiums written	**42,739,777**	**(1,792,078)**	**40,947,699**
Premiums earned	**(39,789,569)**	**1,685,793**	**(38,103,776)**
At 31 December 2018	**19,619,303**	**(1,257,125)**	**18,362,178**

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46 NOTES AND BONDS PAYABLE

	31 December 2018	31 December 2017
Bonds payable	**8,996,100**	—
Notes payable	**10,196,023**	9,679,806
Total	**19,192,123**	9,679,806

As of 17 August 2018 and 29 November 2018, the Group issued the capital supplementary bonds publicly in the National Interbank Bond Market. The total principal amount of capital supplementary bonds issued is RMB4,000 million and RMB5,000 million, respectively, with a term of ten years. The annual coupon rate is 4.97% and 4.80%, respectively, for the first five years, and the Group has conditional redemption rights at the end of the fifth year. In the event that the Group does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 5.97% and 5.80%, respectively, in the remaining five years.

The Group issued notes in aggregate principal amounts of USD800 million on 9 March 2017 and USD700 million on 30 June 2017 respectively. The notes carry a fixed interest yield of 3.375% per annum. The two tranches of notes are consolidated and form a single series. Unless earlier redeemed in accordance with the terms thereof, the notes will mature on 9 March 2022 at their principal amounts. The net proceeds from the issue of the notes will be used for general corporate purposes and investments in offshore projects.

The following table indicates the balances of notes and corporate bonds issued by the Group and main subsidiaries as at the end of 2018:

Issuer	Type	Par value	Coupon rate	Issued year	Maturity
China Reinsurance Finance Corporation Limited	Notes	800 (in USD million)	3.375%	2017	2022
China Reinsurance Finance Corporation Limited	Notes	700 (in USD million)	3.375%	2017	2022
China Re P&C	Capital Supplementary bonds	4,000 (in RMB million)	First 5 years: 4.97% Next 5 years: 5.97% (if not redeemed)	2018	2028
China Re Life	Capital Supplementary bonds	5,000 (in RMB million)	First 5 years: 4.80% Next 5 years: 5.80% (if not redeemed)	2018	2028

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47 LONG-TERM BORROWINGS

	31 December 2018	31 December 2017
Long-term borrowings	**3,577,107**	—
Total	**3,577,107**	—

As at 31 December 2018, the Group holds a long-term borrowing of USD523.97 million with a coupon rate of 4.70%, and the term is 60 months.

48 OTHER LIABILITIES

	31 December 2018	31 December 2017
Claims payable	**586,761**	193,032
Premiums received in advance	**2,260,928**	2,060,987
Salaries and welfare payable	**1,686,679**	1,528,684
Defined benefit obligation (1)	**202,542**	136,433
Unallocated cash	**390,054**	443,102
Insurance guarantee fund payable	**115,091**	103,716
Property and equipment payables	**361,588**	232,239
Deposits from cedants	**581,601**	476,953
Securities clearance payable	**225,556**	882,810
Handling charges and commissions payable	**601,536**	628,306
Taxes payable	**247,709**	374,165
Payable to third party investors of consolidated structured entities	**5,212,674**	4,462,265
Investment contracts payable	**918,340**	951,880
Others	**1,779,585**	1,328,215
Total	**15,170,644**	13,802,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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48 OTHER LIABILITIES (continued)

(1) Defined benefit pension plan obligation

The amount of defined benefit retirement plan obligation and its changes recognised in the financial statements are as follows:

	2018	2017
Opening balance	**136,433**	124,203
Acquisition of subsidiaries (a)	**53,350**	—
Cost of defined benefit retirement plans included in current profit or loss		
— Interest cost	**5,666**	4,250
Remeasurement effects recognised in other comprehensive income		
— Actuarial lost	**12,153**	12,919
Benefits paid by the plans	**(5,060)**	(4,939)
Closing balance	**202,542**	136,433

(a) **The amounts of CHL defined benefit pension retirement obligations recognised in the balance sheet are as follows:**

	2018
Present value of defined benefit obligations	**922,826**
Fair value of scheme assets	**(869,476)**
Scheme deficit	**53,350**

China defined benefit retirement plan

The Company offers the following two defined benefit retirement plans as post- employment benefit to its retired and early retired staff:

(i) pension benefits for retired staff and pension benefits for early retired staff after they actually retire; and

(ii) medical allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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48 OTHER LIABILITIES (continued)

(1) Defined benefit pension plan obligation (continued)

China defined benefit retirement plan (continued)
Significant actuarial assumptions utilised by the Group when estimating the present value of the obligation of China defined benefit retirement plan are as follows (presented in weighted average):

	2018	2017
Discount rate	**3.50%**	4.25%
Mortality rate	**Note (i)**	Note (i)
Expected average life	**88**	87
Annual growth rate of pension benefits	**4%**	4%
Annual growth rate of medical allowances	**7%**	7%

(i) The mortality rate used in 2018 is determined based on the China Life Insurance Mortality Table—CL5/CL6 (2010 – 2013) issued by the former CIRC in 2016 (2017: same).

CHL defined benefit pension retirement plan
CHL provided defined benefit pension retirement benefits to certain of its employees. The defined benefit pension retirement benefits provides employees with a fixed benefit based on the employee's length of service and the final retirement salary. The trustee holds and controls the funds of the defined benefit pension retirement benefits. As of 31 December 2001, the defined benefit pension plan was closed to new members and starting from 31 December 2016, the plan stopped accruing for future salary increases.

Weighted-average assumptions used to determine CHL defined benefit pension retirement obligations are as follows:

	2018
Discount rate	**2.70%**
Rate of salary increases(ii)	**N/A**
Rate of 5% Retail Price Index ("RPI") pension increases	**3.10%**
Rate of 2.5% RPI pension increases	**2.00%**
Rate of 5% Consumer Price Index ("CPI") pension increases	**2.40%**
RPI Inflation	**3.40%**
CPI Inflation	**2.40%**

(ii) Following the closure of CHL defined benefit pension retirement on 31 December 2016, a salary increase is no longer required.

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49 SHARE CAPITAL

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each		
— Domestic shares	**35,800,391**	35,800,391
— H shares	**6,679,417**	6,679,417
Total	**42,479,808**	42,479,808

The Company completed its initial public offering of overseas-listed foreign shares and was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 October 2015. In this offering, the Company issued 6,072 million H shares in total (including over-allotment of 302 million H shares) with a nominal value of RMB1.00 per share each and an issuance price of HKD2.70 per share. This public offering had raised a total amount of RMB13,443 million. As at 31 December 2018, a total of RMB7,002 million was recorded in share premiums after deducting the share capital of RMB6,072 million and the stock issuance fee.

Pursuant to the relevant PRC regulations "The interim regulation of the State Council on Transfers of State-owned Shares" (Guo Fa (2001) No.22) and the related regulatory approvals, 607,219,700 domestic shares held by the state-owned shareholders were converted into H shares during the initial public offering of the Company.

On 27 April 2018, the Ministry of Finance, a shareholder of the Company, transferred 10% of its equity interest in the Company (i.e. 540,253,904 domestic shares) to the National Council for Social Security Fund ("NSSF") on a one-off basis (the "Transfer"), and completed the registration of the equity change. After the Transfer, the Ministry of Finance holds 4,862,285,131 domestic shares of the Company, representing 11.45% of the total share capital of the Company; NSSF newly holds 540,253,904 domestic shares of the Company, representing 1.27% of the total share capital of the Company.

50 RESERVES AND RETAINED PROFITS

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statements of changes in equity.

(a) Capital reserve

Pursuant to the approval from the Ministry of Finance, the Company recognised assets appraisal surplus from restructuring as capital reserve.

(b) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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50 RESERVES AND RETAINED PROFITS (continued)

(c) General risk reserve

In accordance with the relevant regulations, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance business. The Group's respective entities (China Re P&C, China Re Life, China Continent Insurance) would need to make appropriations to such reserve based on their respective profit or year-end risk assets as determined based on applicable financial regulations in the PRC, in their annual financial statements. This reserve is not available for profit distribution or transfer to capital.

(d) Agriculture catastrophic loss reserve

According to the relevant regulations of the PRC, which became effective from 1 January 2014, China Re P&C and China Continent Insurance are required to make appropriations to a reserve when the agricultural insurance records underwriting profits. This reserve cannot be used for dividend distribution, but can be utilised when there are catastrophic losses. The reserve can be transferred to general risk reserve if the Group ceases writing agricultural insurance business.

(e) Retained profits

As at 31 December 2018, the consolidated retained profits attributable to equity shareholders of the Company included an appropriation of RMB2,641 million to surplus reserve made by subsidiaries (31 December 2017: RMB2,334 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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51 INTEREST HELD IN UNCONSOLIDATED STRUCTURED ENTITIES

(a) Interest held in structured entities managed by third-party institutions

The Group invests in some structured entities managed by third-party institutions. Such structured entities mainly include investment funds, asset management products, structured notes, equity investment plan, debt investment plan, and trust schemes. The Group does not consolidate these structured entities. The nature and purpose of these structured entities is to provide asset management service for investors. Third-party institutions raise funds via issuing investment products to investors.

As at 31 December, the carrying value of interest held by the Group in structured entities managed by third-party institutions through investments of the Group is listed below:

	31 December 2018		
	Available-for-sale financial assets	**Investments classified as loans and receivables**	**Financial assets at fair value through profit or loss**
Investment funds	**7,554,038**	**—**	**6,072,096**
Structured notes	**—**	**—**	**3,174,933**
Debt investment plan	**—**	**12,064,167**	**—**
Trust schemes	**9,039**	**5,448,864**	**—**
Other	**2,246,061**	**1,867,847**	**—**
Total	**9,809,138**	**19,380,878**	**9,247,029**

	31 December 2017		
	Available-for-sale financial assets	Investments classified as loans and receivables	Financial assets at fair value through profit or loss
Investment funds	8,214,976	—	2,928,598
Structured notes	—	—	3,457,345
Debt investment plans	—	6,670,817	—
Trust schemes	—	4,599,600	—
Others	2,248,172	212,165	—
Total	10,463,148	11,482,582	6,385,943

The maximum loss exposures of the interest held in structured entities funded by third-party institutions are their carrying amounts at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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51 INTEREST HELD IN UNCONSOLIDATED STRUCTURED ENTITIES (continued)

(b) Interest held in the unconsolidated structured entities funded by the Group

Unconsolidated structured entities funded by the Group mainly include the asset management products and third-party entrusted asset management business products issued by the Group. The nature and purpose of these structured entities is to generate asset management fees by providing management services for investors. The Group raise funds via issuing investment products to investors. As at 31 December 2018, the balances of asset management products funded by the Group but unconsolidated in the financial statements amounted to RMB1.357 billion (31 December 2017: RMB3.242 billion), among which RMB0.001 billion was held by the Group (31 December 2017: 0.341 billion).

52 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operations:

	2018	2017
Profit before tax	**5,084,802**	6,951,068
Adjustments for:		
Investment income	**(7,496,534)**	(9,260,154)
Exchange losses, net	**44,101**	155,896
Finance costs	**1,127,782**	429,917
Share of profits of associates	**(1,701,410)**	(1,630,814)
Impairment provisions charges	**80,058**	41,263
Depreciation of property and equipment	**256,163**	239,460
Depreciation of investment property	**3,656**	10,903
Amortisation of intangible assets	**73,516**	48,671
Losses on disposal of property and equipment and intangible assets, net	**2,279**	1,442
Increase in insurance contract liabilities	**39,662,185**	13,345,239
Increase in investment contract liabilities and policyholders' deposits	**3,105,901**	1,799,740
(Increase)/decrease in reinsurer's share of insurance contract liabilities	**(2,047,004)**	88,756
Increase in premiums receivable	**(3,886,026)**	(2,240,375)
Increase in reinsurance debtors	**(23,805,481)**	(2,011,805)
Increase in investment contracts receivable	**(1,980,327)**	(727,195)
Decrease in reinsurance payables	**(1,352,140)**	(342,414)
Increase in other assets	**(885,148)**	(346,867)
Increase in other liabilities	**430,659**	1,568,397
Cash generated from operations	**6,717,032**	8,121,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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52 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) **Analysis of balances of cash and cash equivalents:**

	2018	2017
Cash and short-term time deposits	**13,230,928**	10,753,859
Add: Financial assets held under resale agreements with original maturity of no more than three months	**2,596,387**	2,558,402
Less: Restricted cash at banks	**(1,125,455)**	(1,243,665)
Cash and cash equivalents at end of the year	**14,701,860**	12,068,596

(c) **Net Debt Reconciliation**

This section sets out an analysis of net debt and movements in net debt for the current year.

Net debt	**2018**	2017
Cash and cash equivalents	**14,701,860**	12,068,596
Liquid investments (i)	**10,725,714**	7,206,613
Borrowing-repayable within 1 year	**(521,569)**	—
Borrowing, notes and bonds payable-repayable after 1 year	**(22,769,230)**	(9,679,806)
Total	**2,136,775**	9,595,403
Cash and liquid investment	**25,427,574**	19,275,209
Gross debt-fixed interest rates	**(23,290,799)**	(9,679,806)
Total	**2,136,775**	9,595,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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52 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Net Debt Reconciliation (continued)

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	Liquid investments (i)	Borrowing-repayable within 1 year	Borrowing, notes and bonds payable-repayable after 1 year	Total
Balance as at 1 January 2018	12,068,596	7,206,613	—	(9,679,806)	9,595,403
Cash flows	2,085,721	3,675,612	(518,142)	(12,577,107)	(7,333,916)
Foreign exchange adjustments	547,543	—	(3,427)	(493,494)	50,622
Other non-cash movements	—	(156,511)	—	(18,823)	(175,334)
Balance as at 31 December 2018	14,701,860	10,725,714	(521,569)	(22,769,230)	2,136,775

(i) Liquid investments comprise investments that are classified as financial assets held at fair value through profit or loss held by the Group.

53 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9

According to IFRS 4 Amendments, the Company made the assessment based on the Group's financial position of 31 December 2015, concluding that the carrying amount of the Group's liabilities arising from contracts within the scope of IFRS 4, which includes any deposit components or embedded derivatives unbundled from insurance contracts, was significant compared to the total carrying amount of all its liabilities. And the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90 percent. There had been no significant change in the activities of the Group since then that requires reassessment. Therefore, the Group's activities are predominantly connected with insurance, meeting the criteria to apply temporary exemption from IFRS 9.

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53 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9 (continued)

(a) The table below presents the fair value of the following groups of financial assets(i) under IFRS 9 as at 31 December 2018 and fair value changes for the 12 months ended 31 December 2018:

	Fair value as at 31 December 2018	Fair value changes for the 12 months ended 2018
Held for trading financial assets	10,725,714	(168,654)
Financial assets that are managed and whose performance are evaluated on a fair value basis		
Other financial assets		
— Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding ("SPPI")	140,904,118	4,418,720
— Financial assets with contractual terms that do not give rise on SPPI	30,564,445	(3,264,436)
Total	182,194,277	985,630

(i) Only including financial assets at fair value through profit or loss, investments classified at loans and receivables, available-for-sale financial assets and held-to-maturity financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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53 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9 (continued)

(b) The table below presents the credit risk exposure (ii) for aforementioned financial assets with contractual terms that give rise on SPPI:

	As at 31 December 2018 Carrying amount (iii)
Domestic	
Rating not required (iv)	13,326,639
AAA	70,807,019
AA	27,213,639
A	6,459,457
BBB	4,918,427
BB or below	28,047
Non-rating	2,861,012
Subtotal	125,614,240
Overseas	
Rating not required (iv)	37,059
AAA	4,767,649
AA	2,260,136
A	2,846,326
BBB	2,545,465
BB or below	373,779
Subtotal	12,830,414
Total	138,444,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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53 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9 (continued)

(b) The table below presents the credit risk exposure (ii) for aforementioned financial assets with contractual terms that give rise on SPPI: (continued)

The table below presents the financial assets that are not considered to have low credit risk on the reporting date:

	As at 31 December 2018	
	Carrying amount (iii)	Fair value
Domestic	**336,177**	**336,177**
Overseas	**373,779**	**373,779**
Total	**709,956**	**709,956**

(ii) Credit risk ratings for domestic assets are provided by domestic qualified external rating agencies; if no domestic qualified external rating agency could provide credit risk ratings, the Company's internal rating is used; if there is no internal rating, it is classified as non-rating. Credit risk ratings for overseas assets are provided by overseas qualified external rating agencies.

(iii) For financial assets measured at amortised cost, carrying amount before adjusting impairment allowance is disclosed here.

(iv) It mainly includes government bonds, policy financial bonds, and short-term financing bonds issued by non-financial companies with higher credit ratings in the inter-bank bond market with a maturity of less than 270 days.

54 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In June 2018, China Continent Insurance issued shares directly to strategic investors, raising RMB10,673 million in total. The Company's shareholding percentage over China Continent Insurance decreased from 93.18% to 64.30% after the new issuance, while the Company still controls China Continent Insurance.

According to IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. For the new issuance of shares, the Group recognised an increase in non-controlling interests of RMB7,968 million and an increase in equity attributable to shareholders of the Company of RMB2,705 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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55 RISK MANAGEMENT

(1) Insurance risk

An insurance policy's risk lies in uncertainty of insured events and the corresponding paid loss. From the perspective of fundamental nature of each policy, the above risk occurs randomly, and the actual paid amount will differ from the estimated data based on statistical methods for each period. For those policy portfolios using probability theory for pricing and reserve estimation, the main risk the Group faces is that the actual payment exceeds the carrying amount of insurance liability, which will occur when the actual loss occurrence or severity exceeds expected values. Such risk is likely to occur in the following situations:

Occurrence risk — the possibility that the number of insured events will differ from that expected;

Severity risk — the possibility that the cost of the events will differ from that expected; or

Development risk — the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

Experience shows that the larger the insurance contracts portfolio of the same nature, the smaller the variability of expected results. In addition, a more diversified portfolio is less likely to be impacted by any sub-portfolio's change. The Group has already established insurance underwriting strategy to diversify underwriting risks, and has maintained a sufficient number of policies for different types of insurance risk. Therefore uncertainty of expected results will be reduced.

For the Group's property and casualty insurance and reinsurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. For the Group's health and accident reinsurance contracts, infectious diseases, huge lifestyle changes, natural disasters and accidents are all important factors that may increase the loss ratio, which may lead to earlier or more claims than expected. For the Group's life reinsurance contracts, the most important factor is that continuous improvement of medical standards and social conditions help to extend life expectancy. Furthermore, policyholders' terminating contracts, reducing and refusing to pay premiums also impact insurance risk, which means that insurance risk is affected by policyholders' behaviours and decisions.

According to the risk characters, the Group's different departments and subsidiaries manage corresponding insurance risk by determining insurance products' underwriting standards and strategy, and prescribing counterparty risk limits, reinsurance arrangements and claim processing. The Group's assumed insurance liability also incorporates international business underwritten by the former PICC (Group) Company, including asbestos, pollution, health hazard and other potential long-tail risks. Due to such high level of inherent uncertainty in the above business, consisting of relevant payment instability and insurance liability's cognisant uncertainty, the Group cannot completely rule out such significant loss possibilities such as if other reinsurance companies underwrite this kind of business. The Group reduces the uncertainty posted by such business through contacting with ceding companies actively and seeking to settle the liability.

The Group's insurance business mainly comes from Mainland China. The Group's concentration of insurance risk is reflected by its major lines of business as analysed by insurance and reinsurance premium income in Note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business

When measuring insurance contract reserves, the risk margin has been considered and measured at the 75% percentile approach and the 82.5% percentile approach by the Group. The risk margin for claim reserves falls between 2.5% and 15%, while the risk margin for unearned premium reserves falls between 3.0% and 15%. If the Group's calculated risk margin falls above/below the chosen interval, the Group chooses the upper/lower limit as the risk margin.

When determining the reserves, the Group discounts relevant future cash flows if the impact of time value of money is significant. Impact significance depends on the "duration" of insurance liability. If the duration of insurance liability is longer than one year, the time value of money is significant and should be included when determining the reserves; otherwise, it is not compulsory for determining the reserves.

Sensitivity analysis
Changes of paid loss and other factors of property and casualty, short-term life and health insurance and reinsurance business may impact changes of assumptions and further unpaid claim estimates. If all other variables remain unchanged, a 1% increase in average claim cost will result in a decrease in profit before tax by RMB772 million for the years ended 31 December 2018 (31 December 2017: RMB621 million).

Several variables' sensitivity cannot be quantified, such as legal changes, uncertainty of loss estimation and so on. In addition, time delay exists among claims occurrence, reporting and closing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

Claim development tables

According to the characteristics of property and casualty, short-term life and health insurance and reinsurance business, the claim development information is disclosed based on accident year for primary insurance and underwriting year for reinsurance respectively:

(i) Primary insurance contracts (*)

Gross

	2013 and earlier	2014	2015	2016	2017	**2018**	Total
Cumulated loss estimate							
Year ending	58,224,731	12,351,301	15,698,652	15,514,119	18,384,153	**20,563,460**	
1 year later	58,358,141	12,152,903	15,237,312	15,327,246	18,033,391		
2 years later	57,888,596	11,920,235	15,198,172	15,346,159			
3 years later	57,766,876	11,851,323	15,049,066				
4 years later	57,715,591	11,839,938					
5 years later	57,702,075						
Estimated cumulated claims	57,702,075	11,839,938	15,049,066	15,346,159	18,033,391	**20,563,460**	138,534,089
Less: Cumulated claims paid	57,575,674	11,737,574	14,889,238	15,014,186	16,588,840	**13,110,200**	128,915,712
Add: Adjustments in prior periods and unallocated loss adjustment expense ("ULAE"), discount and risk margin							754,302
Estimated unpaid claims							10,372,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

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55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(i) Primary insurance contracts (*) (continued)

Net

	2013 and earlier	2014	2015	2016	2017	**2018**	Total
Cumulated loss estimate							
Year ending	47,179,899	11,010,672	12,712,994	14,283,765	16,901,713	**18,902,406**	
1 year later	46,996,950	10,680,709	12,596,186	14,141,045	16,646,409		
2 years later	46,766,759	10,544,676	12,574,274	14,172,108			
3 years later	46,691,096	10,520,891	12,439,047				
4 years later	46,675,404	10,528,662					
5 years later	46,668,860						
Estimated cumulated claims	46,668,860	10,528,662	12,439,047	14,172,108	16,646,409	**18,902,406**	119,357,492
Less: Cumulated claims paid	46,608,927	10,490,500	12,314,653	13,928,696	15,420,013	**12,267,960**	111,030,749
Add: Adjustments in prior periods and ULAE, discount and risk margin							670,026
Estimated unpaid claims							8,996,769
Less: Estimated unpaid claims assumed by China Re Group							(564,919)
Gross estimated unpaid claims							9,561,688

(*) Primary insurance contracts presented include the assumed reinsurance business undertaken by China Continent Insurance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(ii) Reinsurance contracts

Gross

	2013 and earlier	2014	2015	2016	2017	2018	Total
Cumulated loss estimate							
Year ending	207,841,395	24,145,598	26,767,993	20,918,990	22,248,638	**27,710,670**	
1 year later	206,551,258	22,786,463	26,242,154	21,945,487	24,700,481		
2 years later	205,519,991	21,206,265	24,913,394	21,232,446			
3 years later	207,549,197	20,401,795	23,421,466				
4 years later	206,048,686	20,306,471					
5 years later	206,583,590						
Estimated cumulated claims	206,583,590	20,306,471	23,421,466	21,232,446	24,700,481	**27,710,670**	323,955,124
Less: Cumulated claims paid	204,283,098	19,660,958	21,694,219	16,883,043	14,454,838	**4,278,011**	281,254,167
Unearned claims	236	3,262	6,348	18,349	137,301	**11,538,345**	11,703,841
Add: Risk margin, discount and ULAE	159,724	34,153	89,278	217,265	449,558	**653,857**	1,603,835
Estimated unpaid claims	2,459,980	676,404	1,810,177	4,548,319	10,557,900	**12,548,171**	32,600,951
Less: Estimated unpaid claims assumed by China Continent Insurance							791,953
Gross estimated unpaid claims							31,808,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(ii) Reinsurance contracts (continued)

Net

	2013 and earlier	2014	2015	2016	2017	**2018**	Total
Cumulated loss estimate							
Year ending	204,005,739	22,610,308	24,096,741	19,354,209	20,443,555	**24,658,105**	
1 year later	203,141,493	21,593,296	24,649,264	20,237,148	22,437,135		
2 years later	202,399,209	19,927,023	23,433,212	19,569,994			
3 years later	204,677,889	19,177,820	22,303,195				
4 years later	203,113,051	19,090,825					
5 years later	203,669,490						
Estimated cumulated claims	203,669,490	19,090,825	22,303,195	19,569,994	22,437,135	**24,658,105**	311,728,744
Less: Cumulated claims paid	200,775,617	18,440,747	20,125,820	15,575,465	12,939,614	**3,590,006**	271,447,269
Unearned claims	236	3,074	5,522	18,440	131,809	**10,866,090**	11,025,171
Add: Risk margin, discount and ULAE	(456,422)	30,807	(488,548)	157,218	394,513	**575,925**	213,493
Estimated unpaid claims	2,437,215	677,811	1,683,305	4,133,307	9,760,225	**10,777,934**	29,469,797
Less: Estimated unpaid claims assumed by China Continent Insurance							771,282
Gross estimated unpaid claims							28,698,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(a) Primary property and casualty insurance, property and casualty reinsurance and short-term life and health reinsurance business (continued)

(iii) Lloyd's Syndicate Business

Gross

	2013 and earlier	2014	2015	2016	2017	**2018**	Total
Cumulated loss estimate							
Year ending						**3,523,290**	
1 year later					6,232,946		
2 years later				4,787,508			
3 years later			4,369,103				
4 years later		4,169,000					
5 years later	6,540,128						
Estimated cumulated claims	6,540,128	4,169,000	4,369,103	4,787,508	6,232,946	**3,523,290**	29,621,975
Less: Cumulated claims paid	3,519,080	2,852,921	2,415,890	1,992,101	2,031,471	**467,077**	13,278,540
Add: Risk margin, discount and ULAE							192,330
Estimated unpaid claims							16,535,765

Net

	2013 and earlier	2014	2015	2016	2017	**2018**	Total
Cumulated loss estimate							
Year ending						**1,741,488**	
1 year later					2,971,205		
2 years later				3,543,878			
3 years later			3,302,739				
4 years later		3,027,264					
5 years later	4,735,358						
Estimated cumulated claims	4,735,358	3,027,264	3,302,739	3,543,878	2,971,205	**1,741,488**	19,321,932
Less: Cumulated claims paid	2,672,816	2,260,182	1,920,183	1,608,761	990,138	**370,560**	9,822,640
Add: Risk margin, discount and ULAE							416,103
Estimated unpaid claims							9,915,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(1) Insurance risk (continued)

(b) Assumptions and sensitivity analysis for long-term life and health insurance contracts

Major assumptions

Life and health insurance contract reserve is determined by the Group's reasonable estimate of future payments, premiums and related expenses, as well as considering risk margin. Mortality rates, morbidity rates, lapse rates, discount rates and loss adjustment expense assumptions adopted in reasonable estimation are determined by latest experience study, current and future expectations. Uncertainty of liabilities arisen from the uncertainty of future cash flows including future claim payments, premium and related expenses, etc. are reflected through risk margin.

Residual margin related to life and health insurance contract reserve is amortised during the expected benefit period using assumptions as at policy inception, including discount rates, incident rates, lapse rates and expenses assumptions.

Sensitivity analysis

Significant assumptions involved in reserve calculation include mortality rates, morbidity rates, lapse rates, and investment return, etc.

	Changes in assumptions	Impact on profit before tax	
		2018	2017
Mortality/morbidity	10%	**(222,564)**	(218,020)
Mortality/morbidity	-10%	**236,575**	224,381
Lapse rate	10%	**36,209**	43,616
Lapse rate	-10%	**6,810**	(9,698)
Discount rate	+50bp	**1,291,050**	1,151,153
Discount rate	-50bp	**(1,402,435)**	(1,253,445)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with commercial banks, bond issuers, premiums receivable and reinsurance arrangements. Majority of the Group's financial assets are debt investments which include government bonds, financial bonds, corporate bonds, subordinated bonds, debt investment plan, trust schemes and wealth management products with high credit ratings and time deposits in state-owned commercial banks, etc. As at 31 December 2018, 100% (31 December 2017: 100%) of the financial institution bonds held by the Group either had a credit rating of A or above, or were issued by national commercial banks. As at 31 December 2018, 80% (31 December 2017:96%) of the corporate bonds and short term corporate financing bonds held by the Group had a credit rating of AA and A-1 or above. The credit rating of domestic and foreign debt investment is provided by qualified external rating agencies at home and abroad; if there is no qualified external rating agency providing credit rating, the company's internal rating is used. As at 31 December 2018, 75% (31 December 2017: 78%) of the debt investment plan are guaranteed by third parties or collateralized, 100% (31 December 2017: 100%) of the trust schemes are guaranteed by third parties.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

(i) Credit risk exposure

The Group's maximum exposure to credit risk is the carrying amount of the financial assets in the consolidated statement of financial position. The maximum exposure to credit risk in respect of the financial guarantees of the Group as at 31 December 2018 is disclosed in Note 59.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(a) Credit risk (continued)

(ii) Aging analysis of financial assets

	2018				
		Financial assets due but not impaired		Financial assets due and impaired	
	Not due	within 1 year	after 1 year		Total
Cash and short-term time deposits	13,230,928	—	—	—	13,230,928
Financial assets at fair value through profit or loss fixed maturity	894,638	—	—	—	894,638
Financial assets held under resale agreements	2,596,387	—	—	—	2,596,387
Premiums receivable	10,229,406	798,248	28,022	211,094	11,266,770
Reinsurance debtors	45,723,716	2,068,137	677,417	1,305,714	49,774,984
Time deposits	4,408,928	—	—	—	4,408,928
Available-for-sale fixed maturity investments	64,611,136	—	—	—	64,611,136
Held-to-maturity investments	35,897,556	—	—	—	35,897,556
Investments classified as loans and receivables	41,065,284	—	—	—	41,065,284
Reinsurers' share of Policy loans	454,775	—	—	—	454,775
Investment contracts receivable	2,831,865	—	—	—	2,831,865
Statutory deposits	16,073,184	—	—	—	16,073,184
Other financial assets	8,521,118	2,423	3	21,681	8,545,225
Sub-total	246,538,921	2,868,808	705,442	1,538,489	251,651,660
Less: impairment provisions					(359,493)
Total					251,292,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(a) Credit risk (continued)

(ii) Aging analysis of financial assets (continued)

	2017				
		Financial assets due but not impaired		Financial assets due and impaired	
	Not due	within 1 year	after 1 year		Total
Cash and short-term time deposits	10,753,859	—	—	—	10,753,859
Financial assets at fair value through profit or loss fixed maturity	227,488	—	—	—	227,488
Financial assets held under resale agreements	2,558,402	—	—	—	2,558,402
Premiums receivable	4,324,105	43,353	—	129,477	4,496,935
Reinsurance debtors	22,537,323	23,601	37,926	1,979,202	24,578,052
Time deposits	5,239,747	—	—	—	5,239,747
Available-for-sale fixed maturity investments	44,865,831	—	—	—	44,865,831
Held-to-maturity investments	25,982,685	—	—	—	25,982,685
Investments classified as loans and receivables	32,871,394	—	—	—	32,871,394
Reinsurers' share of Policy loans	419,502	—	—	—	419,502
Investment contracts receivable	851,538	—	—	—	851,538
Statutory deposits	14,561,460	—	—	—	14,561,460
Other financial assets	5,612,593	—	—	20,618	5,633,211
Sub-total	170,805,927	66,954	37,926	2,129,297	173,040,104
Less: impairment provisions					(268,780)
Total					172,771,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk).

The Group adopts various measures managing market risk, including sensitive analysis, Value-at-Risk ("VaR"), stress testing, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; setting acceptable risk tolerance level according to development goals; and tracking the risk control results dynamically to maintain market risk exposure within acceptable level.

(i) Interest rate risk

The Group's interest rate risk arises primarily from financial instruments mainly including cash and short-term time deposits, time deposits and debt investments. Financial instruments at fixed rates and at floating rates expose the Group to fair value interest rate risk and cash flow interest rate risk, respectively.

Fair value interest rate risk

The sensitivity analysis below indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

	Interest rate change	Impact on equity	
		2018	2017
Financial assets at fair value through profit or loss	+50bp	**(2,047)**	(189)
Financial assets at fair value through profit or loss	-50bp	**2,108**	189
Available-for-sale financial assets	+50bp	**(546,324)**	(644,202)
Available-for-sale financial assets	-50bp	**559,801**	644,202

	Interest rate change	Impact on net profit	
		2018	2017
Financial assets at fair value through profit or loss	+50bp	**(2,047)**	(189)
Financial assets at fair value through profit or loss	-50bp	**2,108**	189
Available-for-sale financial assets	+50bp	**—**	—
Available-for-sale financial assets	-50bp	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Cash flow interest rate risk

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for each reporting date.

	Interest rate change	Impact on net profit/equity 2018	2017
Floating interest rate debt securities	+50bp	**1,899**	1,750
Floating interest rate debt securities	-50bp	**(1,899)**	(1,750)
Floating interest rate debt investment plan	+50bp	**4,213**	4,875
Floating interest rate debt investment plan	-50bp	**(4,213)**	(4,875)
Floating interest rate deposits	+50bp	**28,952**	39,134
Floating interest rate deposits	-50bp	**(28,952)**	(39,134)

(ii) Currency risk

The Group is exposed to currency risk primarily through holding monetary financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities denominated in foreign currencies, which mainly including cash and short-term time deposits, time deposits, debt investments, reinsurance debtors, reinsurance payables and insurance contract liabilities.

The following table summarises the Group's financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities by major currency at the end of the reporting period, expressed in the RMB equivalent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

	2018						
	RMB	USD	HKD	GBP	EUR	Others	Total
Cash and short-term time deposits	4,083,962	4,737,291	2,995,521	297,497	600,884	515,773	13,230,928
Financial assets at fair value through profit or loss	5,171,745	4,849,751	704,218	—	—	—	10,725,714
Derivative financial instruments	—	175,403	—	—	—	—	175,403
Financial assets held under resale agreements	2,596,387	—	—	—	—	—	2,596,387
Premiums receivable	7,868,899	2,587,939	1,666	140,724	298,605	157,843	11,055,676
Reinsurance debtors	44,242,440	3,959,126	192,254	55,045	384,671	814,730	49,648,266
Investment contracts receivable	2,831,865	—	—	—	—	—	2,831,865
Reinsurers' share of insurance contract liabilities	6,493,688	6,167,533	—	502,749	491,100	1,235,886	14,890,956
Time deposits	10,199	2,948,715	1,371,853	78,161	—	—	4,408,928
Available-for-sale financial assets	67,464,209	11,939,569	5,087,272	898,716	5,312,791	1,277,089	91,979,646
Held-to-maturity investments	35,897,556	—	—	—	—	—	35,897,556
Investments classified as loans and receivables	39,331,670	1,733,614	—	—	—	—	41,065,284
Reinsurers' share of policy loans	454,775	—	—	—	—	—	454,775
Statutory deposits	16,073,184	—	—	—	—	—	16,073,184
Other financial assets	6,155,898	1,275,255	101,241	50,266	170,028	770,856	8,523,544
Total	238,676,477	40,374,196	10,454,025	2,023,158	7,258,079	4,772,177	303,558,112
Short-term borrowings	—	—	—	521,569	—	—	521,569
Securities sold under agreements to repurchase	14,193,976	—	—	—	—	—	14,193,976
Reinsurance payables	9,469,920	2,360,219	46,038	132,216	330,427	590,705	12,929,525
Income tax payable	369,704	—	11,386	62,763	782	337	444,972
Policyholders' deposits	631,376	301,537	1,013,653	—	—	—	1,946,566
Investment contract liabilities	14,101,347	207,863	1,499,999	—	—	—	15,809,209
Insurance contract liabilities	129,365,392	24,609,866	5,770,361	2,291,490	1,501,406	5,192,875	168,731,390
Notes and bonds payable	8,996,100	10,196,023	—	—	—	—	19,192,123
Long-term borrowings	—	3,577,107	—	—	—	—	3,577,107
Other financial liabilities	11,196,107	464,794	155,941	729,942	264,066	98,866	12,909,716
Total	188,323,922	41,717,409	8,497,378	3,737,980	2,096,681	5,882,783	250,256,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

	2017						
	RMB	USD	HKD	GBP	EUR	Others	Total
Cash and short-term time deposits	3,154,150	3,160,906	3,356,837	83,626	486,545	511,795	10,753,859
Financial assets at fair value through profit or loss	2,358,077	4,183,377	665,159	—	—	—	7,206,613
Financial assets held under resale agreements	2,558,402	—	—	—	—	—	2,558,402
Premiums receivable	4,136,737	187,192	88	23,608	15,077	4,756	4,367,458
Reinsurance debtors	20,472,665	2,742,172	141,341	(21,695)	634,653	490,231	24,459,367
Reinsurers' share of insurance contract liabilities	3,876,930	911,977	37	69,734	10,817	11,306	4,880,801
Time deposits	1,515,000	2,760,832	788,982	75,354	—	99,579	5,239,747
Available-for-sale financial assets	65,578,196	1,955,627	6,913,645	—	4,500,860	—	78,948,328
Held-to-maturity investments	25,982,685	—	—	—	—	—	25,982,685
Investments classified as loans and receivables	31,474,717	1,396,677	—	—	—	—	32,871,394
Reinsurers' share of policy loans	419,502	—	—	—	—	—	419,502
Investment contracts receivable	851,538	—	—	—	—	—	851,538
Statutory deposits	14,561,460	—	—	—	—	—	14,561,460
Other financial assets	4,515,634	474,655	70,520	229,595	209,288	112,901	5,612,593
Total	181,455,693	17,773,415	11,936,609	460,222	5,857,240	1,230,568	218,713,747
Derivative financial instruments	—	47,608	—	—	—	—	47,608
Securities sold under agreements to repurchase	7,710,503	—	—	—	—	—	7,710,503
Reinsurance payables	10,327,440	1,091,565	21,264	5,134	290,880	138,672	11,874,955
Income tax payable	479,690	—	—	4,052	—	—	483,742
Policyholders' deposits	232,403	445,887	990,876	—	—	—	1,669,166
Investment contract liabilities	11,753,595	308,991	884,221	—	—	—	12,946,807
Insurance contract liabilities	93,506,947	9,218,467	3,497,589	184,575	503,384	1,215,344	108,126,306
Notes and bonds payable	—	9,679,806	—	—	—	—	9,679,806
Other financial liabilities	9,943,241	649,239	710,930	44,254	288,612	105,524	11,741,800
Total	133,953,819	21,441,563	6,104,880	238,015	1,082,876	1,459,540	164,280,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity analysis

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit after tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Changes in	Impact on profit after tax		Impact on equity	
Currency	exchange rate	**2018**	2017	**2018**	2017
USD	5%	**(498,104)**	(210,892)	**(50,370)**	(137,556)
USD	-5%	**498,104**	210,892	**50,370**	137,556
HKD	5%	**(117,398)**	(40,572)	**73,374**	218,690
HKD	-5%	**117,398**	40,572	**(73,374)**	(218,690)
GBP	5%	**(98,008)**	8,333	**(64,306)**	8,333
GBP	-5%	**98,008**	(8,333)	**64,306**	(8,333)
EUR	5%	**(5,677)**	10,256	**193,552**	179,039
EUR	-5%	**5,677**	(10,256)	**(193,552)**	(179,039)

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group uses VaR to measure the expected loss in respect of equity price risk for stock and fund investments measured at fair value. The Group monitors the daily value fluctuation risk over a portent period of 1 day for going concern basis. Moreover, VaR is measured over a holding period of 250 trading days at a confidence level of 95% assumed under normal market condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(b) Market risk (continued)

(iii) Price risk (continued)

Under normal market conditions, the impact on net equity of 1-day potential loss of equity investments such as equity shares and investment funds is estimated using the VaR technique as follows (presented in negative value):

	2018	2017
Financial assets at fair value through profit or loss		
Equity shares	**(9,174)**	(690)
Investment funds	**(2,686)**	—
Sub-total	**(11,860)**	(690)
Available-for-sale financial assets		
Equity shares	**(261,774)**	(106,610)
Investment funds	**(73,349)**	(14,150)
Sub-total	**(335,123)**	(120,760)
Total	**(346,983)**	(121,450)

(c) Liquidity risk

Liquidity risk is the risk that the Group fails to obtain sufficient capital to pay off its matured liabilities. During normal operating activities, the Group reduces liquidity risk through matching the maturity date of investment assets with that of financial liabilities and insurance liabilities.

The Group's relevant departments and the asset management company are responsible for managing and monitoring daily liquidity risks, including analysis of liquidity ratio, establishment of short-term and long-term investment strategy and setting up of a liquidity warning system to ensure liquidity safety.

The tables below summarise the remaining contractual maturity profile of the financial assets and financial liabilities, the expected timing of insurance contract liabilities and reinsurers' share of insurance contract liabilities of the Group based on undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(c) Liquidity risk (continued)

	31 December 2018					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
Assets:						
Cash and short-term time deposits	13,258,365	—	—	—	13,258,365	13,230,928
Debt securities carried at fair value through profit or loss	428,793	238,078	198,670	39,250	904,791	894,638
Equity securities carried at fair value through profit or loss	9,831,076	—	—	—	9,831,076	9,831,076
Derivatitve financial instruments	175,403	—	—	—	175,403	175,403
Financial assets held under resale agreements	2,597,029	—	—	—	2,597,029	2,596,387
Premiums receivable	6,814,625	3,010,298	1,198,360	32,393	11,055,676	11,055,676
Reinsurance debtors	48,176,737	712,933	719,201	39,395	49,648,266	49,648,266
Reinsurers' share of insurance contract liabilities	7,229,520	4,016,925	2,834,226	821,133	14,901,804	14,890,956
Time deposits	4,132,466	—	339,802	—	4,472,268	4,408,928
Available-for-sale fixed maturity investments	6,465,536	9,257,993	41,059,741	16,740,991	73,524,261	64,611,136
Available-for-sale equity securities	27,368,510	—	—	—	27,368,510	27,368,510
Held-to-maturity investments	2,537,795	4,781,539	18,388,162	22,438,012	48,145,508	35,897,556
Investments classified as loans and receivables	5,583,046	6,858,662	19,282,058	26,644,800	58,368,566	41,065,284
Reinsurers' share of policy loans	454,775	—	—	—	454,775	454,775
Investment contracts receivable	2,831,865	—	—	—	2,831,865	2,831,865
Statutory deposits	5,073,902	8,452,506	3,956,794	—	17,483,202	16,073,184
Other financial assets	6,536,977	304,183	(669,484)	54,798,881	60,970,557	8,523,544
Total	149,496,420	37,633,117	87,307,530	121,554,855	395,991,922	303,558,112
Liabilities:						
Short-term borrowings	529,618	—	—	—	529,618	521,569
Securities sold under agreements to repurchase	14,199,777	—	—	—	14,199,777	14,193,976
Reinsurance payables	11,852,437	631,465	313,214	132,409	12,929,525	12,929,525
Income tax payable	444,972	—	—	—	444,972	444,972
Policyholders' deposits	1,780,034	166,532	—	—	1,946,566	1,946,566
Investment contract liabilities	288,372	(432,513)	(2,942,839)	398,410,695	395,323,715	15,809,209
Insurance contract liabilities	63,414,489	27,315,847	56,514,186	50,589,879	197,834,401	168,731,390
Notes and bonds payable	573,237	773,765	11,911,228	11,434,000	24,692,230	19,192,123
Long-term borrowings	168,124	168,124	4,081,479	—	4,417,727	3,577,107
Other financial liabilities	8,788,285	295,293	1,690,282	5,600,318	16,374,178	12,909,716
Total	102,039,345	28,918,513	71,567,550	466,167,301	668,692,709	250,256,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(c) Liquidity risk (continued)

	31 December 2017					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
Assets:						
Cash and short-term time deposits	10,772,051	—	—	—	10,772,051	10,753,859
Debt securities carried at fair value through profit or loss	210,613	110	6,649	8,864	226,236	227,488
Equity securities carried at fair value through profit or loss	6,979,125	—	—	—	6,979,125	6,979,125
Financial assets held under resale agreements	2,563,888	—	—	—	2,563,888	2,558,402
Premiums receivable	2,393,798	1,275,754	679,078	18,828	4,367,458	4,367,458
Reinsurance debtors	23,350,447	526,020	618,768	—	24,495,235	24,459,367
Reinsurers' share of insurance contract liabilities	2,809,313	472,538	1,016,991	465,519	4,764,361	4,880,801
Time deposits	4,986,579	5,294	325,304	—	5,317,177	5,239,747
Available-for-sale fixed maturity investments	3,972,039	5,494,072	31,159,849	15,531,277	56,157,237	44,865,831
Available-for-sale equity securities	34,082,497	—	—	—	34,082,497	34,082,497
Held-to-maturity investments	824,099	2,598,983	11,773,202	22,101,268	37,297,552	25,982,685
Investments classified as loans and receivables	3,600,120	5,148,186	12,664,852	28,482,146	49,895,304	32,871,394
Reinsurers' share of policy loans	419,502	—	—	—	419,502	419,502
Investment contracts receivable	851,538	—	—	—	851,538	851,538
Statutory deposits	3,026,918	4,083,422	8,613,961	—	15,724,301	14,561,460
Other financial assets	4,491,248	238,166	496,185	748,003	5,973,602	5,612,593
Total	105,333,775	19,842,545	67,354,839	67,355,905	259,887,064	218,713,747
Liabilities:						
Derivative financial instruments	47,608	—	—	—	47,608	47,608
Securities sold under agreements to repurchase	7,721,367	—	—	—	7,721,367	7,710,503
Reinsurance payables	11,677,054	118,106	79,795	—	11,874,955	11,874,955
Income tax payable	483,742	—	—	—	483,742	483,742
Policyholders' deposits	1,381,240	286,836	1,090	—	1,669,166	1,669,166
Investment contract liabilities	1,597,827	1,592,071	6,067,563	8,626,378	17,883,839	12,946,807
Insurance contract liabilities	45,857,228	12,168,143	33,780,592	32,732,062	124,538,025	108,126,306
Notes and bonds payable	227,880	330,794	10,628,284	—	11,186,958	9,679,806
Other financial liabilities	8,160,756	644,715	754,299	5,780,201	15,339,971	11,741,800
Total	77,154,702	15,140,665	51,311,623	47,138,641	190,745,631	164,280,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

55 RISK MANAGEMENT (continued)

(2) Financial risk (continued)

(c) Liquidity risk (continued)

The amounts set forth in the tables above for financial assets, borrowings, notes and bonds payable, securities sold under agreements to repurchase, and benefits claims and surrenders payable are undiscounted contractual cash flows. The amounts for insurance and investment contracts in each column are the cash flows representing expected future benefit payments taking into consideration of future premiums payments or deposits from policyholders. The results of above estimates are affected by a number of assumptions. The estimate is subject to assumptions related to mortality, morbidity, lapse rates, loss ratio, expenses and other assumptions. Actual experience may differ from estimates. The excess cash inflow from matured financial assets will be reinvested to cover any future liquidity exposures.

56 FAIR VALUE MEASUREMENT

(1) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following tables present the fair value of the Group's financial instruments measured at 31 December 2018 on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
— Fixed maturity investment	894,638	894,638	—	—
— Equity securities	9,831,076	4,986,302	3,925,039	919,735
Available-for-sale financial assets				
— Fixed maturity investment	64,611,136	1,172,181	62,609,394	829,561
— Equity securities	27,368,510	15,721,933	94,123	11,552,454
Derivative financial instruments	175,403	—	—	175,403
Total	102,880,763	22,775,054	66,628,556	13,477,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

56 FAIR VALUE MEASUREMENT (continued)

(1) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss				
— Fixed maturity investment	227,488	208,121	19,367	—
— Equity securities	6,979,125	2,371,320	3,814,394	793,411
Available-for-sale financial assets				
— Fixed maturity investment	44,865,831	—	44,065,831	800,000
— Equity securities	34,082,497	22,983,429	434,529	10,664,539
Total	86,154,941	25,562,870	48,334,121	12,257,950
Liabilities				
Derivative financial instruments	47,608	—	47,608	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

56 FAIR VALUE MEASUREMENT (continued)

(1) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

Reconciliation of movements in Level 3 financial instruments measured at fair value

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments
At 1 January 2018	11,464,539	793,411	—
Acquisition of subsidiaries	15,546	—	—
Transferred from Level 2	—	—	(47,608)
Additions	343,195	—	—
Change in profit or loss/equity	558,735	126,324	223,011
At 31 December 2018	12,382,015	919,735	175,403

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments
At 1 January 2017	4,378,236	37,691	—
Additions	6,777,265	675,640	—
Expirations	(160,000)	—	—
Change in profit or loss/equity	469,038	80,080	—
At 31 December 2017	11,464,539	793,411	—

Valuation techniques and inputs used in Level 2 fair value measurements

As at 31 December 2018, most of the prices of debt securities obtained from the valuation service providers are issued by the Chinese government and state-owned organisations. These valuation service providers utilise a discounted cash flow valuation model using observable market parameters, mainly interest rate, to determine a fair value.

Due to changes in availability of quoted prices in active markets, the Group transferred certain securities between Level 1 and Level 2. As at 31 December 2018, the Group did not transfer securities from Level 1 to Level 2 (31 December 2017: RMB781 million) and did not transfer securities from Level 2 to Level 1 (31 December 2017: RMB8 million).

As at 31 December 2018, the Group transferred certain securities of RMB48 million (31 December 2017: Nil) from Level 2 to Level 3. Transfer from Level 2 to Level 3 is due to change of valuation method for derivative financial instruments previously quoted by the issuing bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

56 FAIR VALUE MEASUREMENT (continued)

(1) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

For derivative instruments, investment funds, unlisted equity share, etc., held by the Group, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value. The valuation techniques include discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

31 December 2018	**Fair value**
Derivative financial instruments	**401,763**
Investment funds	**4,681,900**
Unlisted equity shares	**6,412,652**
Others	**1,980,838**

The unobservable inputs which may have impact on the valuation include credit premium, valuation multiples of comparable companies, etc.

Critical unobservable inputs	**Impacts on fair value measurements**
Credit premium	The higher of credit premium, the lower the fair value
Valuation multiples of comparable companies	The higher of valuation multiples, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

56 FAIR VALUE MEASUREMENT (continued)

(2) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	31 December 2018		**31 December 2018 The fair value hierarchy**		
	carrying amount	**fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Held-to-maturity investments	**35,897,556**	**37,668,256**	**—**	**37,668,256**	**—**
Liabilities					
Notes and bonds payable	**19,192,123**	**18,774,596**	**—**	**18,774,596**	**—**

	31 December 2017		31 December 2017 The fair value hierarchy		
	carrying amount	fair value	Level 1	Level 2	Level 3
Assets					
Held-to-maturity investments	25,982,685	25,797,826	—	25,797,826	—
Liabilities					
Notes and bonds payable	9,679,806	9,676,922	—	9,676,922	—

The fair values of the financial assets included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The fair values of investments classified as loans and receivables are considered approximate to their carrying values recognised in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

57 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to focus on the balance between risk and profit, to ensure that the Group meets the external capital requirements and maintains a sound solvency margin ratio to support its business development and maximise profit for shareholders, by pricing products and services commensurately with the level of risk and by accessing to finance at a reasonable cost.

The Group regularly reviews and manages its capital structure to achieve the most ideal capital structure and maximum returns to the shareholders. Factors taken into consideration include future capital requirement, capital efficiency, actual and expected profitability, expected cash flows and expected capital expenditure of the Group. The Group makes adjustments to the capital structure in light of changes in economic conditions.

The Group has formally implemented China Risk Oriented Solvency System since 1 January 2016 by reference to the 'Notice on the Formal Implementation of China Risk Oriented Solvency System by CIRC'. The Group adjusted the objective, policy and process of capital management. As at 31 December 2018, the solvency information of the company and its major subsidiaries is as follows:

(in RMB millions, except for percentages)

31 December 2018	Actual capital	Minimum capital	Core solvency adequacy ratio	Aggregated solvency adequacy ratio
The Group	75,373	40,946	162%	184%
The Company	56,761	13,639	416%	416%
China Re P&C	22,607	10,429	178%	217%
China Re Life	22,018	10,278	166%	214%
China Continent Insurance	24,392	5,626	434%	434%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

58 SIGNIFICANT RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Ultimate parent

The immediate parent of the Company is Central Huijin Investment Ltd. and the ultimate parent of the Company is the Ministry of Finance of the PRC.

(2) Significant related parties

Name of significant related party	Relationship with the Company
China Everbright Bank	Associate

(3) Transactions with related parties except for key management personnel

(a) Significant related-party transactions between the Group and associates are as follows:

	2018	2017
Interest income	78,105	91,853
Premium income	1,997	4,495
Claims payments	432,630	165,442
Fees and commissions	282	100

During the year ended 31 December 2018, the Group received the dividends from China Everbright Bank of RMB419,899 thousand(the year ended 2017, RMB225,716 thousand).

(b) The balances of significant related-party transactions between the Group and associates are as follows:

	31 December 2018	31 December 2017
Cash and short-term time deposits	353,961	111,745
Time deposits	80,025	15,000
Statutory deposits	826,157	414,433
Interest receivables	88,643	70,264
Debt investments	999,015	998,955
Premiums receivable	—	645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

58 SIGNIFICANT RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(4) Key management personnel remuneration:

	2018	2017
Salaries, allowances and benefits in kind	**6,994**	7,510
Discretionary bonuses	**6,122**	11,286
Employer's contribution to a retirement benefit scheme	**838**	871
Total	**13,954**	19,667

The total compensation package for the Company's key management personnel for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the relevant PRC authorities, and will be disclosed when determined. The compensation amounts disclosed above for the Company's key management personnel for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018.

(5) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). The Group's key business is primary insurance and reinsurance related business and therefore the business transactions with other state-owned entities are primarily related to insurance, reinsurance and investment activities, including but not limited to insurance, reinsurance, provision of asset management or other services, and the sale, purchase, and redemption of bonds or equity instruments.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

As at the 31 December 2018, most of bank deposits of the Group were with state-owned banks, and the issuers of corporate bonds and subordinated bonds held by the Group were mainly state-owned enterprises (31 December 2017: same). For the year ended 31 December 2018, a large portion of its reinsurance business of the Group was with state-owned insurance companies (the year ended 31 December 2017: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

59 CONTINGENCIES

As at 31 December 2018, the Group has issued the following guarantees:

(1) As at 31 December 2018, the Company provided maritime guarantee of RMB2,514 million (31 December 2017: RMB2,313 million) for domestic and overseas ship mutual insurance associations or overseas insurance institutions which provided 100% of counter guarantee for the aforesaid maritime guarantee.

(2) As at 31 December 2018, the Company provided letter of credit to Lloyd's to support China Re Syndicate 2088's underwriting business of GBP 100 million (31 December 2017: GBP 125 million). As at 31 December 2018, HIIH provided letter of credit to Lloyd's to support Syndicate 1084's and Syndicate 1176's underwriting business of GBP 275 million.

60 COMMITMENTS

(1) Capital commitments

	31 December 2018	31 December 2017
Contracted for		
— Intangible assets commitments	**48,494**	48,539
— Investment properties commitments	**1,901,199**	—
— Property and equipment commitments	**14,355**	16,817
— Investment commitments	**844,025**	808,320
Total	**2,808,073**	873,676

(2) Operating lease commitments

The Group leases certain of its office properties and office equipment under operating lease arrangements.

The total future minimum lease payments under non-cancellable operating leases are summarised as follows:

	31 December 2018	31 December 2017
Within 1 year	**411,539**	311,634
1 to 2 years	**320,085**	229,752
2 to 3 years	**220,736**	157,741
3 to 5 years	**150,687**	98,466
Over 5 years	**191,777**	144,176
Total	**1,294,824**	941,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

61 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

(1) Company-level statement of financial position

	31 December 2018	31 December 2017
Assets		
Cash and short-term time deposits	**1,454,301**	3,089,146
Financial assets at fair value through profit or loss	**63,258**	488,095
Financial assets held under resale agreements	**6,500**	—
Reinsurance debtors	**18,806,556**	1,145,440
Reinsurers' share of unearned premium reserves	**664**	1,927
Reinsurers' share of outstanding claim reserves	**71,332**	101,886
Time deposits	**753,949**	157,461
Available-for-sale financial assets	**9,914,288**	11,943,064
Held-to-maturity investments	**979,992**	978,753
Reinsurers' share of policy loans	**42,459**	44,661
Long-term equity investments	**40,029,265**	36,686,213
Statutory deposits	**8,500,000**	8,500,000
Investment properties	**1,034,949**	1,022,265
Fixed assets	**362,369**	373,891
Intangible assets	**26,707**	16,618
Deferred tax assets	**33,110**	10,486
Other assets	**2,116,980**	2,224,154
Total assets	**84,196,679**	66,784,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

61 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (continued)

(1) Company-level statement of financial position (continued)

	31 December 2018	31 December 2017
Liabilities and equity		
Liabilities		
Securities sold under agreements to repurchase	**405,000**	370,000
Reinsurance payables	**290,899**	310,466
Employee benefits payable	**382,196**	387,251
Taxes payable	**1,741**	87,652
Policyholder's deposits and investments	**639,528**	870,041
Unearned premium reserves	**297,667**	255,995
Outstanding claim reserves	**3,306,746**	4,198,028
Life insurance reserves	**18,134,823**	—
Long-term health insurance reserves	**1,997,922**	1,950,489
Deferred tax liabilities	**721,635**	478,512
Other liabilities	**512,400**	758,789
Total liabilities	**26,690,557**	9,667,223
Equity		
Share capital	**42,479,808**	42,479,808
Capital reserves	**7,047,275**	7,060,795
Other comprehensive income	**288,980**	24,851
Surplus reserve	**2,047,856**	1,819,428
General risk reserve	**2,047,856**	1,819,428
Retained earnings	**3,594,347**	3,912,527
Total equity	**57,506,122**	57,116,837
Total liabilities and equity	**84,196,679**	66,784,060

The company-level statement of financial position was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

Yuan Linjiang
Director

He Chunlei
Director

Zhao Wei
Vice President, responsible for accounting

Tian Meipan
Chief Actuary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

61 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (continued)

(2) Company-level statement of changes in equity

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total equity
Balance at 31 December 2017	42,479,808	7,060,795	24,851	1,819,428	1,819,428	3,912,527	57,116,837
Impact of change in accounting policy in associates	—	—	25,645	—	—	(106,580)	(80,935)
Restated total equity as at 1 January 2018	**42,479,808**	**7,060,795**	**50,496**	**1,819,428**	**1,819,428**	**3,805,947**	**57,035,902**
1.Total comprehensive income							
Net profit	—	—	—	—	—	**2,284,287**	**2,284,287**
Other comprehensive income	—	—	**238,484**	—	—	—	**238,484**
2.Appropriation of profits							
Distributions to shareholders	—	—	—	—	—	**(2,039,031)**	**(2,039,031)**
Appropriation for surplus reserve	—	—	—	**228,428**	—	**(228,428)**	—
Appropriation for general risk reserve	—	—	—	—	**228,428**	**(228,428)**	—
3.Other	—	**(13,520)**	—	—	—	—	**(13,520)**
Balance at 31 December 2018	**42,479,808**	**7,047,275**	**288,980**	**2,047,856**	**2,047,856**	**3,594,347**	**57,506,122**
Balance at 1 January 2017	42,479,808	7,104,456	214,602	1,466,648	1,466,648	3,129,326	55,861,488
Changes in equity for the year							
1.Total comprehensive income							
Net profit	—	—	—	—	—	3,527,792	3,527,792
Other comprehensive income	—	—	(189,751)	—	—	—	(189,751)
2.Appropriation of profits							
Distributions to shareholders	—	—	—	—	—	(2,039,031)	(2,039,031)
Appropriation for surplus reserve	—	—	—	352,780	—	(352,780)	—
Appropriation for general risk reserve	—	—	—	—	352,780	(352,780)	—
3.Other	—	(43,661)	—	—	—	—	(43,661)
Balance at 31 December 2017	42,479,808	7,060,795	24,851	1,819,428	1,819,428	3,912,527	57,116,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

61 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (continued)

(2) Company-level statement of changes in equity (continued)

For the year ended 31 December 2018, the statement of financial position and statement of changes in equity of the Company disclosed in this note are prepared in accordance with People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP"), the primary accounting standard for the Company to determine the amount of retained earnings available for distribution. In preparation of these, the Company's investment in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

There is no material difference in recognition and measurement between PRC GAAP and the significant accounting policies as disclosed in note 2. The statement of financial position of the Company as at 31 December 2017 and the statement of changes in equity for the year then ended prepared in accordance with IFRS have no difference in total assets, liabilities, equity and retained earnings from those prepared in accordance with PRC GAAP as presented above.

62 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

(1) Dividends

On 28 March 2019, the Board of Directors of the Company proposed a final dividend of RMB0.031 per ordinary share (tax inclusive) and is subject to the approval of shareholders of the Company at the 2018 annual general meeting.

(2) Business combinations

On 14 February 2019, the Group has completed its 100% equity acquisition of Chaucer Insurance Company Designated Activity Company ("CIC"). The acquisition date is 14 February 2019, and from then the Group actually obtain the control right of CIC. The above acquisition consideration is USD27,761,138, paid in cash. The financial statements of CIC will be incorporated into the consolidated financial statements of the Group since then.

As at the reporting date, the Group has not completed the relative accounting treatment of the above acquired company.

63 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentations in current period.

64 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.

"Articles of Association"	the articles of association of our Company as adopted at our shareholders' meeting held on 26 June 2015, 24 October 2017, 28 June 2018 and approved by the CBIRC on 9 July 2015, 2 March 2016 and 16 January 2019
"Belt and Road Initiative"	Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road issued by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the PRC on 28 March 2015
"Board of Directors" or "Board"	the board of directors of our Company
"Board of Supervisors"	the board of supervisors of our Company
"C-ROSS"	China Risk Oriented Solvency System, which is China's second generation insurance solvency regulation system
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
"Central Huijin"	Central Huijin Investment Ltd.
"Chaucer"	The collective name of HIIH, CIC and HAH
"China" or "PRC"	the People's Republic of China and, for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" or the "PRC" do not include Hong Kong, Macau and Taiwan
"China Continent Insurance"	China Continent Property & Casualty Insurance Company Ltd. (中國大地財產保險股份有限公司), a subsidiary of the Company incorporated in the PRC on 15 October 2003. Prior to the approval from the CBIRC for its change of registered capital on 25 June 2018, the Company holds 93.18% of its shares, after the aforesaid approval, the Company holds 64.30% of its shares
"China Re AMC"	China Re Asset Management Company Ltd. (中再資產管理股份有限公司), a subsidiary of the Company incorporated in the PRC on 18 February 2005. The Company holds 70% of its shares, and China Re P&C, China Re Life and China Continent Insurance hold 10% of its shares respectively
"China Re AMC HK"	China Re Asset Management (Hong Kong) Company Ltd. (中再資產管理（香港）有限公司) , a subsidiary of China Re AMC incorporated in Hong Kong on 22 January 2015
"China Re Life"	China Life Reinsurance Company Ltd. (中國人壽再保險有限責任公司), a wholly-owned subsidiary of the Company incorporated in the PRC on 16 December 2003

DEFINITIONS

"China Re P&C"	China Property and Casualty Reinsurance Company Ltd. (中國財產再保險有限責任公司), a wholly-owned subsidiary of the Company incorporated in the PRC on 15 December 2003
"China Re Syndicate 2088"	the syndicate established at Lloyd's in December 2011 by the Company through China Re UK
"China Re UK"	China Re UK Limited, a wholly-owned subsidiary of the Company incorporated in England and Wales on 28 September 2011
"CIC"	Chaucer Insurance Company Designated Activity Company, a company registered in the Republic of Ireland
"former CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會), the functions of which have been incorporated into the CBIRC
"CNIP"	China Nuclear Insurance Pool. CNIP was established in 1999 and the Group Company has been the management institution and chairman company of CNIP from its establishment date to November 2016. Starting from November 2016, the management institution of CNIP changed from the Group Company to China Re P&C
"Company" or "Group Company"	China Reinsurance (Group) Corporation (中國再保險（集團）股份有限公司)
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"Group", "China Re Group" or "we"	our Company and its subsidiaries (except where the context requires otherwise)
"HAH"	Hanover Australia HoldCo Pty Ltd, a company registered in Australia
"HIIH"	The Hanover Insurance International Holdings Limited, a company registered in England and Wales, which was renamed to China Re International Holdings Limited on 6 March 2019
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huatai Insurance Agency"	Huatai Insurance Agency and Consultant Service Limited (華泰保險經紀有限公司), a subsidiary of the Company incorporated in the PRC on 1 March 1993
"Latest Practicable Date"	12 April 2019, being the latest practicable date for the inclusion of certain information in this annual report prior to its publication
"Listing Date"	26 October 2015, being the date on which the H shares of the Company became listed on the Hong Kong Stock Exchange
"Lloyd's"	the Society of Lloyd's, a global leading specialised P&C and liability insurance market
"Ministry of Finance"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"Model Code for Securities Transactions"	the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Hong Kong Listing Rules
"NAO"	the National Audit Office of the PRC
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People's Congress of the PRC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"PRC Insurance Law"	the Insurance Law of the PRC (《中華人民共和國保險法》), as enacted by the Standing Committee of the Eighth National People's Congress of the PRC on 30 June 1995 and effective on 1 October 1995, as amended, supplemented or otherwise modified from time to time
"Prospectus"	the prospectus of the Company dated 13 October 2015
"Reporting Period"	since 1 January 2018 until 31 December 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) of Hong Kong
"Supervisor(s)"	the supervisor(s) of the Company

CORPORATE INFORMATION

REGISTERED NAMES

Legal Chinese name: 中國再保險（集團）股份有限公司
Chinese abbreviation: 中再集團
Legal English name: China Reinsurance (Group) Corporation
English abbreviation: China Re

REGISTERED OFFICE AND HEADQUARTERS

No. 11 Jinrong Avenue, Xicheng District, Beijing, the PRC
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PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited

CLASS OF SHARES

H shares

STOCK NAME

China Re

STOCK CODE

1508

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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INVESTOR RELATIONS DEPARTMENT

Office of the Board of Directors
Telephone: (8610) 66576880
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LEGAL REPRESENTATIVE

Mr. Yuan Linjiang

SECRETARY TO THE BOARD

Ms. Zhu Xiaoyun

AUTHORISED REPRESENTATIVES

Mr. He Chunlei
Ms. Ng Sau Mei

JOINT COMPANY SECRETARIES

Ms. Zhu Xiaoyun
Ms. Ng Sau Mei

AUDITORS

Domestic auditor:
PricewaterhouseCoopers Zhong Tian LLP

Overseas auditor:
PricewaterhouseCoopers

ACTUARIAL CONSULTANT

Ernst & Young (China) Advisory Limited

HONG KONG LEGAL ADVISER

Clifford Chance

UNIFIED SOCIAL CREDIT CODE

9110000010002371XD

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Empower your insurance by expertise

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