中国人民保险集团股份有限公司
THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED

H Share Stock Code : 1339

Annual Report **2018**

PICC 70

1949 - 2019

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Company Profile

The Company is the first nation-wide insurance company in the People's Republic of China (the "PRC"), established in October 1949, and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking the 117th in the List of Fortune Global 500 (2018) published by the Fortune magazine.

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

The Company's principal competitive strengths include:

★ We are the first nation-wide insurance company of the PRC, the pioneer and trailblazer of the PRC insurance industry, possessing a well-recognized brand with the longest history in the industry;

★ We are an integrated insurance financial group focusing on our core business and insist on the development strategy of customer-oriented to achieve co-development of various business segments;

★ We have diversified institutions and service network based in cities and towns and spread over the country, as well as extensive and solid customer base, contributing to our ability to seize the tremendous opportunities on the potential market of medium- and small-sized cities and counties;

★ We have an internationally first-class and Asia's leading P&C insurance company with obvious advantages in scale, cost and service as well as outstanding profitability;

★ We have a life insurance company with a layout throughout the country, rapid growth, continuous profitability and sound operating platform as well as with great potentials in business transformation and value creation;

★ We have the first nation-wide professional health insurance company to actively seize the development opportunity and create a featured healthy endowment ecosystem;

★ We have an industry-leading asset management platform characterized by steady investment and proven performance;

★ We serve for people's livelihood, safeguard the economy, fulfill social responsibilities, grasp policy opportunities and explore new business model with an overall plan;

★ We have advanced and applicable information technology to define a layout in technological finance area, and have outstanding ability and potential advantages in data mining, customer migration and value recreation;

★ We have shareholders offering continuous and strong support, an experienced and insightful management team and a high-calibre professional staff team.

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Indicators for Financial Highlights And Operating Highlights

Unit: in RMB million, except for percentages

Indicators	**2018**	2017	% change	2016	2015	2014
Group consolidation						
Total assets	**1,031,635**	987,906	4.4	932,149	843,468	782,221
Total liabilities	**825,334**	801,025	3.0	761,155	686,273	656,644
Total equity	**206,301**	186,881	10.4	170,994	157,195	125,577
Gross written premiums	**498,608**	476,447	4.7	439,874	388,387	349,169
Net profit	**18,715**	23,051	-18.8	20,681	27,665	18,715
Net profit attributable to equity holders of the Company	**12,912**	16,099	-19.8	14,245	19,542	13,109
Earnings per share (RMB)[1]	**0.30**	0.38	-20.1	0.34	0.46	0.31
Net asset value per share (RMB)[1]	**3.46**	3.24	6.8	2.97	2.74	2.18
Weighted average return on equity (%)	**9.0**	12.2	Decrease of 3.2 pt	11.8	18.7	16.0

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

Mr. Miao Jianmin
Chairman

Dear shareholders,

The year 2018 was an important one for PICC Group, as it marked the beginning of our journey into a new era. During the year, we heeded the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and its keynote of seeking progress whilst maintaining stability. We implemented new concepts such as the Group's "3411 Project" for transition to high-quality development. In a complex and changing external environment, we emphasized stability whilst maintaining a steady pace of progress, creating a favorable situation for hard-won reform and development achievements.

Firstly, the business development remained stable and positive. The Group maintained a steady growth momentum despite severe industry conditions which have led to a general slowdown. In 2018, the Group's turnover exceeded RMB500 billion, reaching RMB503.799 billion, and gross written premiums ("GWPs") were RMB498.608 billion, representing a 4.7% increase compared to the corresponding period in the previous year, which was higher than the market growth rate. PICC P&C achieved GWPs of RMB388.769 billion, representing a 11.0% increase compared to the corresponding period in the previous year, ranked first in the incremental premium market, and held a market share of 33.0%. PICC Life achieved GWPs of RMB93.727 billion, while PICC Health achieved GWPs of RMB14.798 billion. The emerging segment business grew rapidly. The PICC Financial Services and related project companies achieved a turnover of RMB680 million, a figure more than four times greater than that of the previous year. The inward business of PICC Reinsurance recorded RMB4.89 billion, and the Group's external reinsurance increased by 169% from the corresponding period in the previous year. PICC Pension won 32 bids as the investment manager for corporate annuities projects, with a tendering success rate of 72.7%.

Secondly, we continued to improve the quality of our development. While putting quality and efficiency first, the Group accelerated its transformation and development, promoted the optimization of its business structure and strengthened its profitability. Profit before tax was RMB27.058 billion and net profit was RMB18.715 billion. PICC P&C achieved a net profit of RMB15.486 billion, with a combined ratio that led the industry. Non-motor vehicle insurance grew by 29% compared to the corresponding period in the previous year, and central cities' market share fell by 0.5 percentage points from the previous year. PICC Life achieved RMB16.91 billion in first-year TWPs of regular premiums, of which the first-year TWPs of regular premiums of 10 years and above was RMB4.49 billion – leading industry peers in terms of growth rate. Net profit increased by 11.6% compared to the corresponding period of the previous year. The first-year regular premiums of PICC Health increased by 152.2% compared to the corresponding period of the previous year, and health management business revenue increased by 157.9% compared to the corresponding period of the previous year – the third consecutive year of profit. The Group's total investment yield was 4.8%, higher than average level of the industry.

Thirdly, we continued the process of transformation and development. The Group continued to optimize its high-quality development, implemented the vital "3411 Project", launched core projects relating to development of the whole region, and began to solve certain deep-seated contradictions which had accumulated over a long period of time. We strengthened top-level innovation and development and formulated and implemented strategies for digital and innovation-driven development – the effectiveness of innovation and development has begun to emerge in each business unit. Membership in the PICC V Alliance has increased to 1.87 million, and the premium was RMB7.2 billion. The mobile billing rate of PICC Life's sales personnel increased from 60.3% to 94.6% during the course of the year. Registered users of the "PICC Health" app reached 2.39 million, with 80.34 million people receiving health management services. The comprehensive loss on the Jiaanpei auto parts platform was reduced by RMB140 million. We also promoted the development of integrated construction, an implementation plan for integrated strategy, built integrated comprehensive development teams in Shanghai, Guangzhou, Shenzhen and other central cities, and promoted the application of the "PICC e-Tong" mobile sales platform. Through business collaboration, the Group grew its main insurance industry business's premium of RMB12.94 billion.

Fourthly, we increased emphasis on fast-but-stable reform. The Group was heavily reliant on reform and innovation as the prime driving forces of development. Accordingly, it worked diligently to overcome certain contradictions which had impaired its development. We implemented essential elements of central organizational reform, completed reforms at the Group's headquarters, effected the "three determinations", and vigorously promoted changes to the functions, processes and approach of the Group's headquarters as well as its subsidiaries. We instituted market-oriented reforms, accelerating the reform of management, operations and performance evaluations. We established a constraint mechanism for market-oriented and differentiated incentives, and stimulated enthusiasm throughout the system for a transition to high-quality development. We considered the direction of specialization reform, promoted comprehensive reform at PICC Health and the property management company under PICC Investment Holding, and enabled China Credit Trust to strengthen professional construction while focusing on its main trust business.

Fifthly, we continued to improve our effectiveness in serving the real economy. The Group's commitment to alleviating poverty saw it launch "deep poverty insurance" in 58 counties in 11 provinces. The industry's first "Government Poverty Alleviation Insurance", this exclusive product was designed to provide risk protection of RMB185.7 billion to poor households and specific populations. As a result of its role in promoting rural revitalization, the Group achieved RMB 26.72 billion in gross written premiums from agricultural insurance, representing a 21% increase compared to the corresponding period the previous year. To further support the development of the real economy, we introduced the first major technological equipment insurance, covering a risk liability amount of RMB79.8 billion. The "inclusive finance, supporting agriculture and small enterprises" business now covers 30 provincial-level institutions, 162 cities and 154 counties across the country. We have made innovations in green insurance and financing services, with environmental pollution liability insurance covering 31 provinces (regions and cities). In its service to China's social security system, the Group underwrote 2,009 policy-guided medical insurance projects covering 315 cities and 740 million people in 30 provinces. Among these were 329 critical illness insurance business projects whose service scope encompassed 28 provinces, 256 cities and 491 million people. To protect "Belt and Road" construction, the Group undertook international business risk liability of RMB11 trillion, covering more than 150 countries and regions overseas.

Sixthly, we continue to strengthen our prevention and control of risk. The Group implemented regulatory requirements, the deployment of the CBIRC and chaotic rectification requirements of the insurance market, and took the lead in implementing "integration of implementation and execution" regulations on motor vehicle insurance. We strove to take a leading role in the industry to continuously improve institutional mechanisms as well as revising the Group's basic policies in risk management, improving its risk management information system, strengthening its risk performance assessment, and establishing a model for risk monitoring, prevention and control evaluation as a standard system for 99 provincial institutions. By strengthening key features of our risk management and control, we successfully completed renewal of the Group's subordinated debts and life insurance when due, effectively preventing a cash flow risk. We increased credit risk prevention and control, developed a unified credit rating management system, strictly managed counterparties, compiled a "white list" for banking and securities industries, and launched a comprehensive investigation of counterparties.

At present, China's insurance industry is facing challenges that never previously existed during the past 40 years of reform. It must contend with drastic changes based on coexistence of challenges and opportunities, and complex situations in which the macroeconomic cycle, the cycle of technological change and the industry's "new cycle" all overlap. However, the basis and conditions for turning challenges into opportunities remain, and it is still an important time for strategic opportunities. From a macroeconomic perspective, China is transitioning from high-speed development to high-quality development. In the process of economic transformation into the L-shaped curve, external forces that traditionally promoted growth in the insurance industry have weakened. However, China has the largest middle-income population in the world, as well as the world's largest ageing population, which will spur profound change in the structures of consumption and financial asset allocation and create the economic basis for opportunity in the insurance industry. From the perspective of technological trends, few industries have experienced such rapid subversion as the insurance industry. Many fast-evolving technologies are impacting the insurance industry in unexpected ways. However, looking at the situation from a historical perspective, the insurance industry has frequently changed with the times in the past, even to the extent of transforming its product structure and development form. The current technological revolutions will also inject new energy into the industry, create and expand new risk management needs, and provide technical support for the industry. Challenges will be turned into opportunities. From the perspective of the overall industry, the current environment of weakening external power and changing regulatory policy has made its original development model difficult to sustain. Strict regulation of market behavior and the implementation of market-oriented premium rates will bring a more consistent, fair and transparent competitive environment and create the institutional basis for the long-term development of a healthy insurance industry. As we face profound changes to the economic and financial situation, we will remain committed to our new development concept, the principle of seeking progress whilst maintaining stability, and serving the real economy in accordance with the requirements for high-quality development. We will promote steady growth and stable profits, drive reform and cost reductions, and improve risk prevention while focusing on the Group's "3411 Project". We will devote great effort to business model reform, strengthening the corporate governance structure, increasing market-oriented reforms, and increasing revenue, reducing costs and boosting efficiency. We will improve the quality of our human capital, strengthening the leadership and building of the Party, promoting quality change, efficiency reform and dynamic change, and solidly promote the Group's transition to high-quality development while creating more value for shareholders.

We will fully grasp the business model to strengthen benchmarking and transition to high quality development. It is an important task for the Group and its subsidiaries to adapt their business models to the latest economic, social and industry developments. To do so, we will use advanced benchmarking techniques and accelerate the transformation of traditional development modes. At Group level, we will focus on risk and wealth management, promoting the transition from extensional expansion and extensive management to connotative development and intensive management. At the subsidiary level, we are committed to advanced benchmarking which will enable us to identify deficiencies in our business models, address these weaknesses and shortcomings, expand the advantages, create a clear direction of transformation and achieve reform in business models.

We will identify and solve major contradictions and put the "4 major strategies" into practice. We will put concerted effort into key areas such as implementing the Group's new IT structure, upgrading the core business system and promoting the integrated marketing service system to drive the implementation of the "4 major strategies". On the principle of "urgency first", we will accelerate the implementation of projects that are urgently needed at the grassroots level, such as the Group's unified customer resource platform, mobile tools for expanding business, network comprehensive services, commission settlement and others, to facilitate an expansion of business and a consistently enhanced customer service experience. We will undertake this transformation in a fast but controlled manner, promoting the post-insurance market ecosystem, international strategy and other long-term projects.

We will coordinate the development of cities and counties, and consolidate and enhance the competitiveness of regional markets. We will strengthen the "two integrations"; that is, an urban market focusing on "integrating technological change and business model transformation", and a county market focusing on "integrating policy-based and commercial business". We are committed to cultivating a P&C insurance marketing culture, making innovation in building its marketing teams, including the exploration of innovative means in terms of management, incentives, and training mode for setting up a sales teams focusing on personal life insurance. The key will be to strengthen coordination and mutual assistance, continue to promote the pilot project of comprehensive expansion in central cities, and explore new ways to integrate network sharing and team building in county markets.

We will strengthen corporate governance, refine concepts and methods, and maintain a bottom line of no systemic risk. We will continue to strengthen our corporate governance, establishing a centralized, integrated, efficient and collaborative structure at Group level and adapting such to the characteristics of subsidiaries as independent entities. We will establish a rational and effective power balance mechanism among the board of directors, the board of supervisors and management, as well as a rationalized internal control system which will optimize risk management and internal control compliance. We will strive to look forward and understand the market situation with greater acuity, commensurately strengthening infrastructure, updating risk control measures, and enhancing risk management initiative. Ideologically, we will approach risk control and compliance from the political view of maintaining financial security, and enhancing the effectiveness of legal compliance management.

We will keep our mission foremost in mind, taking responsibility to further develop the real economy and people's quality of life. We will provide in-depth services to support the rural revitalization strategy, the supply-side reform of agricultural insurance product services, and the improvement of insurance coverage for "agriculture, rural areas and farmers". We will work to alleviate poverty and associated tasks assigned by the central government, create innovative poverty alleviation insurance products and services, and help to build an affluent society. We will implement central government decisions for building a strong national manufacturing capacity, including the development of science and technology insurance. We will pursue the development of green insurance and invest in green projects. We will introduce innovative insurance and investment mechanisms with a focus on areas such as risk reduction, credit enhancement and capital raising, and support the development of private and small and micro enterprises. We will meet public expectations for medical and old-age care, contribute to improvement of the social security system, and accelerate the construction of a healthy pension industry chain.

Only by acknowledging historical trends and adapting to change can we keep pace with the times. I believe that with the hard work of management and employees, and with the support of our clients and shareholders, the Company will turn external pressures into an internal driving force for its transition to high-quality development. We can and will overcome the uncertainties of our external environment with our own initiative, utilize this period of strategic opportunity for the insurance industry, and create outstanding outcomes for our shareholders, our employees and our society.

Miao Jianmin
Chairman

Beijing, PRC
22 March 2019


荣誉证书
社会责任优秀案例奖
开发创新贡献奖
A.M. Best Company
The People's Insurance Company of China (Hong Kong), Limited

1. Ranked the 117th in the List of Fortune Global 500

   In August 2018, the Company ranked the 117th in the list of Fortune Global 500 published by the Fortune magazine in the US, 254 ranks higher than in the year 2010.

2. Ranked the 29th in the list of Top 500 Enterprises of China

   In August 2018, the Company ranked the 29th in the list of Top 500 Enterprises of China in 2018.

3. PICC P&C was awarded the "Insurance Company with High Quality Development in Chinese Insurance Industry of 2018"

   In June 2018, PICC P&C was awarded the "Insurance Company with High Quality Development in Chinese Insurance Industry of 2018" in the selection of the "Ark Prize in Chinese Insurance Industry in 2018" organized by the Securities Times.

4. PICC P&C was awarded the the "40th Anniversary of Reform and Opening up • Excellent Property Insurance Company"

   In July 2018, PICC P&C was awarded the "40th Anniversary of Reform and Opening up • Excellent Property Insurance Company" at the "2018 (3rd) China Insurance Innovation and Development Forum" and "2018 China Insurance Billboard" Award Ceremony.

5. PICC P&C was awarded the "Poverty Alleviation Pioneer of 2018"

   In November 2018, PICC P&C was awarded the "Poverty Alleviation Pioneer of 2018" at the "2018 China Capital Market Poverty Alleviation Pioneer Forum" organized by the International Financial News.

6. PICC P&C was awarded the "Outstanding Award for Insurance Brand of 2018"

   In December 2018, PICC P&C was awarded the "Outstanding Award for Insurance Brand of 2018" in the ninth session of "Golden Fortune" selection organized by Shanghai Securities News.

7. PICC P&C was awarded the "Outstanding Property Insurance Company"

   In December 2018, PICC P&C was awarded the "Outstanding Property Insurance Company" at the 3rd Intelligent Finance International Forum and the 2018 "Lead China" Annual Award Ceremony.

8. PICC P&C was awarded the "Best Property Insurance Company in Asia in 2018"

   In December 2018, PICC P&C was awarded the "Best Property Insurance Company in Asia of the Year" in the "Ranking of Competitiveness of Insurance Enterprises in Asia" organized by the 21st Century Business Herald and the Financial Research Center of the 21st Century Research Institution, ranking first for ten times in the list.

9. PICC Life was awarded the "Excellent Life Insurance Company"

   In July 2018, PICC Life was awarded the "Excellent Life Insurance Company" at the 2018 (3rd) China Insurance Innovation and Development Forum organized by the National Business Daily.

10. PICC Life was awarded the "Top Ten Life Insurance Company in terms of Market Competitiveness in China for 2018"

    In November 2018, PICC Life was awarded the "Top Ten Life Insurance Company in terms of Market Competitiveness in China for 2018" by China's Insurance Quote.

11. PICC Life was awarded the "Outstanding Life Insurance Company in Asia in 2018"

    In December 2018, PICC Life was awarded the "Outstanding Life Insurance Company in Asia in 2018" at the thirteenth session of 21st Century Annual Financial Summit of Asia organized by the 21st Century Business Herald.

12. PICC Life was awarded "China's Social Responsibility Outstanding Enterprise Award of 2018"

    In December 2018, PICC Life was awarded "China's Social Responsibility Outstanding Enterprise Award of 2018" at the Enterprise Social Responsibility Welfare Event of 2018 organized by Xinhuanet.com.

13. PICC Life was awarded the "Most Trusted Insurance Institution by People"

    In December 2018, PICC Life was awarded the "Most Trusted Insurance Institution by People" in the 2018 Financial List Under the Ninth Brand Life List organized by the China Comments of Xinhuanet.com.

14. PICC Health was awarded the "Annual Business Award" in the "Social Responsibility Award for Individual and Business"

    In January 2018, PICC Health was awarded the "Annual Business Award" in the "Social Responsibility Award for Individual and Business" at the 12th Social Responsibility Award for Individual and Business Ceremony organized by the people.cn.

15. Product of PICC Health was awarded the "Popular Internet Insurance Product of the Year"

    In November 2018, the "Good Medical Insurance • Long-term Medical " Insurance (Jiankang Jinfu Youxiangbao (健康金福悠享保) Personal Medical Insurance (2018)) of PICC Health was awarded the "Popular Internet Insurance Product of the Year" in "The 16th China's Financial Annual Champion Awards (Insurance Industry Category)" organized by hexun.com.

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

    In December 2018, PICC Health was awarded the "Best Health Insurance Company of 2018" at the 2018 Financial Development Summit in New Era organized by the Financial Times.

17. PICC AMC was awarded the "Most Influential Insurance and Asset Management Company in 2018" and the "Best Insurance and Asset Management Company of 2018 in Brand Building"

    In July 2018, PICC AMC was awarded the "Most Influential Insurance and Asset Management Company in 2018" and the "Best Insurance and Asset Management Company of 2018 in Brand Building" at the appraisal of the "Golden Shell Prize for China Asset Management Annual Conference and China's Asset Management in 2018" organized by the 21st Century Business Herald.

18. PICC AMC was awarded the "Annual Outstanding Comprehensive Insurance Asset Management Company" and "Charity Contribution Award"

    In November 2018, PICC AMC was awarded the "Annual Outstanding Comprehensive Insurance Asset Management Company" and "Charity Contribution Award" in the selection of "Outstanding Financial Enterprise Ceremony in 2017-2018" organized by the Economic Observer.

19. PICC AMC was awarded the "TOP Award for Annual Asset Management of Golden Fortune"

    In December 2018, PICC AMC was the only insurance asset management company awarded the "TOP Award for Annual Asset Management of Golden Fortune" at the 2018 China Wealth Management Summit and ninth session of "Golden Fortune" Award Ceremony organized by Shanghai Securities News.

20. PICC Capital was awarded the "Insurance Asset Management Association of China's Second-class Innovative Work (tools and solutions category)"

    In February 2018, the City-level Government Risk Assessment Project of PICC Capital was awarded the "Insurance Asset Management Association of China's Second-class Innovative Work (tools and solutions category) in the insurance asset management innovation works collection event under "Support the Real Economy to Make Contribution to the National Strategy" held by the Insurance Asset Management Association of China in 2017.

21. PICC Pension was awarded the "2018 Outstanding Contribution Award for Financial Technology Innovation-Contribution Award for Development and Innovation"

    In December 2018, the "New Generation Platform for Annuity Operation and Management" of PICC Pension was awarded the "2018 Outstanding Contribution Award for Financial Technology Innovation-Contribution Award for Development and Innovation" by Financial Computerizing.

22. PICC Financial Services was awarded the "Outstanding Innovative Insurance Product"

    In December 2018, the Intelligent Marketing Service Robot of PICC Financial Services was awarded the "Outstanding Innovative Insurance Product" in the "2018 JRJ.com Annual Appraisal of Leadership in China" event organized by the media JRJ.com.

23. PICC Hong Kong was given financial strength rating of "A-" and insurance company credit rating of "a-" by A.M. Best

    In June 2018, PICC Hong Kong was given financial strength rating of "A-" and insurance company credit rating of "a-" by A.M. Best, PICC Hong Kong has continued to receive this award since 2014 and its future prospects are stable.

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

I. KEY OPERATING INDICATORS

(1) Key Operating Data

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Original Premiums Income			
PICC P&C	**388,020**	349,290	11.1
PICC Life	**93,714**	106,238	(11.8)
PICC Health	**14,798**	19,250	(23.1)
Combined ratio of PICC P&C (%)	**98.5**	97.2	Increase of 1.3 pt
Value of one year's new business of PICC Life	**5,735**	5,687	0.8
Value of one year's new business of PICC Health	**507**	468	8.3
Total investment yield (%)	**4.8**	5.9	Decrease of 1.1 pt

Unit: in RMB million, except for percentages

	As of 31 December 2018	As of 31 December 2017	(% of change)
Market share [1]			
PICC P&C (%)	**33.0**	33.1	Decrease of 0.1 pt
PICC Life (%)	**3.6**	4.1	Decrease of 0.5 pt
PICC Health (%)	**0.6**	0.7	Decrease of 0.1 pt
Embedded Value of PICC Life	**70,632**	61,909	14.1
Embedded Value of PICC Health	**8,689**	7,831	11.0

	As of 31 December 2018	As of 31 December 2017	(% of change)
Comprehensive solvency margin ratio (%)			
PICC Group	**309**	299	Increase of 10 pt
PICC P&C	**275**	278	Decrease of 3 pt
PICC Life	**244**	219	Increase of 25 pt
PICC Health	**282**	396	Decrease of 114 pt
Core solvency margin ratio (%)			
PICC Group	**244**	235	Increase of 9 pt
PICC P&C	**229**	229	–
PICC Life	**201**	192	Increase of 9 pt
PICC Health	**182**	257	Decrease of 75 pt

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

In 2018, by adhering to the general tone of "making progress while maintaining stability", PICC put new development philosophy into practice, and promoted implementation of the "3411 Project" for the transformation to high quality development of the Group. In a complex and ever-changing external environment, the Group successfully maintained the general tone of "stability", highlighted the rhythm of "making progress" and achieved a "good" momentum. Steady progresses have been made in the efforts for the reform and development of the Group. In 2018, the market share of PICC P&C in the P&C insurance market was 33.0%, the market share of PICC Life in life and health insurance market was 3.6% and the market share of PICC Health in life and health insurance market was 0.6%. In terms of the total written premiums (the "TWPs"), in 2018, the Group's TWPs exceeded RMB500 billion, and the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB388,020 million, RMB99,710 million, RMB15,334 million and RMB273 million, respectively.

(2) Key Financial Indicators

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	**(% of change)**
Gross written premiums (the "GWPs")	**498,608**	476,447	4.7
PICC P&C	**388,769**	350,314	11.0
PICC Life	**93,727**	106,299	(11.8)
PICC Health	**14,798**	19,250	(23.1)
Profit before tax	**27,058**	30,831	(12.2)
Net profit	**18,715**	23,051	(18.8)
Net profit attributable to equity holders of the Company	**12,912**	16,099	(19.8)
Earnings per share (RMB)	**0.30**	0.38	(20.1)
Weighted average return on equity (%)	**9.0**	12.2	Decrease of 3.2 pt

Unit: in RMB million, except for percentages

	As of 31 December 2018	As of 31 December 2017	(% of change)
Total assets	**1,031,635**	987,906	4.4
Total liabilities	**825,334**	801,025	3.0
Total equity	**206,301**	186,881	10.4
Net assets per share (RMB)	**3.46**	3.24	6.8
Gearing ratio[(1)] (%)	**80.0**	81.1	Decrease of 1.1 pt

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

(3) Explanation for the differences between domestic and overseas accounting standards

Unit: in RMB million, except for percentages

	Net profit attributable to equity holders of the Company		Equity attributable to equity holders of the Company	
	2018	2017	As of 31 December 2018	As of 31 December 2017
Under the China Accounting Standards for Business Enterprises	13,450	16,646	152,468	136,919
Items and amounts adjusted in accordance with the International Financial Reporting Standards:				
Catastrophic Risk Reserve of Agricultural Insurance	(73)	139	1,010	1,082
Impact of above adjustment on deferred income tax	17	(34)	(251)	(269)
Reclassification of insurance contract to investment contract	26	(56)	(174)	(199)
Loss on deemed disposal of an associate	(508)	(596)	–	–
Under the International Financial Reporting Standards	12,912	16,099	153,053	137,533

Explanation for major adjustments:

1. According to the Cai Jin [2013] No.129 Document, PICC P&C made provision for catastrophic risk reserve of agricultural insurance based on a certain proportion of the retained premium of agricultural insurance; however, the provision for catastrophic risk reserve is not accounted under the International Financial Reporting Standards. Hence, there is a difference in the reserve between the two reporting standards.

2. At the end of 2014, PICC Life reviewed the test result of major insurance risks under the policies and reclassified contracts relating to certain risks from insurance contracts to investment contracts under the China Accounting Standards for Business Enterprise. However, under the International Financial Reporting Standards, once a contract is classified as an insurance contract, such classification shall remain so until the contract expires. This has led to difference in the measurement of the liabilities relating to such contracts under the two reporting standards.

3. In 2018 and 2017, two associates of the Group completed their private offering in respective year. Since the Group did not subscribe for the shares proportionately, its total equity interests in respective associate were diluted, resulting in a loss in deemed disposal of RMB737 million and RMB798 million respectively. According to the China Accounting Standards for Business Enterprises, the impact of such loss is charged to capital reserve, and their impact on the equity attributable to equity holders of the Company in 2018 and 2017 were RMB508 million and RMB596 million respectively. Under the International Financial Reporting Standards, such loss is included in the profit or loss of the current period, and their impact on the net profit attributable to equity holders of the Company in 2018 and 2017 were RMB508 million and RMB596 million respectively.

II. BUSINESS ANALYSIS

(1) P&C Insurance Business

In 2018, with continued economic transformation and upgrading in China and further implementation of the supply-side structural reforms, the economic structure continued to improve, the new drivers for development continued to grow, and the vitality of development continued to increase. The overall economy showed a good momentum of "stability with progress and changes made". In the property insurance sector, market competition has continued to intensify, regulatory reforms have been further implemented, supervision has been continuously strengthened, reforms in premium rate for commercial motor vehicle insurance have been continuously reformed, adjustments in market structure and formation of new business models have been accelerated, bringing significant opportunities and challenges to the development of entities in the industry.

Facing opportunities and challenges, the P&C insurance segment accurately followed the development trend, adhered to the bottom line of no systemic risks, proactively served the economy and society, promoted the integration of policy-based business and commercial business, and deepened the integration of business model changes and technological changes, implemented innovation-driven development and digital strategy, implemented the integration strategy deeply, promoted the internationalization strategy steadily, implemented the regional development strategy fully, continued to innovate in product supply, improved service quality continuously, and accelerated the transformation of the Company to high-quality development, and recorded a operating result of stability with progress.

1. PICC P&C

(1) Analysis by Product

The following table sets forth the GWPs by type from PICC P&C for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Motor vehicle insurance	**258,904**	249,232	3.9
Accidental injury and health insurance	**40,444**	30,646	32.0
Agricultural insurance	**26,718**	22,090	21.0
Liability insurance	**21,706**	16,975	27.9
Commercial property insurance	**13,413**	12,623	6.3
Credit insurance	**11,575**	4,942	134.2
Cargo insurance	**3,864**	3,232	19.6
Other P&C insurance	**12,145**	10,574	14.9
Total	**388,769**	350,314	11.0

During the reporting period, the Chinese economy continued to transform and upgrade, the supply-side structural reforms were further implemented, and the economic structure continued to improve. PICC P&C actively responded to the challenges, made more efforts in reform and innovation, and recorded steady growth in insurance premiums income. In 2018, the GWPs for PICC P&C of the Group was RMB388,769 million, representing an increase of 11.0% as compared to last year.

GWPs for motor vehicle insurance increased by 3.9% to RMB258,904 million in 2018 from RMB249,232 million in 2017. In 2018, PICC P&C actively responded to the challenges caused by the decline in new car sales and the continuous reform of premium rate for commercial motor vehicle insurance, which led to the decline in premium rate for motor vehicle insurance, further strengthened the market orientation, optimized the outlay of channels, so as to ensure the stability of new insurance business, strengthen the renewal insurance business and optimize the transferred-in insurance business. On the one hand, we will continue to promote the resources management and channel cooperation, broaden the space for business development, and improve the acquisition capacity of new motor vehicle insurance business; on the other hand, we will monitor the renewal insurance business and transferred-in insurance business closely, continue to strengthen the process of tracking and node management, develop and promote of models for renewal insurance, continue to strengthen team building, and continuously improve the quality of service, so as to achieve a higher renewal and transfer rate of quality business and a steady increase in GWPs for motor vehicle insurance.

GWPs for accidental injury and health insurance increased by 32.0% to RMB40,444 million in 2018 from RMB30,646 million in 2017. In 2018, PICC P&C implemented the "Healthy China" strategy and served the social governance, and continued to consolidate the development of critical illness insurance business while putting great effort in exploring business in new fields, such as poverty alleviation, medical assistance, nursing-care, and supplementary work injury; actively promoted commercial health insurance business such as personal and family health insurance, and promoted the traditional pillar businesses such as student and infant insurance, people's livelihood insurance, corporate businesses insurance, and construction accidental injury insurance, and integrated the development of driver and passengers accidental injury insurance and accidental injury insurance of agricultural network, to promote an overall rapid development of the accidental injury and health insurance business.

GWPs for agricultural insurance increased by 21.0% to RMB26,718 million in 2018 from RMB22,090 million in 2017. In 2018, PICC P&C fully integrated the state's rural revitalization and precise poverty alleviation strategy, deepened the construction of the agricultural network platform, and put great effort in exploring the agricultural insurance market, consolidated the traditional agricultural insurance business by focusing on expanding the scope, raising bids and increasing products, while expanding and strengthening the classic agricultural insurance business, accelerated the development of innovative businesses such as income insurance and output/output insurance, created the "deep poverty insurance", the first innovation project in the industry, actively developed agricultural insurance product features poverty alleviation, and took other measures to effectively promote the rapid development of agricultural insurance business.

GWPs for liability insurance increased by 27.9% to RMB21,706 million in 2018 from RMB16,975 million in 2017. In 2018, PICC P&C accurately followed the economic and social development trends, actively served the development of real economy, served the national governance and poverty alleviation strategy, increased its efforts in product development, improved the quality of service and professionalism, fully utilized the advantages of outlets, and promoted the rapid development of traditional pillar businesses such as employer, public liability insurances. At the same time, new policy-oriented businesses such as the first set of major technical equipment, new materials, government (poverty alleviation) relief, safe production, and building quality insurance also grew rapidly.

GWPs for commercial property insurance increased by 6.3% to RMB13,413 million in 2018 from RMB12,623 million in 2017. In 2018, PICC P&C overcame the adverse effects of intensified competition in market, fully motivated base-level employees to expand business, continued to strengthen renewal of insurance and put more efforts in securing new insurance and competition, and promoted the steady development of corporate property insurance business.

GWPs for credit insurance increased by 134.2% to RMB11,575 million in 2018 from RMB4,942 million in 2017. In 2018, PICC P&C seized the opportunities in the growth of import and export trade and the development of online consumer finance, further consolidated its competitiveness in export credit insurance, engineering performance guarantee insurance, tariff guarantee insurance and others, and put more efforts in the construction of infrastructure for online consumer finance business and business practices, and achieved good development results and promoted the rapid development of the overall credit business.

GWPs for cargo insurance increased by 19.6% to RMB3,864 million in 2018 from RMB3,232 million in 2017. In 2018, PICC P&C seized the opportunities brought by the stabilization of the domestic economy and the recovery of the global economy, optimized the business expanding model and channel construction, continuously expanded traditional insurance such as import and export, road, railway and multi-way transportation insurance, while promoting its individual decentralized business and internet business, and effectively promoted the rapid growth of the cargo insurance as as whole.

GWPs for other insurances increased by 14.9% to RMB12,145 million in 2018 from RMB10,574 million in 2017. In 2018, PICC P&C actively responded to the market situation, guided the upgrading of business structure through resource allocation and internal assessment, and achieved a balanced development of family property insurance, engineering insurance, special risk insurance, and hull insurance.

(2) Analysis by Channel

The following table sets forth a breakdown of original premiums income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December				
	2018			2017	
	Amount	(% of total)	(% of change)	Amount	(% of total)
Insurance agents	277,240	71.5	12.4	246,610	70.6
Among which:					
Individual insurance agents	130,214	33.6	4.5	124,548	35.7
Ancillary insurance agents	53,958	13.9	(6.5)	57,705	16.5
Professional insurance agents	93,068	24.0	44.6	64,357	18.4
Direct sales	80,080	20.6	(3.4)	82,859	23.7
Insurance brokerage	30,700	7.9	54.9	19,821	5.7
Total	388,020	100.0	11.1	349,290	100.0

In 2018, PICC P&C continued to optimize the outlay of channels, strengthened the marketing strategy and sales process management of motor vehicle insurance, improved the linkage mechanism for resources allocation, and continued to strengthen the control, cohesiveness and competitiveness of channels. At the same time, it strengthened cross-interaction among property, life and health segments, deepened the establishment and sharing of outlets, teams and resources, promoted the establishment of integrated comprehensive development team, and the integrated sales service system is growing. Among them, the original premiums income of the insurance agents increased by 12.4% to RMB277,240 million in 2018 from RMB246,610 million in 2017; the original premiums income of the insurance brokerage increased by 54.9% to RMB30,700 million in 2018 from RMB19,821 million in 2017.

(3) *Analysis by Region*

The following table sets forth the original premiums income of PICC P&C in the top ten regions for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Guangdong Province	**37,993**	32,353	17.4
Jiangsu Province	**36,859**	34,535	6.7
Zhejiang Province	**30,300**	26,779	13.1
Shandong Province	**22,351**	21,719	2.9
Hebei Province	**21,762**	19,495	11.6
Sichuan Province	**17,678**	18,702	(5.5)
Hubei Province	**16,024**	13,499	18.7
Beijing City	**15,608**	14,805	5.4
Anhui Province	**15,179**	12,698	19.5
Fujian Province	**14,655**	13,630	7.5
Other regions	**159,611**	141,075	13.1
Total	**388,020**	349,290	11.1

(4) *Business information on major insurances*

The following table sets forth the business information on major insurances of PICC P&C for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December 2018					
	Gross written premiums	Amount of insurance	Net claims	Liability balance of reserve	Underwriting profits	Combined ratio (%)
Motor vehicle insurance	258,904	65,572,496	146,973	183,193	3,894	98.4
Accidental injury and health insurance	40,444	752,838,610	29,942	17,960	184	99.5
Agricultural insurance	26,718	2,196,323	15,668	11,573	954	95.8
Liability insurance	21,706	67,410,247	8,079	19,159	912	93.9
Commercial property insurance	13,413	29,445,025	4,871	13,019	(764)	109.6
Credit insurance	11,575	1,012,488	3,429	10,673	185	96.9
Cargo insurance	3,864	11,575,495	1,525	2,516	262	90.7
Other P&C insurance	12,145	44,841,813	4,173	17,688	(323)	105.0
Total	388,769	974,892,497	214,660	275,781	5,304	98.5

(5) *Financial Analysis*

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Net earned premiums	**344,124**	309,076	11.3
Investment income	**11,992**	13,214	(9.2)
Other income	**2,477**	2,022	22.5
Total income	**369,152**	333,870	10.6
Net claims and policyholders' benefits	**213,303**	192,520	10.8
Handling charges and commissions	**74,036**	59,725	24.0
Finance costs	**2,074**	1,998	3.8
Other operating and administrative expenses	**63,685**	59,932	6.3
Total benefits, claims and expenses	**352,884**	314,626	12.2
Profit before tax	**23,428**	27,161	(13.7)
Income tax	**7,942**	7,353	8.0
Net profit	**15,486**	19,808	(21.8)

Net earned premiums

Benefiting from the development in the businesses of motor vehicle insurance, accidental injury and health insurance, credit insurance, liability insurance and agricultural insurance, net earned premiums of PICC P&C increased by 11.3% to RMB344,124 million in 2018 from RMB309,076 million in 2017.

Investment income

Investment income of PICC P&C decreased by 9.2% to RMB11,992 million in 2018 from RMB13,214 million in 2017, primarily affected by the fluctuations in capital market.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for PICC P&C increased by 10.8% to RMB213,303 million in 2018 from RMB192,520 million in 2017, mainly due to the impact of snowstorms, heavy rains, typhoons, windstorms and other major disasters, resulting increase in the number of claims for large amounts of agricultural insurance and commercial property insurance. The loss ratio decreased by 0.3 percentage points to 62.0% in 2018 from 62.3% in 2017. In 2018, PICC P&C actively adjusted its business structure through accurate risk identification and differentiated expense allocation, and continuously improved the quality of underwriting; by steadily promoting the construction of public platforms such as component prices, full compensation, anti-fraud, and third-party service resources, it improved the standardization of claimed components, working hours, and personal injury data, and strengthened the recovery of claims, and deepened the management of claims constantly in respect of car damage, personal injury costs, and audit of recovery. Through the expansion of online claim service functions, the establishment of online compensation mechanisms for negotiation and other initiatives, it continuously improved the efficiency of claims, and the loss ratio of motor vehicle insurance decreased continuously.

Handling charges and commissions

Handling charges and commissions of PICC P&C increased by 24.0% to RMB74,036 million in 2018 from RMB59,725 million in 2017. The increase in handling charges and commissions were mainly due to steady increase in business scale, increased investment in quality business and more intense market competition.

Finance costs

Finance costs of PICC P&C increased by 3.8% to RMB2,074 million in 2018 from RMB1,998 million in 2017. The increase in finance costs was mainly due to the increase in interest expenses relating to financial assets sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of PICC P&C decreased by 21.8% to RMB15,486 million in 2018 from RMB19,808 million in 2017.

2. *PICC Hong Kong*

The Group mainly conducts overseas business through PICC Hong Kong. As of 31 December 2018, PICC Hong Kong's total assets amounted to RMB2.51 billion, and the net assets equivalent to RMB0.56 billion. In 2018, the insurance income amounted to RMB1.06 billion, the combined ratio was 105.0%, and the net profit amounted to RMB13 million.

(2) Life and Health Insurance

1. *PICC Life*

In 2018, China's economy maintained a stable and positive operation, supply-side structural reforms were further implemented, financial regulation was tightened continuously, and the Life insurance industry is facing greater downward pressure. Faced with complicated economic and financial situation and the pressure that the Life insurance industry's "unsatisfactory at the beginning", PICC Life was determined to "change the way, optimize the structure, and change the momentum", and firmly adheres to the principle of "stable growth, focus on value and strong foundation", implemented the "3411 Project" of the Group, focused on the value in regular payment business, continuously consolidated the foundation for the transformation to high-quality development, and strictly adheres to the bottom line of no systemic risks. In 2018, the first-year regular premium of PICC Life amounted to RMB16,836 million, the proportion of regular payment (including renewal) significantly increased by 17.4% to 60.0%, the ten-year or more regular premiums amounted to RMB4,490 million, representing an increase of 3.5% as compared to the previous year, and value of new business amounted to RMB5,735 million, representing an increase of 0.8% as compared to the previous year. The value creation capability continues to improve.

(1) Analysis by Product

Income from various products of PICC Life for the purpose of original premiums income for the reporting periods is as follows:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2018		2017	
	Amount	(% of total)	Amount	(% of total)
Life insurance	75,992	81.1	88,383	83.2
General life insurance	29,412	31.4	68,078	64.1
Participating life insurance	46,469	49.6	20,199	19.0
Universal life insurance	111	0.1	106	0.1
Health insurance	15,762	16.8	15,827	14.9
Accident insurance	1,960	2.1	2,028	1.9
Total	93,714	100.0	106,238	100.0

The original premiums income of life insurance decreased by 14.0% to RMB75,992 million in 2018 from RMB88,383 million in 2017, mainly due to PICC Life actively reduced the scale of existing short and medium-term business and optimized the business structure in accordance with the strategy for transforming to high-quality development.

The original premiums income of health insurance decreased by 0.4% to RMB15,762 million in 2018 from RMB15,827 million in 2017, mainly due to PICC Life actively responded to the requirements that insurance should for protection purposes, and suspended the sales of group supplementary medical products. At the same time, it benefited from the increase of health care demand in the market and the growth of individual health insurance business.

The original premiums income of accident insurance decreased by 3.3% to RMB1,960 million in 2018 from RMB2,028 million in 2017, mainly due to it voluntarily gave up some short-term accident insurance business with poor efficiency so as to strengthen the management of business risk and the management of premiums receivable.

In terms of TWPs, in 2018, the TWPs of general life insurance, participating life insurance, and universal life insurance amounted to RMB29,412 million, RMB47,062 million and RMB5,507 million, respectively. TWPs of health insurance and accident insurance amounted to RMB15,768 million and RMB1,961 million, respectively.

(2) *Analysis by Channel*

Income of PICC Life by distribution channel for the purpose of original premiums income for the reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel.

Unit: in RMB million, except for percentages

	2018			2017	
	Amount	(% of total)	(% of change)	Amount	(% of total)
Bancassurance	47,203	50.3	(10.6)	52,785	49.7
First-year business of long-term insurance	34,498	36.8	(22.1)	44,313	41.7
Single premiums	28,345	30.2	(25.9)	38,273	36.0
First-year regular premiums	6,152	6.6	1.9	6,040	5.7
Renewal business	12,586	13.4	50.4	8,366	7.9
Short-term insurance	120	0.1	13.2	106	0.1
Individual Insurance	39,122	41.8	(8.6)	42,796	40.2
First-year business of long-term insurance	11,860	12.7	(53.4)	25,452	23.9
Single premiums	1,398	1.5	(87.7)	11,401	10.7
First-year regular premiums	10,462	11.2	(25.5)	14,051	13.2
Renewal business	26,395	28.2	61.2	16,379	15.4
Short-term insurance	867	0.9	(10.2)	965	0.9
Group Insurance	7,389	7.9	(30.7)	10,656	10.1
First-year business of long-term insurance	5,018	5.4	(42.1)	8,670	8.2
Single premiums	4,793	5.1	(43.4)	8,467	8.0
First-year regular premiums	222	0.3	9.4	203	0.2
Renewal business	408	0.4	85.5	220	0.2
Short-term insurance	1,966	2.1	11.3	1,766	1.7
Total	93,714	100.0	(11.8)	106,238	100.0

The original premiums income of bancassurance decreased by 10.6% to RMB47,203 million in 2018 from RMB52,785 million in 2017, mainly due to the bancassurance focused on the transformation of regular premiums, continuously optimized the business structure, and reduced the scale of existing short and medium-term business significantly.

The original premiums income of individual insurance decreased by 8.6% to RMB39,122 million in 2018 from RMB42,796 million in 2017, mainly due to the individual insurance focused on the value of regular premiums, reduced the single premiums significantly, and at the same time, the sales of participating/annuity insurance products declined due to the general downward of the Life insurance industry.

The original premiums income of group insurance decreased by 30.7% to RMB7,389 million in 2018 from RMB10,656 million in 2017, mainly due to PICC Life actively responded to the requirements that insurance should for protection purposes, and the group insurance suspended the sales of group supplementary medical products.

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB49,045 million, RMB42,678 million and RMB7,987 million, respectively, for 2018. As at 31 December 2018, the number of insurance agents for PICC Life was 245,567. The first-year TWPs per capita from sales agent amounted to RMB2,679 and the number of new life insurance policies per capita was 1.20 per month.

(3) *Persistency Ratios of Premiums*

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

	For the Year Ended 31 December	
Items	**2018**	2017
13-month premium persistency ratio[1] (%)	**93.9**	93.8
25-month premium persistency ratio[2] (%)	**91.8**	88.7

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

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

(4) *Analysis by Region*

The following table sets forth the original premiums income of PICC Life in the top ten regions for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Sichuan Province	**7,044**	7,011	0.5
Zhejiang Province	**5,265**	5,047	4.3
Jiangsu Province	**5,157**	5,238	(1.5)
Hunan Province	**5,046**	5,548	(9.0)
Henan Province	**5,027**	5,298	(5.1)
Hebei Province	**4,964**	5,597	(11.3)
Shaanxi Province	**4,306**	4,801	(10.3)
Hubei Province	**4,148**	4,579	(9.4)
Shandong Province	**4,108**	4,690	(12.4)
Guangdong Province	**4,097**	4,789	(14.4)
Other regions	**44,552**	53,640	(16.9)
Total	**93,714**	106,238	(11.8)

(5) Top five products

The following table sets forth the operating results of PICC Life's top five insurance products (in terms of original premiums income) for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December 2018		
	Type of insurance	Sales channels	Original Premiums Income
PICC Life Xin Xi Endowment Insurance (Participating) (Type B)	Participating life insurance	Individual insurance/ Bancassurance	22,006
PICC Life Xin Fu Bao Annuity Insurance (Type B)	General life insurance	Individual insurance/ Bancassurance	9,015
PICC Life Zun Ying Ren Sheng Annuity Insurance (Participating)	Participating life insurance	Individual insurance/ Bancassurance	7,996
PICC Life Xin Sheng Endowment Insurance (Type B)	General life insurance	Individual insurance/ Bancassurance	6,219
PICC Life Xin Xiang Zhi Zun Annuity Insurance (Participating)	Participating life insurance	Individual insurance/ Bancassurance	5,449

(6) Financial Analysis

The following table sets forth certain selected key financial data of PICC Life for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Net earned premiums	92,677	105,428	(12.1)
Investment income	12,355	17,320	(28.7)
Other income	728	754	(3.4)
Total income	106,208	123,775	(14.2)
Net claims and policyholders' benefits	90,170	108,162	(16.6)
Handling charges and commissions	7,953	8,369	(5.0)
Finance costs	2,978	2,122	40.3
Other operating and administrative expenses	8,281	7,725	7.2
Total benefits, claims and expenses	109,221	126,563	(13.7)
Profit before tax	723	439	64.7
Income tax	5	(285)	(101.8)
Net profit	728	154	372.7

Net earned premiums

Net earned premiums for PICC Life decreased by 12.1% to RMB92,677 million in 2018 from RMB105,428 million in 2017, mainly due to PICC Life's deepening transformation, continued optimisation of business structure, the premium plan of reducing short and medium-term product, and at the same time, financial regulation was tightened continuously, and therefore the Life insurance industry faced greater downward pressure.

Investment income

Investment income of PICC Life decreased by 28.7% to RMB12,355 million in 2018 from RMB17,320 million in 2017, mainly due to the equity assets were affected by market fluctuation which had a significant impact on the overall income of assets.

Other income

Other income of PICC Life decreased by 3.4% to RMB728 million in 2018 from RMB754 million in 2017, mainly due to adjustments in product structure, resulting in lower initial fee income of the policies.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for PICC Life decreased by 16.6% to RMB90,170 million in 2018 from RMB108,162 million in 2017, mainly due to the continuous achievements made by PICC Life during its transformation to high-quality development, adjustment in business structure, and decreases in maturity benefits.

Handling charges and commissions

Handling charges and commissions of PICC Life decreased by 5.0% to RMB7,953 million in 2018 from RMB8,369 million in 2017, mainly due to the decrease in premium income of bank agent and the corresponding reduction in handling charge expenses.

Finance costs

Finance costs of PICC Life increased by 40.3% to RMB2,978 million in 2018 from RMB2,122 million in 2017, mainly due to increase in interest from investments of RMB446 million, increase in interest expenses of securities sold under agreements to repurchase of RMB292 million, and increase in finance costs caused by the issuance of capital supplementary bonds of RMB117 million this year.

Net profit

As a result of the foregoing reasons, the net profit of PICC Life increased by 372.7% to RMB728 million in 2018 from RMB154 million in 2017.

2. *PICC Health*

In 2018, PICC Health implemented the "3411 Project" in depth, adhered to the guiding ideology of "speed up transformation and develop through innovation", and promoted comprehensive and deep reforms in accordance with the requirements of "professionalism, efficiency, competency and flat structure", implemented flat management, demonstrated its professionalism, realise innovativeness and offered special features, actively served the "Healthy China" strategy and the construction of a national multi-level medical security system, accelerated the transformation to high-quality development, showing a good situation with optimized business structure, improved profitability, enhanced professional capabilities, and solid foundation for development. First-year regular premium increased by 152.2%; the value of new business increased by 8.3% as compared to the same period in the previous year, which indicates a continuously enhancing value creation capabilities.

(1) *Analysis by Product*

Income from various products of PICC Health for the purpose of original premiums income for the reporting periods is as follows:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2018		2017	
Health insurance products	**Amount**	**(% of total)**	Amount	(% of total)
Nursing care insurance	**1,180**	**8.0**	8,800	45.7
Medical insurance	**10,833**	**73.2**	8,538	44.3
Illness insurance	**1,163**	**7.9**	842	4.4
Accidental injury insurance	**667**	**4.5**	646	3.4
Participating endowment insurance	**864**	**5.8**	335	1.7
Disability losses insurance	**91**	**0.6**	89	0.5
Total	**14,798**	**100.0**	19,250	100.0

The original premiums income of nursing care insurance decreased by 86.6% to RMB1,180 million in 2018 from RMB8,800 million in 2017, mainly due to promotion of the adjustments in business structure, focusing on the development of long-term nursing care insurance with outstanding protection attributes, and termination of short and medium-term renewal business.

The original premiums income of medical insurance increased by 26.9% to RMB10,833 million in 2018 from RMB8,538 million in 2017, mainly due to its focus on the development of supplementary medical insurance business linked to basic medical insurance.

The original premiums income of illness insurance increased by 38.1% to RMB1,163 million in 2018 from RMB842 million in 2017, mainly due to the promotion of products with outstanding protection attributes to make the industry protection-oriented.

The original premiums income of accidental injury insurance increased by 3.3% to RMB667 million in 2018 from RMB646 million in 2017.

The original premiums income of participating endowment insurance increased by 157.9% to RMB864 million in 2018 from RMB335 million in 2017, mainly due to the continued development of the long-term regular premiums business in recent years, new policy and renewals.

The original premiums income of disability losses insurance increased by 2.2% to RMB91 million in 2018 from RMB89 million in 2017.

In terms of TWPs, in 2018, the TWPs of nursing care insurance, medical insurance, illness insurance, accidental injury insurance, participating endowment insurance, disability losses insurance amounted to RMB1,565 million, RMB10,984 million, RMB1,163 million, RMB667 million, RMB864 million and RMB91 million, respectively. In addition, the PICC Health has also actively developed government commission processing business, and the size of commissioned basic medical insurance fund was RMB24,183 million.

(2) *Analysis by Channel*

Income of PICC Health by distribution channel for the purpose of original premiums income for the reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel.

Unit: in RMB million, except for percentages

	2018			2017	
	Amount	(% of total)	(% of change)	Amount	(% of total)
Bancassurance	665	4.5	(87.5)	5,305	27.6
First-year business of long-term insurance	345	2.4	(93.1)	5,003	26.0
Single premiums	142	1.0	(97.1)	4,856	25.2
First-year regular premiums	203	1.4	38.1	147	0.8
Renewal business	300	2.0	6.8	281	1.5
Short-term insurance	20	0.1	(4.8)	21	0.1
Individual Insurance	3,764	25.4	(14.0)	4,376	22.7
First-year business of long-term insurance	1,886	12.7	(45.6)	3,468	18.0
Single premiums	30	0.2	(98.9)	2,797	14.5
First-year regular premiums	1,856	12.5	176.6	671	3.5
Renewal business	1,356	9.2	73.0	784	4.1
Short-term insurance	522	3.5	321.0	124	0.6
Group Insurance	10,369	70.1	8.4	9,569	49.7
First-year business of long-term insurance	28	0.2	(71.4)	98	0.5
Single premiums	11	0.1	(88.2)	93	0.5
First-year regular premiums	17	0.1	240.0	5	0.0
Renewal business	17	0.1	88.9	9	0.0
Short-term insurance	10,324	69.8	9.1	9,462	49.2
Total	14,798	100.0	(23.1)	19,250	100.0

The original premiums income of bancassurance decreased by 87.5% to RMB665 million in 2018 from RMB5,305 million in 2017, mainly due to that the Company promoted the adjustments in business structure, suspended the sale of short and medium-term business, and fully transformed to the regular premiums business.

The original premiums income of individual insurance decreased by 14.0% to RMB3,764 million in 2018 from RMB4,376 million in 2017, mainly due to the Company promoted adjustments in business structure, suspended the sale of short and medium-term business, increased efforts in the development of the regular premiums business, and strengthened the management of renewal business.

The original premiums income of group insurance increased by 8.4% to RMB10,369 million in 2018 from RMB9,569 million in 2017, mainly due to that the Company strengthened the sales capacity building in the commercial group insurance business, explored resources in existing customer deeply, and focused on the development of enterprise employee welfare plans in the benefit-oriented industry; actively explored diversified development pattern of business commissioned by the government, and actively expanded the long-term nursing care insurance and poverty alleviation insurance through consolidating the traditional business commissioned by the government, so as to achieve steady growth in business scale.

In terms of TWPs, in 2018, the TWPs from the bancassurance channel, individual insurance sales channel, and group insurance agent channel amounted to RMB698 million, RMB4,029 million and RMB10,606 million respectively. As of 31 December 2018, the number of sales agents for the PICC Health was 24,372. The first-year TWPs of new insurance policies amounted to RMB1,542 per sales agent per month and the new insurance policies were 0.55 per sales agent per month.

(3) *Persistency Ratios of Premiums*

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

	For the Year Ended 31 December	
Items	**2018**	2017
13-month premium persistency ratio(1) (%)	**86.8**	84.7
25-month premium persistency ratio(2) (%)	**80.1**	76.9

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

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

(4) *Analysis by Region*

The following table sets forth the original premiums income of PICC Health in the top ten regions for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Guangdong Province	3,037	1,432	112.1
Henan Province	1,783	1,006	77.2
Liaoning Province	1,217	3,435	(64.6)
Jiangxi Province	1,118	1,060	5.5
Yunan Province	826	1,113	(25.8)
Jiangsu Province	799	1,220	(34.5)
Shanxi Province	760	1,154	(34.1)
Anhui Province	744	990	(24.8)
Xinjiang Province	658	678	(2.9)
Shaanxi Province	551	867	(36.4)
Other regions	3,305	6,295	(47.5)
Total	14,798	19,250	(23.1)

(5) *Top five products*

The following table sets forth the operating results of PICC Health's top five insurance products (in terms of original premiums income) for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December 2018		
	Type of insurance	Sales channels	Original Premiums Income
He Xie Sheng Shi large amount supplementary group medical insurance for urban employees	Medical insurance	Group Insurance channel	3,563
Group critical illness medical insurance for urban and rural residents (Type A)	Medical insurance	Group Insurance channel	3,162
Jiang Kang Jin Fu You Xiang Bao individual medical insurance (2018)	Medical insurance	Individual Insurance channel	1,286
Group medical insurance for urban and rural medical assistance	Medical insurance	Group Insurance channel	948
Social security supplementary group medical insurance for nursing care experts	Medical insurance	Group Insurance channel	699

(6) *Financial Analysis*

The following table sets forth certain selected key financial data of PICC Health for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Net earned premiums	**13,797**	17,997	(23.3)
Investment income	**1,278**	2,008	(36.4)
Other income	**133**	121	9.9
Total income	**15,359**	20,219	(24.0)
Net claims and policyholders' benefits	**11,913**	17,182	(30.7)
Handling charges and commissions	**662**	796	(16.8)
Finance costs	**476**	543	(12.3)
Other operating and administrative expenses	**2,302**	1,689	36.3
Total benefits, claims and expenses	**15,348**	20,212	(24.1)
Profit before tax	**21**	7	200.0
Income tax	**–**	–	–
Net profit	**21**	7	200.0

Net earned premiums

Net earned premiums of PICC Health decreased by 23.3% to RMB13,797 million in 2018 from RMB17,997 million in 2017, mainly due to promotion of adjustments in business structure to return to protection-oriented, and suspension of the sale of short and medium-term renewal products.

Investment income

Investment income of PICC Health decreased by 36.4% to RMB1,278 million in 2018 from RMB2,008 million in 2017, mainly due to lower investments funds in line with the liquidity arrangement under the transformation of business development, and the equity assets were affected by the fluctuations in capital market.

Other income

Other income of PICC Health increased by 9.9% to RMB133 million in 2018 from RMB121 million in 2017, mainly due to the increase in income from health management services and government commissioned processing business.

Net claims and policyholders' benefits

Net claims and policyholders' benefits of PICC Health decreased by 30.7% to RMB11,913 million in 2018 from RMB17,182 million in 2017, mainly due to suspension of the sale of medium and short-term renewal products, resulting in the reduction of insurance liability reserves.

Handling charges and commissions

Handling charges and commissions of PICC Health decreased by 16.8% to RMB662 million in 2018 from RMB796 million in 2017, mainly due to adjustments in business structure, suspension of the sale of medium and short-term renewal products, and the corresponding reduction in handling charge expenses.

Finance costs

Finance costs of PICC Health decreased by 12.3% to RMB476 million in 2018 from RMB543 million in 2017, mainly due to the decrease in interest expenses relating to securities sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of PICC Health increased by 200.0% to RMB21 million in 2018 from RMB7 million in 2017.

(3) Asset management business

In 2018, the Group's asset management segment overcame certain adverse factors, such as decline of bond yield and significant fluctuation in stock market and frequent occurrence of credit risk. It actively seized the opportunity when bond yield peaked and increased allocation in bonds. On the basis of developing traditional debt and equity products, it actively promoted the innovations of financial products such as inclusive finance and agriculture and SME support, and coordinated the development of major insurance business which helped to maintain a stable investment return and effectively reduced investment risk. The insurance asset management products of the asset management segment had a registered scale of RMB58,300 million, ranked third in the industry. Among them, the registered debt amounted to RMB48,800 million and the registered equity amounted to RMB4,500 million and the approved scale for asset-backed products amounted to RMB5,000 million. As of 31 December 2018, the scale of third-party assets management products of the asset management segment amounted to RMB278 billion.

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

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

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Investment income	**584**	452	29.2
Other income	**1,610**	1,618	(0.5)
Total income	**2,194**	2,070	6.0
Finance costs	**7**	4	75.0
Other operating and administrative expenses	**1,338**	1,301	2.8
Total expenses	**1,345**	1,306	3.0
Profit before tax	**852**	763	11.7
Income tax	**(214)**	(199)	7.5
Net profit	**638**	564	13.1

Investment income

Investment income from the asset management segment increased by 29.2% to RMB584 million in 2018 from RMB452 million in 2017, mainly due to that the Company strengthened its investments in research capabilities and better grasped the opportunities in the fixed income market.

Other income

Other income of the asset management segment decreased by 0.5% to RMB1,610 million in 2018 from RMB1,618 million in 2017, mainly due to the decrease in non-operating income.

Finance costs

Finance costs for the asset management segment increased by 75.0% to RMB7 million in 2018 from RMB4 million in 2017, primarily due to the increase in interest expenses of securities sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the asset management segment increased by 13.1% to RMB638 million in 2018 from RMB564 million in 2017.

(4) Investment Portfolio and Investment Income

In 2018, the global economic environment was complicated, and the Chinese economy showed a momentum of stability with progress, while in the second half, the effect of "counter-cyclical" adjustment in monetary policy and fiscal policy emerged gradually, yields of bond continued to fall, and A-share market fell sharply. The Company seized the window for allocation at the peak of interest rate in the beginning of the year to increase allocation in long-duration bonds and non-standard debt products and reasonably controlled the proportion of equities and equity funds which effectively reduced investment risk.

1. *Investment Portfolio*

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

Unit: in RMB million, except for percentages

	As of 31 December 2018		As of 31 December 2017	
	Carrying amount	(% of total)	Carrying amount	(% of total)
Total investment assets	895,462	100	853,400	100
By investment object				
Cash and cash equivalents	61,601	6.9	72,819	8.5
Fixed-income investments	594,890	66.4	553,673	64.9
Term deposits	98,653	11.0	70,706	8.3
Treasury bonds	29,191	3.3	18,493	2.2
Financial bonds	102,779	11.5	105,595	12.4
Corporate bonds	157,766	17.6	150,273	17.6
Long-term debt investment scheme	104,813	11.7	105,290	12.3
Other fixed-income investments (1)	101,688	11.4	103,316	12.1
Fund and equity securities investments at fair value	97,105	10.8	92,869	10.9
Fund	61,944	6.9	54,045	6.3
Equity securities	35,161	3.9	38,824	4.6
Other investments	141,866	15.8	134,039	15.7
Investment in associates and joint ventures	107,492	12.0	97,740	11.5
Others (2)	34,374	3.8	36,299	4.2
By the purpose for which it was held				
Financial assets at fair value through profit or loss	20,551	2.3	23,757	2.8
Held-to-maturity investments	128,177	14.3	122,477	14.4
Available-for-sale financial assets	284,363	31.8	282,040	33.0
Long-term equity investments	107,492	12.0	97,740	11.5
Loans and others (3)	354,879	39.6	327,386	38.4

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

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

(3) Loans and others primarily consist of monetary funds, term deposits, financial assets purchased under resale agreements, policy loans, and capital guarantee deposits, investments classified as loans and receivables, and investment real estate.

1. *Classified by investment object*

In 2018, the Group actively seized the opportunity when bond yield peaked in the first half of the year and increased allocation in fixed income assets and long-duration assets to stabilize the position yield. At the same time, it increased allocation in non-standard products. The proportion of equity assets remained stable.

As of the end of 2018, the Group's bond investment accounted for 32.4%, representing an increase of 0.2 percentage as compared with that as of the end of the previous year. The liabilities under corporate bonds and non-policy bank financial bonds or their issuers are rated at AA/A-1 and above, of which, those rated at AAA accounted for 91.4%. The industries associated with credit bond currently held by the Group are diversified, involving various fields such as urban investment, transportation, and public utilities. Relevant entity's ability to repay debt is generally strong, the credit risk is controllable as a whole, and there is no credit risk event. In the years of credit bond investment, the Group has always been paying close attention to the prevention and control of credit risks, strictly followed relevant regulatory requirements of the CBIRC, established investment management and risk control mechanisms in line with market practices and investment needs for insurance funds, and continued to optimize the same in practice. At the same time, the Group will strengthen the tracking, evaluation, research and identification of the stock credit products in investment portfolio, improve the comprehensiveness and accuracy of credit risk prevention and control with big data and artificial intelligence technology actively, improve relevant systems and operational procedures, handle the credit products that may be subject to risks in time, and control the credit risk dynamically on a forward-looking basis.

In general, the overall credit risk of the Group's current positions of non-standard asset is controllable, assets with an external credit rating of AA+ and above account for 98.3%, and of which, those with credit rating of AAA account for 97.9%. At present, the non-standard assets invested by the Company cover most of the provincial administrative regions in the country. The industries cover transportation, municipal, energy, environmental protection, commercial real estate, land reserve, shantytown renovation, water conservancy facilities, and affordable housing construction. These industries played an positive role in developing and supporting the implementation of major national strategies. The Group has adopted effective credit enhancement measures to stabilize and enhance the credit security of non-standard assets. The plans for the debt investments funded by the Group have effective credit enhancement measures in place, such as guarantees, full asset mortgages/pledges and others, which provide a sound guarantee for the repayment of the principal and investment income. The commercial bank wealth management products invested by the Group are mainly issued by large state-owned commercial banks or national joint-stock commercial banks with good credit qualifications. The trust plan invested by the Group mainly provides financing for large state-owned non-bank financial institutions and large state-owned enterprises.

2. *Classified by investment purpose*

From the perspective of investment purposes, the Group's investment assets are mainly distributed in three categories, available-for-sale financial assets, held-to-maturity investments, loans and others. Financial assets at fair value through profit or loss decreased by 13.5% as compared with those as at the end of last year, mainly due to reduced investment in bonds held for trading. The held-to-maturity investment increased by 4.7% as compared with those as at the end of last year, mainly due to the increase in bond allocation at the beginning of the year when the interest rate reached its high level. Available-for-sale financial assets increased by 0.8% as compared with those as at the end of last year, mainly due to the Company's increased investment in configuration bonds.

2. *Investment income*

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

Items	For the Year Ended 31 December 2018	2017
Cash and cash equivalents	**913**	1,066
Fixed-income investments	**29,603**	27,111
Interest income	**28,977**	27,117
Profits and losses of disposal of financial instruments	**564**	99
Profits and losses of fair value changes	**62**	(105)
Impairment	**–**	–
Fund and equity securities investments at fair value	**(2,000)**	7,335
Dividends income	**3,626**	3,303
Profits and losses of disposal of financial instruments	**(2,447)**	4,724
Profits and losses of fair value changes	**(755)**	195
Impairment	**(2,424)**	(887)
Other investments	**12,814**	12,840
Investment income in associates and joint ventures	**12,540**	12,674
Other profits and losses	**274**	166
Total investment income	**41,330**	48,352
Net investment income [(1)]	**46,910**	45,324
Total investment yield [(2)](%)	**4.8**	5.9
Net investment yield [(3)](%)	**5.5**	5.5

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

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

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

The total investment income of the Group decreased by 14.5% to RMB41,330 million in 2018 from RMB48,352 million in 2017; the net investment income increased by 3.5% to RMB46,910 million in 2018 from RMB45,324 million in 2017; the total investment yield decreased by 1.1% to 4.8% in 2018 from 5.9% in 2017; the net investment yield was 5.5%, remained stable with last year.

III. SPECIFIC ANALYSIS

(1) Liquidity Analysis

1. Liquidity Analysis

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

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

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

2. Statement of Cash Flows

The Group has established a cash flow monitoring mechanism, regularly conducts cash flow rolling analysis and forecasting, and actively develops management plans and response measures, so as to effectively prevent liquidity risks.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2018	2017	(% of change)
Net cash flows from operating activities	**(16,803)**	(625)	2,588.5
Net cash flows from investing activities	**(14,607)**	21,870	–
Net cash flows from financing activities	**20,064**	5,041	298.0

The Group's net cash flows from operating activities changed to a net outflow of RMB16,803 million in 2018 from a net outflow of RMB625 million in 2017, mainly due to the following: (1) in order to implement the regulatory requirements, the Life insurance sector actively reduced the scale of medium and short-term renewal business while making appropriate adjustments in business structure, resulting in decrease in cash inflows from Life insurance business; (2) the slowdown in the growth rate of premiums income of property insurance due to the decline in the growth rate of new car sales and the deepening of the reform of premium rate for commercial motor vehicle insurance; (3) increase in cash outflows due to increased market competition and higher sales expenses; and (4) affected by the disaster, the increase in claims expenses led to an increase in cash outflows.

The Group's net cash flows from investing activities changed to a net outflow of RMB14,607 million in 2018 from a net inflow of RMB21,870 million in 2017, mainly due to the expansion of investment caused by business development.

The Group's net cash flows from financing activities increased by 298.0% to a net inflow of RMB20,064 million in 2018 from a net inflow of RMB 5,041 million in 2017, mainly due to the the A-share listing and issuance of bonds by the Group to raise fund.

(2) Solvency

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

Unit: in RMB million, except for percentages

	As of 31 December 2018	As of 31 December 2017	(% of change)
PICC Group			
Actual capital	292,677	251,983	16.1
Core capital	230,672	198,075	16.5
Minimum capital	94,616	84,323	12.2
Comprehensive solvency margin ratio (%)	309	299	Increase of 10 pt
Core solvency margin ratio (%)	244	235	Increase of 9 pt
PICC P&C			
Actual capital	162,860	154,590	5.3
Core capital	135,172	127,326	6.2
Minimum capital	59,136	55,552	6.5
Comprehensive solvency margin ratio (%)	275	278	Decrease of 3 pt
Core solvency margin ratio (%)	229	229	–
PICC Life			
Actual capital	73,242	54,010	35.6
Core capital	60,577	47,192	28.4
Minimum capital	30,069	24,631	22.1
Comprehensive solvency margin ratio (%)	244	219	Increase of 25 pt
Core solvency margin ratio (%)	201	192	Increase of 9 pt
PICC Health			
Actual capital	10,355	10,930	(5.3)
Core capital	6,680	7,099	(5.9)
Minimum capital	3,678	2,763	33.1
Comprehensive solvency margin ratio (%)	282	396	Decrease of 114 pt
Core solvency margin ratio (%)	182	257	Decrease of 75 pt

As of 31 December 2018, the comprehensive solvency margin ratio of the Group was 309%, representing an increase of 10 percentage points as compared to that as of 31 December 2017, and its core solvency margin ratio was 244%, representing an increase of 9 percentage points as compared to that as of 31 December 2017.

As of 31 December 2018, the comprehensive solvency margin ratio of PICC P&C was 275%, representing an decrease of 3 percentage points as compared to that as of 31 December 2017, and its core solvency margin ratio was 229%, remained stable with last year; the comprehensive solvency margin ratio of PICC Life was 244%, representing an increase of 25 percentage points as compared to that as of 31 December 2017, and its core solvency margin ratio was 201%, representing an increase of 9 percentage points as compared to that as of 31 December 2017; the comprehensive solvency margin ratio of PICC Health was 282%, representing an decrease of 114 percentage points as compared to that as of 31 December 2017, and its core solvency margin ratio was 182%, representing a decrease of 75 percentage points as compared to that as of 31 December 2017.

PROSPECTS

(1) Market Environment

In this year of the 70th anniversary of the PRC, the fundamentals for insurance business development remains favourable generally. China will adhere to the general tone of making progress while maintaining stability and deepen supply-side reform in accordance with the requirement of high quality development. It is expected that China's economy will continue to run within a reasonable range which will provide a positive external environment for the development of the industry. Social and livelihood policies for shoring up weakness will be expedited, and in particular, the central government's financial subsidies for agricultural and critical illness insurances will be increased. The deepening and advancing of the role of insurance in serving social governance will give rise to new policy-related opportunities for the industry's development. People's consumption structure is at a stage of transformation and upgrading with profound changes taking place, and as a result, the strong demand for health and endowment insurance products will grow further and create new space for business development. The implementation of urbanization and regional development strategies will also narrow the development disparity between the urban and rural areas and between the eastern and the central and western regions. The immense county area and the central and western regions will be an important source of incremental premium income. As the State has pushed forward an all-round opening up and building the "Belt and Road" with joint efforts, it is positive for the insurance industy to make good use of the two markets and two types of resources and explore new growth points.

(2) Development strategy and operation plan

In 2019, the Group will adhere to new development concepts, the overall keynote of seeking progress while maintaining stability and serving the real economy, and coordinate efforts in stabilising growth and earnings, promoting reform, lowering cost and preventing risks in tandem with its "3411 Project" and in accordance with the requirement of high quality development. It will actively push forward business model reform, strengthen corporate governance structure, put more effort into market-oriented reform and actively cut cost and increase profits and enhance the quality of its human captial. The Group will also strengthen the Party's leadership, accelerate quality, efficiency and momentum reforms, and solidly propel the Group's transforming to a high quality development. PICC P&C will unswervingly deepen "two integrations", pursue dis-intermediary, lower costs, improve services and strengthen customer stickiness. It will thoroughly accomplish key tasks of fostering a sound marketing culture, building up the marketing team, strengthening the development of company controlled direct marketing channel and maintaining its cost-leading position. It will consolidate the development of motor vehicle insurance and policy-based business while putting more effort in the development of commercial non-vehicle insurance, pursuing success in the "central city attacking battle" and "county market defending battle", consolidating advantages and maintaining leading market position. PICC Health will insist on deepening comprehensive reform, strengthen professional capability, drive the flattening of organisational structure, optimize resource allocation, emphasize on product innovation, enhance expense control of medical insurance, optimize and achieve excellence in commercial health insurance, and promote the outstanding features, business size and value creation of health management services. PICC Life will persistently strengthen the building of the individual insurance sales team, reinforce policy, senior management and back office foundation, upgrade product mix, enhance embedded value of businesses, strengthen internal control and accountability and ensure steady business development. The investment segment will actively develop wealth management business while providing good services to its principal business. PICC AMC will strengthen cooperation with the entrusted parties to make appropriate allocation to major asset classes, playing a major role in stabilising investment income of the Group while actively accelerate public fund and third party asset management business. PICC Investment Holding will expedite its transformation and development, properly carry out assets operation business, strengthen active management, proactively expand the scales of direct investment entrusted business and financial product business. PICC Capital will seize investment opportunities amid economic restructuring and increase development and allocation of non-standard products to satisfy the Group's need of insurance asset allocation. The emerging segments will strengthen the building up of professional capability in their respective sectors, create boutique companies and further integrate into the overall development of the Group. PICC Financial Services will play a bigger role in advancing the Group's internet transformation and fin-tech application. PICC Reinsurance will thoroughly explore the Group's resources in outward reinsurance, accelerate development of third party market business and develop reinsurance business in respect of life and health insurance. PICC Pension will establish sound market-oriented operation regime, create endogenous vitality in development, consolidate the foundation for sustainable development, grasp opportunities in the occupational annuities market, increase the scale of entrusted annuities and enhance investment management capability. PICC Hong Kong will explore the Hong Kong market and act as a platform for business in Southeast Asia in accordance with the development requirement of being a professional, mid-sized boutique company with special characteristics.

CAPITAL EXPENDITURE

The capital expenditure of the Group primarily consists of property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure of the Group amounted to RMB5,116 million in 2018.

PLEDGE OF ASSETS

Certain subsidiaries of the Company sold and repurchased securities in the market for liquidity management. During the course of transaction, securities held by the Company's subsidiaries were pledged for such transactions. The carrying amount of relevant securities as at 31 December 2018 is set out in Note 33 to the consolidated financial statements.

BANK BORROWINGS

Besides the subordinated debts and capital supplementary bonds issued by the Group and the repurchase business disposed of in the investment business, the Group had no bank borrowings in 2018. Details of the subordinated debts and capital supplementary bonds are set out in Note 35 to the consolidated financial statements.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2018. The Company's management believes such litigation matters will not cause significant losses to the Group.

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

MAJOR ACQUISITIONS AND DISPOSALS

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

I. MATERIAL LAWSUITS AND ARBITRATION

The Company had no material lawsuits or arbitration during the reporting period.

II. MAJOR CONNECTED TRANSACTIONS

During the reporting period, the Company had not conducted any connected transactions or continuing connected transactions which need to comply with the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A "Connected Transactions" of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

In accordance with the Listing Rules of Shanghai Stock Exchange and other regulatory requirements, the NSSF constitutes a related party of the Company under the regulatory rules of the Shanghai Stock Exchange. Since 2017, the NSSF has entrusted PICC AMC to manage part of its assets. As of 31 December 2018, the assets under the management of PICC AMC were RMB5.832 billion, and the provision made by PICC AMC for assets management fee income was RMB8.19 million in 2018. As of 31 December 2018, the balance of assets management fees receivable was RMB2.28 million.

III. COMMITMENTS OF THE COMPANY, SHAREHOLDERS, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR OTHER RELATED PARTIES DURING OR CONTINUED IN THE REPORTING PERIOD

Background	Commitment	Commitment party	Commitment	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Commitment related to the initial public offering of A Shares	Restriction on sale of A Shares	MOF	Restrictions on the stock circulation and shareholders' voluntary lock-up commitment to the shares held by them in the Company's prospectus.	16 November 2018 to 15 November 2021	Yes	Yes
		NSSF	Restrictions on the stock circulation and shareholders' voluntary lock-up commitment to the shares held by them in the Company's prospectus.	16 November 2018 to 15 November 2019	Yes	Yes
		China Life Insurance Company Limited, Taiping Life Insurance Co., Ltd., New China Life Insurance Company Ltd., China Merchants Fund Management Company Limited (招商基金管理有限公司), E Fund Management Co., Limited, China Southern Asset Management Company Limited and China Universal Asset Management Company Limited	The shares will not be transferred in any form within 12 months from the date of the listing of the shares in issue, nor will any other rights such as pledge, mortgage and others be created on the shares.	16 November 2018 to 15 November 2019	Yes	Yes

III. COMMITMENTS OF THE COMPANY, SHAREHOLDERS, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR OTHER RELATED PARTIES DURING OR CONTINUED IN THE REPORTING PERIOD (Continued)

Background	Commitment	Commitment party	Commitment	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	Others	MOF	Shareholders' intention to hold shares and commitments in relation to reducing their holdings in the Company's prospectus.	Effective from 16 November 2018	Yes	Yes
		NSSF	Shareholders' intention to hold shares and commitments in relation to reducing their holdings in the Company's prospectus.	Effective from 16 November 2018	Yes	Yes
	Others	The Company and related directors and senior management	Measures for stabilizing stock prices after listing in the Company's prospectus.	16 November 2018 to 15 November 2021	Yes	Yes
	Dividend	The Company	The dividend commitment in the Company's prospectus.	Effective from 16 November 2018	Yes	Yes
	Others	The Company	Commitment to take remedial measures for the dilution impact on immediate return in the Company's prospectus.	Effective from 16 November 2018	Yes	Yes
		Directors and senior management	Commitment to take remedial measures for the dilution impact on immediate return in the Company's prospectus.	Effective from 16 November 2018	Yes	Yes
	Others	The Company	Commitment in relation to the contents of the prospectus in the Company's prospectus.	Effective from 5 November 2018	Yes	Yes
		Directors, supervisors and senior management	Commitment in relation to the contents of the prospectus in the Company's prospectus.	Effective from 5 November 2018	Yes	Yes

IV. PENALTIES AND RECTIFICATIONS OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND CONTROLLING SHAREHOLDERS

During the reporting period, the Company and its directors, supervisors, senior management and controlling shareholders have not been investigated by relevant authority, and the judicial body or discipline inspection departments have not taken coercive measures on them, nor were they transferred to the judicial body or pursued criminal responsibility and filed by the CSRC to investigate or impose administrative punishment, banned to enter the market, identified as an inappropriate candidate, given major administrative penalties by other administrative departments such as environmental protection, safety supervision, taxation, and been publicly condemned by the stock exchange.

The current directors, supervisors and senior management of the Company and those who resigned during the reporting period have not been punished by the securities regulatory authorities in the last three years.

V. EXPLANATION OF THE INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER DURING THE REPORTING PERIOD

During the reporting period, the Company and its controlling shareholder did not report any failure to perform the effective judgment of the court, or to pay outstanding debts with a large amount when due.

VI. OTHER MATERIAL CONTRACTS

During the reporting period, the Company neither acted as trustee, contractor or lessee of other companies' assets, nor entrusted, contracted or leased its assets to other companies, the profit or loss from which accounted for 10% or more of the Company's profits for the reporting period, nor were there any such matters occur or those that occurred in previous periods but subsisted during the reporting period, and there were no other material contracts.

VII. OTHER SIGNIFICANT EVENTS

1. Initial Public Offering of A Shares

After being approved by the CSRC, the Company completed the initial public offering of A Shares on 16 November 2018 and successfully completed the listing of A Shares on the main board of the Shanghai Stock Exchange.

2. Issuance of Capital Supplementary Bonds

On 5 June 2018, after being approved by the CBIRC and the People's Bank of China, the Company publicly issued capital supplementary bonds of RMB18 billion in the National Interbank Bond Market. The capital supplementary bonds issued are ten-year fixed-rate bonds, with an annual coupon rate of 4.99% for the first five years, and the Company has redemption rights at the end of the fifth year. In the event that the Company does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 5.99% for the remaining five years.

3. Issuance of Capital Supplementary Bonds by PICC Life

On 16 May 2018, after being approved by the CBIRC and the People's Bank of China, PICC Life publicly issued capital supplementary bonds of RMB12 billion in the National Interbank Bond Market. The capital supplementary bonds issued are ten-year fixed-rate bonds, with an annual coupon rate of 5.05% for the first five years, and PICC Life has redemption rights at the end of the fifth year. In the event that PICC Life does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 6.05% for the remaining five years.

4. Capital Increase in PICC Reinsurance

On 28 December 2018, the Company entered into a capital increase agreement with PICC P&C and PICC Reinsurance. The Company and PICC P&C increased capital of RMB1 billion in PICC Reinsurance in accordance with their existing shareholdings, among which, the Company contributed RMB510 million and PICC P&C contributed RMB490 million. After the capital increase was completed, the shareholdings of the Company and PICC P&C in PICC Reinsurance remained unchanged with 51% and 49% held by the Company and PICC P&C respectively. At present, the work related to the capital Increase of PICC Reinsurance is in progress.

VIII. EXTERNAL GUARANTEES AND MATERIAL GUARANTEES

During the reporting period, the Company and its subsidiaries did not have external guarantees, and there were no guarantees provided by the Company and its subsidiaries to subsidiaries.

IX. SOCIAL RESPONSIBILITY REPORT AND PRECISE POVERTY ALLEVIATION

For details of the implementation of social responsibilities of the Company during the reporting period, please refer to the Social Responsibility Report, the full text of which will be separately disclosed by the Company. Specific information on precise poverty alleviation and environmental information is set out in sections 8 and 11 of the Social Responsibility Report.

X. COMPLIANCE WITH LAWS AND REGULATIONS

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

I. MOVEMENTS IN ORDINARY SHARE CAPITAL

(1) Statement of Movements in Ordinary Shares

1. Statement of Movements in Ordinary Shares

Unit: Share

	Pre-movement		Increase/decrease (+/-)					Post movement	
	Number of shares	Proportion (%)	Issuance of new shares	Bonus issue	Conversion from reserves	Others	Subtotal	Number of shares	Proportion (%)
I. Shares subject to selling restriction	33,697,756,583	79.43	+788,760,000	–	–	–	+788,760,000	34,486,516,583	77.98
1. Shares held by the state	33,697,756,583	79.43	–	–	–	–	–	33,697,756,583	76.20
2. Shares held by state-owned legal persons	–	–	+474,390,000	–	–	–	+474,390,000	474,390,000	1.07
3. Shares held by other domestic investors	–	–	+314,370,000	–	–	–	+314,370,000	314,370,000	0.71
Including: Shares held by domestic non-state-owned legal persons	–	–	+314,370,000	–	–	–	+314,370,000	314,370,000	0.71
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Including: Shares held by overseas legal persons	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restriction	8,726,234,000	20.57	+1,011,240,000	–	–	–	+1,011,240,000	9,737,474,000	22.02
1. Renminbi-denominated ordinary shares	–	–	+1,011,240,000	–	–	–	+1,011,240,000	1,011,240,000	2.29
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	8,726,234,000	20.57	–	–	–	–	–	8,726,234,000	19.73
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of ordinary shares	42,423,990,583	100	+1,800,000,000	–	–	–	+1,800,000,000	44,223,990,583	100

2. Description of Movements in Ordinary Shares

After being approved by the Reply on the Approval of the Initial Public Offering of The People's Insurance Company (Group) of China Limited (Zheng Jian Xu Ke [2018] No. 997) issued by the CSRC, the Company completed the initial public offering of 1,800,000,000 Renminbi-denominated ordinary shares (A Shares) on the main board of the Shanghai Stock Exchange on 16 November 2018 at an issue price of RMB3.34 per share. The gross proceeds raised was RMB6,012,000,000.00, and the actual net proceeds raised after deducting the issuance expenses was RMB5,847,847,056.86. After the completion of the issuance, the total number of shares of the Company increased from 42,423,990,583 shares to 44,223,990,583 shares, with 35,497,756,583 A Shares and 8,726,234,000 H Shares. For the movements in the shares of the Company after the public offering, please refer to the "Statement of Movements in Ordinary Shares".

3. The Impact of Movements in Ordinary Shares on Financial Indicators such as Earnings per Share and Net Assets per Share for the Latest Year and Period.

The earnings per share in 2018 was RMB0.30 and the net assets per share at the end of 2018 was RMB3.47 based on 42,423,990,583 shares without movements. The earnings per share in 2018 was RMB0.30 and the net assets per share at the end of 2018 was RMB3.46 based on 44,223,990,583 shares after movements.

I. MOVEMENTS IN ORDINARY SHARE CAPITAL *(Continued)*

(2) Movements in Restricted Shares

Unit: Share

Name of shareholder	Number of restricted shares at the beginning of the year	Number of restricted shares released during the year	Number of restricted shares increased during the year	Number of restricted shares at the end of the year	Reason for restrictions	Restrictions released on
China Life Insurance Company Limited-Traditional-Ordinary insurance products-005L-CT001 SH	–	–	294,750,000	294,750,000	Restricted for listing of A Shares	18 November 2019
New China Life Insurance Company Ltd.-Dividend-Personal dividend-018L-FH002 SH	–	–	89,820,000	89,820,000	Restricted for listing of A Shares	18 November 2019
Taiping Life Insurance Co., Ltd.-Traditional-Ordinary insurance products-022L-CT001 SH	–	–	89,820,000	89,820,000	Restricted for listing of A Shares	18 November 2019
Bank of China Limited-China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	89,820,000	89,820,000	Restricted for listing of A Shares	18 November 2019
China Construction Bank Corporation-E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	74,850,000	74,850,000	Restricted for listing of A Shares	18 November 2019
Industrial and Commercial Bank of China Limited-China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	74,850,000	74,850,000	Restricted for listing of A Shares	18 November 2019
Industrial and Commercial Bank of China Limited-China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	74,850,000	74,850,000	Restricted for listing of A Shares	18 November 2019
Total			**788,760,000**	**788,760,000**	/	/

II. ISSUANCE AND LISTING OF SECURITIES

(1) Issuance of Securities for the Reporting Period

Unit: Share Currency: RMB

Type of shares and its derivatives	Issuance date	Issue price (or interest rate)	Number of shares issued	Listing date	Number of shares approved for listing and trading	Termination date of transaction
Ordinary shares						
Renminbi-denominated ordinary shares (A Shares)	6 November 2018	RMB3.34/Share	1,800,000,000	16 November 2018	1,800,000,000	
Convertible corporate bonds, warrant bonds and corporate bonds						
Capital Replenishment Bonds	5 June 2018	The first year to the fifth year: 4.99% The sixth year to the tenth year: 5.99%	18 billion	8 June 2018	18 billion	The term of the bonds is ten years and the Company has redemption rights at the end of the fifth year.

Description of securities issuance as of the reporting period:

1. ***Issuance of Ordinary Shares***

For details, please refer to the "Description of Movements in Ordinary Shares" in this section.

2. ***Issuance of Capital Supplementary Bonds***

The Company publicly issued the capital supplementary bonds of RMB18 billion in the National Interbank Bond Market in June 2018. The term of the capital supplementary bonds issued are ten years, with an annual coupon rate of 4.99% for the first five years, and the Company has redemption rights at the end of the fifth year. In the event that the Company does not exercise the redemption rights, the annual coupon rate of the capital supplementary bonds will be 5.99% in the remaining five years.

(2) Movements in the Total Number of Ordinary Shares and Shareholder Structure of the Company and Movements in the Assets and Liabilities Structure of the Company

For details of the movements in the total number of ordinary shares and shareholder structure of the Company, please refer to the "Description of Movements in Ordinary Shares" and "Statement of Movements in Ordinary Shares" in this section.

Movements in the assets and liabilities structure of the Company: The Company completed the initial public offering of 1.8 billion renminbi-denominated ordinary shares (A Shares) on the main board of the Shanghai Stock Exchange on 16 November 2018. The gross proceeds raised from the public offering of A Shares were RMB6.012 billion, and the net proceeds raised after deducting the issuance expenses were RMB5.848 billion. The Company publicly issued the capital replenishment bonds of RMB18 billion in the National Interbank Bond Market on 5 June 2018. The issuance of securities above resulted in the total combined assets of the Company increasing by RMB43.717 billion to RMB1,031.690 billion at the end of the year from RMB987.973 billion at the beginning of the year, and the total combined liabilities of the Company increased by RMB24.250 billion to RMB826.264 billion at the end of the year from RMB802.014 billion at the beginning of the year.

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(1) Total Number of Shareholders

Total number of ordinary shareholders as at the end of the reporting period (Shareholder)	A Shares: 291,882, H Shares: 6,008
Total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report (Shareholder)	A Shares: 234,030, H Shares: 6,000

(2) Shareholdings of the Top Ten Shareholders and Top Ten Shareholders not Subject to Selling Restrictions as at the end of the Reporting Period

Unit: Share

Shareholdings of the Top Ten Shareholders					Pledged or frozen shares		
Name of shareholder (in full name)	Increase/ decrease (+/-) during the reporting period	Number of shares held as at the end of the reporting period	Proportion (%)	The number of shares held subject to selling restrictions	Status of the shares	Number of shares	Class of Shareholder
MOF	–	29,896,189,564	67.60	29,896,189,564	–	–	The State
HKSCC NOMINEES LIMITED	+3,981,360	8,705,034,987	19.68	–	–	–	Foreign legal person
National Council for Social Security Fund	–	3,801,567,019	8.60	3,801,567,019	–	–	The State
China Life Insurance Company Limited-Traditional-Ordinary insurance products-005L-CT001 SH	+294,750,000	294,750,000	0.67	294,750,000	–	–	State-owned legal person
New China Life Insurance Company Ltd.-Dividend-Personal dividend-018L-FH002 SH	+89,820,000	89,820,000	0.20	89,820,000	–	–	State-owned legal person
Taiping Life Insurance Co., Ltd.-Traditional-Ordinary insurance products-022L-CT001 SH	+89,820,000	89,820,000	0.20	89,820,000	–	–	State-owned legal person
Bank of China Limited-China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	+89,820,000	89,820,000	0.20	89,820,000	–	–	Others
China Construction Bank Corporation-E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	+74,850,000	74,850,000	0.17	74,850,000	–	–	Others
Industrial and Commercial Bank of China Limited-China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	+74,850,000	74,850,000	0.17	74,850,000	–	–	Others
Industrial and Commercial Bank of China Limited-China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	+74,850,000	74,850,000	0.17	74,850,000	–	–	Others

III. SHAREHOLDERS AND DE FACTO CONTROLLER *(Continued)*

(2) Shareholdings of the Top Ten Shareholders and Top Ten Shareholders not Subject to Selling Restrictions as at the end of the Reporting Period *(Continued)*

Shareholdings of the Top Ten Shareholders Not Subject to Selling Restrictions

Name of shareholder	Number of shares held not subject to selling restrictions	Class and number of shares: Class	Class and number of shares: Number
HKSCC NOMINEES LIMITED	8,705,034,987	H Share	8,705,034,987
Shenzhen Rongchao Investment Development Co., Ltd.	53,799,148	A Share	53,799,148
Zhang Lihua	12,191,759	A Share	12,191,759
Lin Zhaoxin	3,641,200	A Share	3,641,200
Xie Yancheng	3,207,408	A Share	3,207,408
Dong Ming	2,630,125	A Share	2,630,125
Xu Dongzuo	2,515,369	A Share	2,515,369
Huang Yingxian	2,399,000	A Share	2,399,000
Wu Guofu	2,010,800	A Share	2,010,800
Chen Jinquan	2,000,000	A Share	2,000,000
Details of the above shareholders who are connected to each other or acting in concert	The Company is not aware of any connected relationship among the above shareholders or any parties acting in concert as defined by the "Measures for the Administration of the Takeover of Listed Companies".		

Notes:

1. For the shareholders mentioned in the above table, except for the shares held by HKSCC NOMINEES LIMITED are H Shares, the shares held by other shareholders are A Shares.

2. The Company received a notice from the MOF on 26 December 2018. The Ministry of Finance decided to transfer 10% of the equity interests held by it to the NSSF, and the number of shares transferred was 2,989,618,956 shares (approximately 6.76% of the Company's total share capital). At present, relevant regulatory approval procedures are being implemented. After the transfer, the shareholding percentage of the MOF is 60.84%, and the shareholding percentage of the NSSF is 15.36%.

3. In addition to the 3,801,567,019 A Shares of the Company held by it, the National Council for Social Security Fund holds 524,279,000 H shares as a beneficial owner and 143,000 H Shares through overseas manager.

4. The Chinese name of HKSCC NOMINEES LIMITED is 香港中央結算（代理人）有限公司, which holds shares on behalf of securities firm customers in Hong Kong and other CCASS participant. Relevant regulations of the Hong Kong Stock Exchange do not require such persons to declare whether their shareholdings are pledged or frozen. Hence, HKSCC Nominees Limited is unable to calculate or provide the number of shares that are pledged or frozen.

III. SHAREHOLDERS AND DE FACTO CONTROLLER *(Continued)*

(2) Shareholdings of the Top Ten Shareholders and Top Ten Shareholders not Subject to Selling Restrictions as at the end of the Reporting Period *(Continued)*

Number of Shares Held by Top Ten Shareholders Subject to Selling Restrictions and Selling Restrictions

Unit: Share

NO.	Name of Shareholders subject to selling restrictions	Number of shares held subject to selling restrictions	Shares subject to selling restrictions available for listing and trading: Time available for listing and trading	Shares subject to selling restrictions available for listing and trading: Number of additional shares available for listing and trading	Selling restrictions
1	Ministry of Finance of the People's Republic of China	29,896,189,564	16 November 2021	–	Within 36 months from the listing date of the Company's A Shares
2	National Council for Social Security Fund	3,801,567,019	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
3	China Life Insurance Company Limited-Traditional-Ordinary insurance products-005L-CT001 SH	294,750,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
4	New China Life Insurance Company Ltd.-Dividend-Personal dividend-018L-FH002 SH	89,820,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
5	Taiping Life Insurance Co., Ltd.-Traditional-Ordinary insurance products-022L-CT001 SH	89,820,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
6	Bank of China Limited-China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	89,820,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
7	China Construction Bank Corporation-E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	74,850,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
8	Industrial and Commercial Bank of China Limited-China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	74,850,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
9	Industrial and Commercial Bank of China Limited-China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	74,850,000	18 November 2019	–	Within 12 months from the listing date of the Company's A Shares
Details of the above shareholders who are connected to each other or acting in concert		The Company is not aware of any connected relationship among the above shareholders or any parties acting in concert as defined by the "Measures for the Administration of the Takeover of Listed Companies".			

III. SHAREHOLDERS AND DE FACTO CONTROLLER *(Continued)*

(3) Strategic Investors or General Legal Persons who Become the Top Ten Shareholders due to the Placement of New Shares

Name of strategic investors or general legal person	Agreed shareholding start date	Agreed shareholding end date
China Life Insurance Company Limited-Traditional-Ordinary insurance products-005L-CT001 SH	16 November 2018	–
New China Life Insurance Company Ltd.-Dividend-Personal dividend-018L-FH002 SH	16 November 2018	–
Taiping Life Insurance Co., Ltd.-Traditional-Ordinary insurance products-022L-CT001 SH	16 November 2018	–
Bank of China Limited-China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	16 November 2018	–
China Construction Bank Corporation-E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	16 November 2018	–
Industrial and Commercial Bank of China Limited-China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	16 November 2018	–
Industrial and Commercial Bank of China Limited-China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	16 November 2018	–

IV. CONTROLLING SHAREHOLDER

(1) Legal Person

The MOF is the controlling shareholder of the Company. The MOF was established in October 1949. It is a constituent part of the State Council. It is authorized by the State Council to exercise relevant government functions such as state finance, taxation, and management of state-owned assets. The head of the MOF is Liu Kun, and its address is No.3, Nansanxiang, Sanlihe, Xi Cheng District, Beijing.

As of 31 December 2018, according to the publicly available information, the MOF directly holds more than 5% of the issued shares of the following other domestic and overseas listed companies:

Name of company	Short name of the stock	Stock code	Percentage of the company's total shares
Industrial and Commercial Bank of China Limited	Industrial and Commercial Bank	601398.SH	34.60%
Agricultural Bank of China Limited	Agricultural Bank	601288.SH	39.21%
Bank of Communications Co., Ltd.	Bank of Communications	601328.SH	26.53%
China Cinda Asset Management Co., Ltd.	China Cinda	01359.HK	64.45%
China Reinsurance (Group) Corporation	China Reinsurance	01508.HK	11.45%

(2) Block Diagram of Property Rights and Controlling Relations between the Company and Controlling Shareholder

Ministry of Finance of the People's Republic of China

↓ 67.60%

The People's Insurance Company (Group) of China Limited

Note: The Company received a notice from the MOF on 26 December 2018. The MOF decided to transfer 10% of the equity interests held by it to the NSSF, and the number of shares transferred was 2,989,618,956 shares (approximately 6.76% of the Company's total share capital). At present, relevant regulatory approval procedures are being processed. After the transfer, the shareholding percentage of the MOF will be 60.84%.

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

As far as the Directors of the Company are aware, as at 31 December 2018, the following persons (other than the Directors, Supervisors and senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Sections 2 and 3 of Part XV of the SFO, or is required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of A Shares	Nature of interests	Percentage of total issued A Shares	Percentage of total issued shares
MOF	Beneficial owner	29,896,189,564	Long position	84.22%	67.60% *(Note 1)*
NSSF	Beneficial owner	3,801,567,019	Long position	10.71%	8.60% *(Note 1)*

Name of shareholder	Capacity	Number of H Shares	Nature of interests	Percentage of total issued H Shares	Percentage of total issued shares
American International Group, Inc. ("AIG")	Beneficial owner	1,113,405,000 *(Note 2)*	Long position	12.76%	2.52%
NSSF *(Note 3)*	Beneficial owner	524,422,000	Long position	6.01%	1.19%
BlackRock, Inc. ("BlackRock") *(Note 4)*	Interest of controlled corporation	530,692,046	Long position	6.08%	1.20%

Notes:

1. The Company received a notice from the MOF on 26 December 2018. The MOF decided to transfer 10% of the equity interests held by it to the NSSF, and the number of shares transferred was 2,989,618,956 shares (approximately 6.76% of the Company's total share capital). At present, relevant regulatory approval procedures are being processed. After the transfer, the shareholding percentage of the MOF will be 60.84%, and the shareholding percentage the NSSF will be 15.36%.

2. AIG disposed of all of the H Shares held by it in the Company on 27 February 2019.

3. NSSF, as the beneficial owner, holds 524,279,000 H Shares. In addition, NSSF holds 143,000 H Shares via the overseas manager. Accordingly, NSSF is deemed to be interested in the aforementioned H Shares.

4. BlackRock is deemed to be interested in 530,692,046 H Shares through certain subsidiaries controlled by it.

Save as disclosed above, as of 31 December 2018, the Company is not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company, that is required to be entered into the register under Section 336 of the SFO.

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Basic information of Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Date of Appointment
Miao Jianmin	Chairman	Male	53	January 2018
	Executive Director			July 2017
Bai Tao	Executive Director, Vice Chairman	Male	55	October 2018
	President			September 2018
Xie Yiqun	Executive Director	Male	57	October 2017
	Vice President			July 2015
Tang Zhigang	Executive Director	Male	54	November 2017
	Vice President			September 2013
	Secretary to the Board			March 2019
Wang Qingjian	Non-executive Director	Male	54	July 2017
Xiao Xuefeng	Non-executive Director	Male	48	October 2017
Hua Rixin	Non-executive Director	Female	59	October 2015
Cheng Yuqin	Non-executive Director	Female	57	October 2015
Wang Zhibin	Non-executive Director	Male	51	August 2016
Shiu Sin Por	Independent Non-executive Director	Male	69	May 2018
Ko Wing Man	Independent Non-executive Director	Male	61	May 2018
Luk Kin Yu, Peter	Independent Non-executive Director	Male	78	July 2015
Lin Yixiang	Independent Non-executive Director	Male	55	September 2015
Chen Wuzhao	Independent Non-executive Director	Male	49	March 2017
Lin Fan	Chairman of the Board of Supervisors	Male	59	May 2012
Xu Yongxian	Shareholder representative Supervisor	Male	55	September 2009
Jing Xin	Independent Supervisor	Male	61	March 2017
Wang Dajun	Employees representative Supervisor	Male	51	March 2016
Ji Haibo	Employees representative Supervisor	Male	55	October 2017
Sheng Hetai	Vice President	Male	48	June 2014
Li Zhuyong	Vice President	Male	46	November 2018
	Responsible Compliance Officer			December 2018
	Chief Risk Officer			August 2018
Han Kesheng	Assistant to the President	Male	53	May 2010
	Responsible Audit Officer			February 2018
Zhao Jun	Chief Information Technology Officer	Male	58	September 2007
Lin Zhiyong	Business Director	Male	55	March 2019
Zhou Houjie	Responsible Financial Officer	Male	54	March 2010
	Chief Financial Officer			
Lv Chen	Business Director	Male	47	August 2013

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(2) Resigned Directors, Supervisors and Senior Management

Name	Previous position	Date of appointment	Date of termination	Change and cause
Lau Hon Chuen	Independent Non-executive Director	October 2012	May 2018	Resigned after expiration of term
Xu Dingbo	Independent Non-executive Director	September 2009	May 2018	Resigned after expiration of term
Zhuang Chaoying	Secretary for Discipline Inspection	March 2012	July 2018	Retired
Li Tao	Secretary to the Board	September 2009	December 2018	Resigned due to job changes

Note: The Date of appointment refers to the time after completion of the Company's corporate governance process and the approval of the regulatory body which is responsible for qualification verification.

(3) Shareholdings of Directors, Supervisors and Senior Management

During the reporting period, except for Wang Dajun, a supervisor, who continues to hold 50,000 H Shares, none of other directors, supervisors and senior management hold shares in the Company.

(4) Directors, Supervisors and Senior Management's Position in the Shareholder

Name	Name of shareholder	Position in the shareholder	Date of appointment	Whether received remuneration from related parties of the Company
Wang Zhibin	NSSF	Head of the Regulation and Supervision Department	March 2016	Yes

(5) Directors, Supervisors and Senior Management's Position in Other Companies/Institutions

Name	Position in the Company	Name of other companies/institutions	Position in other companies/institutions	Date of appointment
Miao Jianmin	Executive Director and Chairman	Chinese Academy of Social Sciences	Doctoral tutor	–
		Tsinghua University PBC School of Finance	Master tutor	–
		Peking University	Master tutor	–
		Central University of Finance and Economics	Master tutor	–
		Insurance Association of China	Honorary Council President	May 2018
Xie Yiqun	Executive Director and Vice President	National Internet Finance Association of China	Vice chairman	September 2016
		Asian Financial Cooperation Association	Vice chairman	July 2017
Wang Qingjian	Non-executive Director	Central Huijin Investment Company Limited	Director appointed by the company	July 2017
Xiao Xuefeng	Non-executive Director	Central Huijin Investment Company Limited	Director appointed by the company	October 2017
Hua Rixin	Non-executive Director	Central Huijin Investment Company Limited	Director appointed by the company	February 2016

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(5) Directors, Supervisors and Senior Management's Position in Other Companies/Institutions *(Continued)*

Name	Position in the Company	Name of other companies/institutions	Position in other companies/ institutions	Date of appointment
Cheng Yuqin	Non-executive Director	Central Huijin Investment Company Limited	Director appointed by the company	June 2007
Shiu Sin Por	Independent Non-executive Director	New Paradigm Foundation	President	September 2017
		Chongyang Institute for Financial Studies at Renmin University of China	Senior fellow	December 2017
		School of Public Policy and Management of Tsinghua University	Senior Visiting Fellow	January 2018
		Shanghai East Asia Research Institute	Consultant	April 2018
Ko Wing Man	Independent Non-executive Director	Dr. Ko Wing Man Clinic	Doctor	August 2017
		Bamboos Health Care Holdings Limited	Independent Director	August 2018
Luk Kin Yu, Peter	Independent Non-executive Director	Plan-B Consulting Limited	Chief executive officer	February 2002
Lin Yixiang	Independent Non-executive Director	CITIC Trust Co., Ltd	Independent Director	December 2017
		Xinxing Energy Equipment Co., Ltd.	Director	August 2016
		Financial Street Holdings Co., Ltd.	Independent Director	August 2014
		Securities Association of China	Supervisor	June 2017
		Qualification Evaluation Committee in the Ministry of Human Resources and Social Security Annuity Fund Management Institution	Expert	November 2004
		TX Investment Consulting Co., Ltd and some of its subsidiaries	Director and/or general manager	March 2001
		School of Finance of Central University of Finance & Economics	Master tutor	2004
		Business School of Beijing Language & Culture University	Master tutor	2016
		Business School of the China University of Political Science & Law	Director of Board and adjunct professor	2017
		Dong Fureng Econmics & Social Dvelepment School of Wuhan University	Research analyst	January 2018
		School of Economics of Peking University	Adjunct professor	January 2012
		Tsinghua University PBC School of finance	Master tutor	May 2012
Chen Wuzhao	Independent Non-executive Director	School of Economics and Management, Tsinghua University	Associate professor	October 1998
		Guizhou Broadcasting & TV Information Network Co., Ltd.	Independent Director	January 2016
		Accounting Society of China	Committee member of the Enterprise Accounting Standards Professional Board	January 2009
		Beijing Andawell Science & Technology Company Ltd	Independent Director	February 2016

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(5) Directors, Supervisors and Senior Management's Position in Other Companies/Institutions *(Continued)*

Name	Position in the Company	Name of other companies/institutions	Position in other companies/ institutions	Date of appointment
Jing Xin	Independent Supervisor	Bank of China Investment Management Co., Ltd.	Independent Director	July 2011
		Government Accounting Standards Board of the Ministry of Finance	Consultant	December 2015
Sheng Hetai	Vice President	The Insurance Institute of China	Vice chairman	August 2017
Lin Zhiyong	Business Director	The Insurance Institute of China	Vice chairman	September 2016
		Insurance Association of China	Vice chairman	November 2016
		Insurance Association of China	Chairman of the Agricultural Insurance Specialized Committee	September 2015
		Hua Xia Bank	Non-Executive Director	December 2017
		Insurance Association of China	Deputy director of the Standing Committee of the Funds Utilization Specialized Committee	August 2017
Zhou Houjie	Responsible Financial Officer and Chief Financial Officer	Insurance Association of China	Chairman of Financial & Accounting Committee	June 2016

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

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

Mr. Bai Tao, is an Executive Director, a vice Chairman and the President of the Company, and senior economist. From August 1984 to May 2014, Mr. Bai worked at Industrial and Commercial Bank of China Limited (a company listed on the Hong Kong Stock Exchange, stock code: HK.01398; a company listed on the Shanghai Stock Exchange, stock code: SH.601398) and successively served as an assistant to the president of Hainan Branch, deputy general manager of the project credit department of the Head Office, vice president of Jilin Branch, vice president (presiding) and president of Hunan Branch, general manager of asset risk management department, general manager of risk management department and president of internal audit bureau of the Head Office. From May 2014 to August 2016, he served as a vice president of China Life Insurance (Group) Company. From September 2016 to July 2018, he served as a deputy general manager of China Investment Corporation; during the period since October 2016, he also served as an executive director and general manager of Central Huijin Investment Ltd.. He was appointed as an Executive Director, a vice Chairman and the President of the Company since July 2018. In July 2005, Mr. Bai graduated from Renmin University of China with a Ph.D. in Economics.

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

EXECUTIVE DIRECTORS *(Continued)*

Mr. Xie Yiqun, is an Executive Director and a Vice President of the Company and a senior economist. Mr. Xie joined the Company in April 1980 and has worked as the deputy general manager of Wenzhou branch, the general manager of the International Business Department of Zhejiang branch and the manager of Insurance Claim Settlement Agency in Marseille, France until January 1995. From January 1995 to December 2001, he worked as the general manager of China Insurance Company S.A. Luxemburg, the general manager of China Insurance Company (UK) Limited, the general manager of China Insurance Singapore branch and China Taiping Insurance Group Singapore branch and the director of the Singaporean Institutional Reorganisation Preparatory Committee. Mr. Xie worked as the Chairman of Taiping Life Insurance Co., Ltd. from December 2001 to November 2004. From August 2004 to May 2009, Mr. Xie worked as managing director and deputy general manager of China Insurance (Holdings) Company Limited and China Insurance H.K. (Holdings) Company Limited. From May 2009 to March 2015, Mr. Xie worked as deputy general manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he worked asmanaging director from May 2009 to March 2012 and executive director from June 2013 to March 2015. Meanwhile, he also worked as executive director and deputy general manager of China Taiping Insurance Holdings Company Limited (a company listed on the Stock Exchange of Hong Kong Limited, stock code: HK.00966), chairman of Taiping Assets Management (HK) Company Limited, chairman of CIC Holdings (Europe) Limited, chairman of Taiping Pension Co., Ltd., chairman of Taiping Asset Management Company Limited, chairman of Taiping Securities (HK) Company Limited, executive director and general manager of Taiping Senior Living Investments Company Limited, chairman of Taiping Financial Holdings Company Limited, chairman of Taiping Investment Holdings Company Limited and chairman of Shenzhen Taiping Investment Company Limited. Mr. Xie has been working as the Vice President of the Company since March 2015 and the Executive Director since October 2017. He was appointed as the Secretary to the Board from August 2018 to March 2019, and was appointed as non-executive director of PICC P&C in June 2018, and was transferred to executive director, appointed as Vice Chairman and President since March 2019. He also worked as chairman of PICC Hong Kong since June 2015, chairman of PICC Financial Services since January 2017 and chairman of PICC Investment Holding since March 2018. Mr. Xie has been a vice chairman of National Internet Finance Association of China since September 2016 and the vice chairman of the Asian Financial Cooperation Association since July 2017.Mr. Xie graduated from Nankai University in July 1988 and from Middlesex University Business School, UK in June 2001 and obtained the degree of M.A.

Mr. Tang Zhigang, is an Executive Director, a Vice President and the Secretary to the Board of the Company, and a senior economist. Mr. Tang worked in the Agricultural Bank of China from July 1988 to July 1994 and served as a deputy director of restructuring commission of research office. From July 1994 to September 2013, Mr. Tang worked in the Agricultural Development Bank of China and served as a deputy director of research office of general administrative office, a deputy division director, director, assistant to the chief of Jiangsu branch, deputy officer of administrative office of headquarters, manager of the research division, chief of Jiangsu branch, head of the preparation committee of international business department of headquarters, general manager of the international business department and director of the office, and since February 2013, he worded as the assistant to the president and director of office of the Agricultural Development Bank of China. He has been appointed as a Vice President of the Company since September 2013, an Executive Director of the Company since November 2017, the Secretary to the Board since March 2019, the Responsible Compliance Officer and the Chief Risk Officer from December 2017 to August 2018. Mr. Tang served as chief of preparatory leading team for the PICC Pension Co., Ltd since January 2017 and Chairman of PICC Pension since October 2017, and was appointed as Non-executive director of PICC P&C since March 2019. Mr. Tang graduated from Hunan Institute of Finance in July 1985 with a Bachelor's Degree in Economics and obtained a Master's Degree in Economics from Graduate Department of Finance Research Institute of The People's Bank of China in July 1988.

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

NON-EXECUTIVE DIRECTORS

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

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

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

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

NON-EXECUTIVE DIRECTORS *(Continued)*

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

Mr. Wang Zhibin, is a Non-executive Director of the Company. He worked at the National Audit Office of the PRC from July 1994 to March 2001. He also worked at the National Council for Social Security Fund from March 2001 and successively served as the deputy director and director of the Risk Control Division of the Regulation and Supervision Department; served as deputy head of the Regulation and Supervision Department from December 2004; served as deputy head of the Investment Department from June 2007; served as a counsel and deputy head of the Investment Department from March 2011; served as a counsel and deputy head of the Securities Investment Department from August 2012; served as head of the Regulation and Supervision Department since March 2016 till now. Mr. Wang has been a Non-executive Director of the Company since August 2016. Mr. Wang graduated from Southwestern University of Finance and Economics with a Master's degree in Economics in July 1994; he obtained a Doctoral degree in Economics from Southwestern University of Finance and Economics in January 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shiu Sin Por, is an Independent Non-executive Director of the Company. Mr. Shiu was a member of the 10th, 11th and 12th National Committee of the Chinese People's Political Consultative Conference. Mr. Shiu studied in the School of Industrial and Labour Relations at Cornell University in New York in the United States; he graduated from the University of Wisconsin in the United States in September 1985 with a bachelor degree in economics, and was appointed as a Justice of the Peace for Hong Kong in August 2012 and was awarded the Gold Bauhinia Star in Hong Kong in October 2017. Mr. Shiu served as the Deputy Secretary General of the Consultative Committee for the Basic Law of Hong Kong from November 1985 to April 1990, the president of the One Country Two Systems Research Institute from September 1990 to September 2005, an Asia Programs Fellow at the John F. Kennedy School of Government at Harvard University from September 2005 to June 2006, a Senior Visiting Fellow at the School of Public Policy and Management of Tsinghua University in Beijing from September 2006 to August 2007, a full-time consultant at the Central Policy Unit of the Government of the Hong Kong Special Administrative Region from August 2007 to June 2012, the chief consultant at the Central Policy Unit of the Government of the Hong Kong Special Administrative Region from July 2012 to June 2017, the president of New Paradigm Foundation since September 2017, a senior fellow of the Chongyang Institute for Financial Studies at Renmin University of China（中國人民大學重陽金融研究院）since December 2017, a member of the Academic Advisory Board of CITIC Foundation for Reform and Development Studies (中信改革與發展基金會學術顧問委員會) since January 2018, a Senior Visiting Fellow at the School of Public Policy and Management of Tsinghua University since January 2018, and a consultant of Shanghai East Asia Research Institute (上海東亞研究所) since April 2018. Mr. Shiu previously served as a consultant of transitional affairs in Hong Kong of the Hong Kong and Macao Affairs Office of the State Council and the Xinhua News Agency, Hong Kong Branch, a standing director of the Chinese Association of Hong Kong & Macao Economic Studies (全國港澳經濟研究會), a member and deputy secretary general of the Preparatory Committee for the Hong Kong Special Administrative Region of the National People's Congress, an honorary advisor of Guangdong Association for Hong Kong & Macao Economic Studies（廣東港澳經濟研究會）, a member of the board of The Hong Kong Jockey Club Institute of Chinese Medicine, a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Special Administrative Region Government and a director of the One Country Two Systems Research Institute in Hong Kong.

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Ko Wing Man, is an Independent Non-executive Director of the Company. He is currently an orthopaedic surgeon at Dr. Ko Wing Man Clinic（高永文醫生診所）. Mr. Ko is a member of the 13th National Committee of the Chinese People's Political Consultation Conference. Mr. Ko served as a trainee doctor and hospital doctor of Princess Margaret Hospital from July 1981 to March 1989, the chief doctor and assistant director of former Health Services Panel in Hong Kong from April 1989 to November 1991, the Professional and Public Affairs director and the Professional and Human Resources director of the Hong Kong Hospital Authority from December 1991 to December 2004, the specialist of Congruence Orthopaedics & Rehabilitation Center from April 2005 to June 2012, the Secretary for Food and Health of Government of the Hong Kong Special Administrative Region from July 2012 to June 2017, and has been an orthopaedic surgeon at Dr. Ko Wing Man Clinic since August 2017. Mr. Ko served as the Chairman of The Hong Kong Anti-Cancer Society from December 2005 to June 2017 and the director of the Hong Kong Red Cross from September 2008 to June 2012. Mr. Ko graduated from The University of Hong Kong in July 1981 with a bachelor degree in medicine and surgery; he graduated from the Royal College of Surgeons of Edinburgh in January 1986 with a qualification of fellowship; he graduated from the University of New South Wales in Australia in May 1993 with a master degree in health administration; he was awarded a qualification of fellowship of Orthopaedics of the Hong Kong Academy of Medicine in December 1993 and a qualification of fellowship Community Medicine in October 2000; he became a fellow of Faculty of Public Health of the Royal College in the United Kingdom in February 2002. Mr. Ko was awarded the Bronze Bauhinia Star in Hong Kong in October 2008 and the Gold Bauhinia Star in Hong Kong in October 2017.

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

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

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

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

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

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

SUPERVISORS

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

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

Mr. Jing Xin, is an Independent Supervisor of the Company, a Professor and a doctorial tutor. Since his graduation from the Renmin University of China as a graduate student in July 1986, Mr. Jing stayed at the university to teach. Mr. Jing worked as the teaching assistant of the Faculty of Finance, lecturer, associate professor and professor of the Faculty of Accounting, director of the teaching and research department of Faculty of Finance, assistant to faculty director and assistant director. Mr. Jing was the commissioner of the audit commission, Renmin University of China from December 2002 to December 2005, the secretary of party committee and the associate dean of the Business School of Renmin University of China from December 2005 to December 2014, and has been the professor of the Faculty of Accounting in the Business School of Renmin University of China from July 1997 to July 2017. Mr. Jing was a member of the China Youth Development Foundation from March 2001 to April 2005 and a supervisor from May 2005 to December 2018, an independent director of Aeolus Tyre Co., Ltd. (a listed company on the Shanghai Stock Exchange, stock code: 600469) from November 2007 to October 2013, an independent director of Advanced Technology & Materials Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 000969) from March 2008 to February 2014, and has been an independent director of Bank of China Investment Management Co., Ltd. since July 2011. Mr. Jing has been consultant of the Government Accounting Standards Board of the Ministry of Finance since December 2015. Mr. Jing has been a Supervisor of the Company since March 2017. Mr. Jing graduated from the Renmin University of China with a Bachelor's degree in Economics in July 1983, graduated from the Renmin University of China with a Master's degree in Economics in July 1986 and graduated from the Renmin University of China with a Doctoral degree in Economics in July 1995.

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

SUPERVISORS *(Continued)*

Mr. Wang Dajun, is an employee representative Supervisor of the Company, a senior economist and senior enterprise risk manager. Mr. Wang joined The Company in August 1993 and once served as the deputy director of its general office for the agricultural insurance department; served as the assistant to the head of its communist party union working department in December 2000, the deputy secretary of its communist youth league committee in April 2001, the deputy head of its communist party union working department and the deputy secretary of the communist youth league committee in February 2003. Mr. Wang also served as the deputy general manager of the customer service management department of the PICC P&C in July 2003, the deputy general manager of its individual insurance marketing and management department in March 2004 and the deputy general manager of its accident and health insurance department in March 2006. In September 2007, he served as the deputy general manager of the business development department of the Company. In January 2008, he re-designated as the deputy general manager and deputy secretary of the communist party group of The People's Insurance Company of China (Hong Kong), Limited. In July 2009, he served as the deputy general manager of the risk management/legal and compliance department. Mr. Wang has been serving as the general manager of the risk management department and credit evaluation center of the Company since August 2013 and June 2018 respectively. Mr. Wang has been the Supervisor representative of the employees of the Company since March 2016. Mr. Wang did not hold any directorship in any listed companies in the last three years. He graduated from Northeast Agricultural Institute(now known as Northeast Agricultural University)in August 1993 with a Master's degree in Agricultural Science and graduated from Tsinghua University in December 2005 with a Master's degree in Business Administration.

Mr. Ji Haibo, is an employee representative Supervisor of the Company and associate researcher. He started working in September 1979 and joined the Company in August 2002. He had served as the deputy head of the safety certification and management department of the e-commerce division and the head of the project management department of the information technology division of PICC P& C (also served as the vice mayor of Ji'an County,Jiangxi Province from December 2004 to December 2005). He served as the head of the network and website management department of the information technology division/statistics analysis division and senior manager of the operation and maintenance department of the Company since March 2006. He served as the assistant of the general manager of the information technology division and senior manager of the operation and maintenance department in January 2010, deputy general manager of the information technology division in July 2012 and general manager of the affairs division of the labour union in March 2017. From June 2018 till now, he has been general manager of the R & D center of information technology department. Mr. Ji graduated from the PLA Information Engineering University in July 1983 with a bachelor's degree in science and graduated from the PLA Information Engineering University in January 1993 with a Master's degree in Military.

SENIOR MANAGEMENT

Mr. Bai Tao. Please refer to the section titled "Executive Directors" for the biography of Mr. Bai Tao.

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

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

Mr. Sheng Hetai, is a Vice President of the Company and a senior economist. Mr. Sheng joined the Company in July 1998 and until September 2007, served successively as deputy director of the Product Development Center, deputy general manager (in charge of daily operations) of the Research and Development Department, general manager of the Equity Management Department/Risk Management Department. Mr. Sheng has served as general manager of the Strategic Planning Department of the Company from September 2007 to March 2017, senior expert from May 2008 to May 2010, Assistant to the President since March 2010 and Vice President since June 2014. He has also served as a supervisor of PICC P&C since August 2006 to June 2015. He has been the chairman of Zhongsheng International Insurance Brokers Co., Ltd since November 2013, and appointed as the chairman of PICC Reinsurance since November 2016 and served as as the chairman of PICC Capital since March 2018. Mr. Sheng has served as a director of The Insurance Institute of China since September 2004 and executive director since January 2014 and vice chairman since August 2017. Mr. Sheng graduated from Peking University in July 1998 with a Doctoral degree in Economics.

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

SENIOR MANAGEMENT *(Continued)*

Mr. Li Zhuyong, is a Vice President, the Responsible Compliance Officer and the Chief Risk Officer of the Company and a senior economist. Since Mr. Li entered the Company in August 1998 to March 2006, he served as the deputy director and director of the system terms office of the Company's Legal Department, the head of the secretariat of the secretary to the board of directors of the PICC P&C, and the head and deputy general manager of the Legal Department of the Company. From March 2006 to March 2017, Mr. Li was the General Manager of the Legal and Compliance Department, the Risk Management Department/Legal Compliance Department, and the Legal Compliance Department of the Company. From August 2013 to July 2018, he served as the Legal Director. He was appointed as the Vice President, the Responsible Compliance Officer and the Chief Risk Officer of the Company since August 2018. Mr. Li has served as a director of PICC Hong Kong since June 2007. He was appointed as the supervisor of PICC P&C from March 2016 to March 2019. He was appointed as as the supervisor of Zhongsheng International since February 2018. Mr. Li graduated from the Capital University of Economics and Business in July 1998 with a master's degree in law, and graduated from China University of Political Science and Law in June 2011 with a Doctoral degree in Law.

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

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

2. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

SENIOR MANAGEMENT *(Continued)*

Mr. Lin Zhiyong, is a Business Director of the Company and a senior economist. Mr. Lin worked in the Yongchun County Branch of the People's Bank of China in December 1980. In January 1983, He joined the Company until August 2003, and served as the manager of Jinjiang Branch of Quanzhou City, Fujian Province, deputy general manager of Quanzhou Branch, deputy general manager, deputy general manager (presiding) and general manager of Fuzhou Branch. In June 2002, he served as the deputy general manager of Fujian Branch. He served as deputy general manager of Fujian Branch of PICC P&C in August 2003 and the general manager of Fujian Branch from February 2006 to November 2011. He served as Vice President of PICC P&C in April 2011, Executive Director from June 2015 to March 2019, and Vice Chairman and President from August 2016 to February 2019. Mr. Lin was appointed as the Business Director of the Company in March 2019. Mr. Lin has also served as a director of Hua Xia Bank since December 2017 and a director of PICC Hong Kong since May 2018. Mr. Lin has been the chairman of the Agricultural Insurance Specialized Committee of the Insurance Association of China since September 2015, the vice chairman of The Insurance Institute of China since September 2016, the vice chairman of the Insurance Association of China since November 2016, the deputy director of the Standing Committee of the Funds Utilization Specialized Committee of the Insurance Association of China since August 2017, and was granted special government allowance by the State Council in January 2019. Mr. Lin graduated from the Open University of Fujian in July 1986 and the Central Party School in December 2001 and graduated from the University of Northern Virginia, the United States in June 2004 with a Master's degree in Business Administration.

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

Mr. Lv Chen, is a Business Director of the Company and a senior economist. Mr. Lv joined the Company after graduating from university in August 1993. From 1997 to 2000, he served as deputy director and director of the Company. From 2000 to 2018, he served as assistant to general manager, deputy general manager and general manager of the international department of the Company, and concurrently served as the general manager of Policy-guided Insurance Business Department and Training Department. Mr. Lv has been the Business Director of the Company from August 2013 to present. Mr. Lv graduated from the Peking University in June 2004 with a Master's degree in Business Administration.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Amount paid (RMB10,000)	Payments for various benefits, social security contributions, corporate annuities and others (RMB10,000)	Total pre-tax compensation received from the Company during the reporting period (RMB10,000)
Miao Jianmin	54.60	29.94	84.54
Bai Tao	27.30	15.26	42.56
Xie Yiqun	49.14	28.23	77.37
Tang Zhigang	48.59	28.23	76.83
Wang Qingjian	/	/	/
Xiao Xuefeng	/	/	/
Hua Rixin	/	/	/
Cheng Yuqin	/	/	/
Wang Zhibin	/	/	/
Shiu Sin Por	16.67	/	16.67
Ko Wing Man	16.67	/	16.67
Luk Kin Yu, Peter	25.00	/	25.00
Lin Yixiang	30.00	/	30.00
Chen Wuzhao	28.33	/	28.33
Lin Fan	54.60	29.94	84.54
Xu Yongxian	165.20	45.07	210.27
Jing Xin	30	/	30
Wang Dajun	133.15	36.71	169.86
Ji Haibo	129.68	36.07	165.75
Sheng Hetai	48.59	28.23	76.83
Li Zhuyong	127.24	36.38	163.62
Han Kesheng	199.29	45.62	244.91
Zhao Jun	199.29	45.31	244.6
Zhou Houjie	195.53	45.31	240.84
Lv Chen	160.5	45.07	205.57
Resigned Directors, Supervisors and Senior Management			
Lau Hon Chuen	12.08	/	12.08
Xu Dingbo	12.08	/	12.08
Zhuang Chaoying	28.67	16.22	44.89
Li Tao	195.53	45.31	240.84

1. Decision-making procedures for remuneration of directors, supervisors and senior management: remuneration of directors and supervisors is approved by shareholders' general meeting, and remuneration of senior management is approved by the Board of Directors.

2. Basis for determining the remuneration of directors, supervisors and senior management: The remuneration of directors, supervisors and senior management is determined based on the Company's remuneration system, the Company's operating conditions and assessment results.

3. Actual payment of remuneration of directors, supervisors and senior management: After completion of the approval procedures for the remuneration of directors, supervisors and senior management, they shall be paid according to the regulations. During the reporting period, the total actual remuneration received by all directors, supervisors and senior management from the Company was RMB23.7382 million.

IV. EMPLOYEES OF THE COMPANY

1. Employees

Unit: person

Number of employees in the parent company	410
Number of employees in major subsidiaries	198,047
Total number of employees	198,457
Number of employees to be retired for whom the parent company and major subsidiaries have to pay pension	26,838

Specialty composition

Category of specialty composition	**Headcount**
Management personnel	3,966
Professional and technical personnel	99,070
Marketing and sales personnel	92,885
Others	2,536
Total	198,457

Education level

Category of education level	
Master and above	8,720
Undergraduate	107,961
College graduate	66,658
Others	15,118
Total	198,457

2. Employee Compensation Policy

The Company has established a compensation system that complies with laws and regulations, reflects value of relevant position, and highlights that compensation is performance-oriented.

3. Training Program

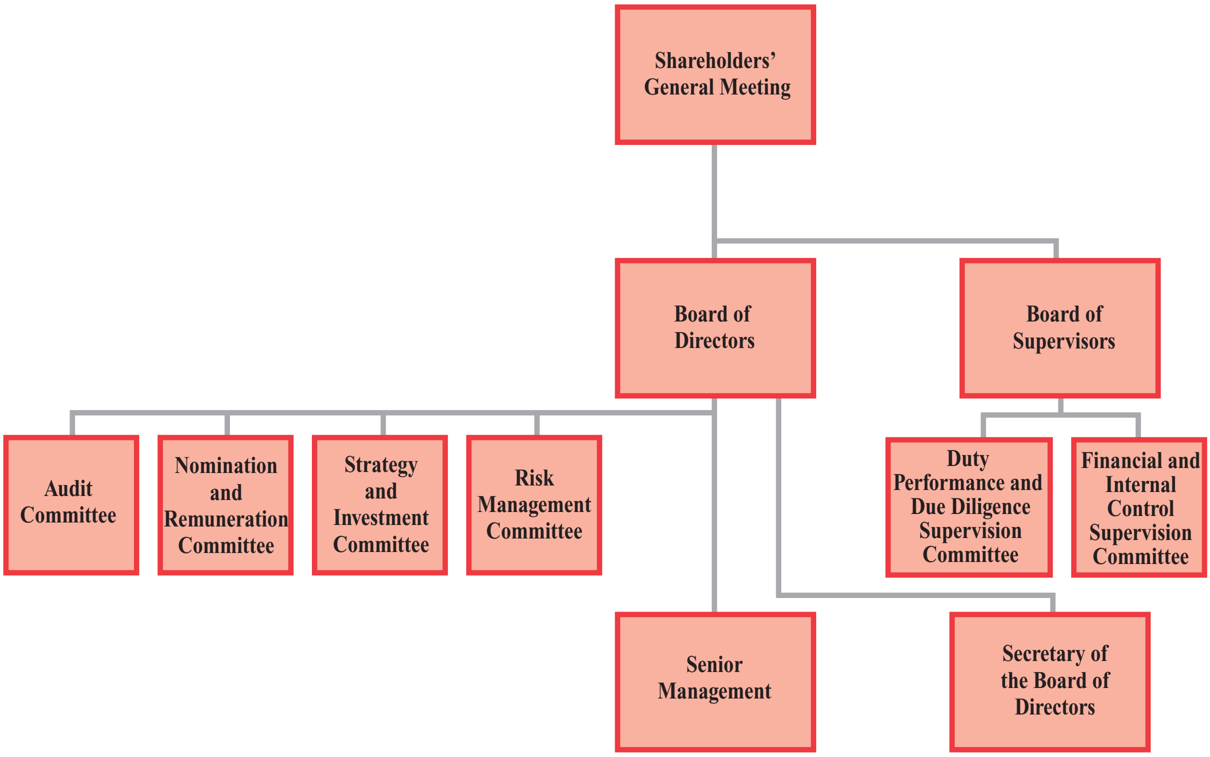
In 2018, a new arrangement was made for employee training with the implementation of the “3411 Project” of the PICC Group. We systematically promoted the training of officers and employees, carried out the “Leadership Project” training program, comprehensively enhanced the political quality, strategic thinking, and ability to lead the change and innovation of young and middle-aged officers, encouraged all entities to increase investment in training resources at all levels, and focused on the integration of learning and practice, and sharing and transformation of achievements. We paid attention to the improvement of employees’ professional ability, organized and arranged employees to participate in various internal and external professional training courses, and supported and encouraged all talents to participate in international and domestic professional qualification training and examinations. We continuously made innovation in the modes training, introduced new concepts and technologies for training, created a good ecosystem of employee education and training, and provided sufficient talents and intellectual support for the Group to transform to high-quality development.

OVERVIEW

The Company always abides by the relevant laws such as the Company Law of the People's Republic of China, the Insurance Law of the People's Republic of China, earnestly performs the relevant legal requirements issued by the regulatory authorities and the Articles of Association, insists on keeping good corporate governance principles, strives for enhancing the corporate governance standard continuously to ensure the stable development of the Company and to enhance shareholders' value.

In 2018, the Company has complied with the relevant provisions of the Shanghai Stock Exchange on corporate governance for listed companies and the Corporate Governance Code in Appendix 14 of the Listing Rules of the Stock Exchange, and continued to improve its corporate governance structure. The shareholders' general meeting, the Board, Board of Supervisors and senior management independently performed their respective rights and obligations pursuant to the Articles of Association, in compliance with laws and regulatory requirements.

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



SHAREHOLDERS' GENERAL MEETING

The shareholders' general meeting is the most authoritative organ of the Company, and its main responsibilities include, but are not limited to, the following: (1) decide on the operating policies and material investment plans of the Company; (2) elect and replace the members of the Board and members of the Board of Supervisors who are not representative of the employees of the Company, and decide on matters related to the remuneration of Directors and Supervisors; (3) consider and approve the report of the Board; (4) consider and approve the report of Board of Supervisors; (5) consider and approve the annual financial budget and final accounts of the Company; (6) consider and approve the Company's profit distribution plan and loss recovery plan; (7) consider matters related to the Company's establishment of legal entities, material external investments, purchase of material assets and disposal of material assets and write-off etc. (except matters authorized to be considered by the Board); (8) consider external donations of the Company (except matters authorized to be considered by the Board); (9) consider matters when the Company acts as the guarantor by law; (10) resolve on the increase or decrease in registered capital of the Company; (11) resolve on the issuance and listing of bonds or other marketable securities of the Company; (12) resolve on matters related to merger, separation, dissolution, liquidation of the Company or alteration in the form of the Company; (13) resolve on matters related to repurchase of shares of the Company; (14) formulate and amend the Articles of Association, procedural rules for the shareholders' general meeting, the Board meeting and the Board of Supervisors meeting; (15) resolve on the appointment or change of the Company's accounting firm performing regular statutory audits for the financial and accounting reports of the Company; (16) consider related party transactions required to be approved by the shareholders' general meeting under the laws, regulations, regulatory documents or requirements of the securities regulatory authorities where the Company's shares are listed, and the authorization scheme of the Company; (17) consider and approve the change in the use of proceeds; (18) consider and approve the motion raised by the shareholders representing more than 3% of outstanding shares with voting rights; and (19) consider other matters required to be determined by the shareholders' general meeting as required by applicable laws, regulations, regulatory documents, the relevant requirements of the securities regulatory authorities at the places where the Company's shares are listed, and the Articles of Association.

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

- Considered and approved the report of the Board of Directors and the report of the Board of Supervisors of the Company for the year 2017.
- Considered and approved the final account statement of the Company for the year 2017.
- Considered and approved the profit distribution plan of the Company for the year 2017.
- Considered and approved the fixed assets investment budgets of the Company for the year 2018.
- Considered and approved the resolution on the engagement of auditor for 2018 financial statements.
- Considered and approved the resolution on the election of Mr. Miao Jianmin, Mr. Bai Tao, Mr. Xie Yiqun, Mr. Tang Zhigang, Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin, Mr. Wang Zhibin, Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Luk Kin Yu, Peter, Mr. Lin Yixiang and Mr. Chen Wuzhao as the Directors of the third session of the Board of Directors.
- Considered and approved the resolution on the election of Mr. Lin Fan, Mr. Xu Yongxian and Mr. Jing Xin as the Supervisors of the third session of the Board of Supervisors.
- Considered and approved the resolution on the general mandate to issue shares.
- Considered and approved the resolution on the extension of the validity period of the plan for the initial public offering and listing of the A shares and the resolution on the extension of the validity period of the authorization to deal with specific matters in respect of the initial public offering and listing of the A shares.
- Considered and approved the resolution on the amendments to the Articles of Association, the procedural rules for the shareholders' general meeting, the procedural rules for the Board of Directors and the procedural rules for the Board of Supervisors.

SHAREHOLDERS' GENERAL MEETING *(Continued)*

- Considered and approved the resolution on the 2017 remuneration scheme for the Directors and Supervisors of the Company.

- Received the performance reports of the Directors and the performance reports of the Independent Directors of the Company for the year 2017.

- Received the reports on the Company's related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2017.

- Received the report on the solvency of the Group for the year 2017.

In addition, the conditions for the renewal of the liability insurances for Directors, Supervisors and senior management of the Company from 2017 to 2018 were received at the shareholders' general meetings.

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

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

Methods of Convening Extraordinary General Meetings

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

Procedures for Proposing Resolutions at General Meetings

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

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

THE BOARD

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

THE BOARD *(Continued)*

Composition

As at the date of this report, the Board comprised 14 Directors (see the section "Directors, Supervisors, Senior Management and Employees" in this annual report for the profiles of current Directors), consisting of four Executive Directors, five Non-executive Directors and five Independent Non-executive Directors. Directors serve a term of three years and are eligible for re-election, but Independent Non-executive Directors shall not serve consecutively for more than six years.

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

Name	Position(s)	Date of Appointment
Executive Directors		
Miao Jianmin	Chairman, Executive Director	13 July 2017
Bai Tao	Vice Chairman, Executive Director	23 October 2018
Xie Yiqun	Executive Director	13 October 2017
Tang Zhigang	Executive Director	1 November 2017
Non-executive Directors		
Wang Qingjian	Non-executive Director	13 July 2017
Xiao Xuefeng	Non-executive Director	13 October 2017
Hua Rixin	Non-executive Director	24 October 2015
Cheng Yuqin	Non-executive Director	24 October 2015
Wang Zhibin	Non-executive Director	5 August 2016
Independent Non-executive Directors		
Shiu Sin Por	Independent Non-executive Director	14 May 2018
Ko Wing Man	Independent Non-executive Director	14 May 2018
Luk Kin Yu, Peter	Independent Non-executive Director	31 July 2015
Lin Yixiang	Independent Non-executive Director	25 September 2015
Chen Wuzhao	Independent Non-executive Director	2 March 2017

The changes in Directors of the Company during the reporting period were as follows:

On 1 March 2018, the 37th meeting of the second session of the Board of Directors of the Company considered and approved the Resolution on Nominating Director Candidates for the Third Session of the Board of the Company, in which Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang were nominated as candidates of Executive Directors of the third session of the Board of the Company, Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin and Mr. Wang Zhibin were nominated as candidates of Non-executive Directors of the third session of the Board of the Company, and Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Luk Kin Yu, Peter, Mr. Lin Yixiang and Mr. Chen Wuzhao were nominated as candidates of Independent Non-executive Directors of the third session of the Board of the Company.

On 19 April 2018, at the second 2018 extraordinary general meeting of the Company, Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang were elected as the Executive Directors of the third session of the Board of the Company, Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin and Mr. Wang Zhibin were elected as the Non-executive Directors of the third session of the Board of the Company, and Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Luk Kin Yu, Peter, Mr. Lin Yixiang and Mr. Chen Wuzhao were elected as Independent Non-executive Directors of the third session of the Board of the Company. The qualification for Mr. Shiu Sin Por and Mr. Ko Wing Man as Non-executive Directors had been approved by the CBIRC on 14 May 2018.

THE BOARD *(Continued)*

Composition *(Continued)*

On 19 April 2018, the third session of the Board of the Company held the first meeting and elected Mr. Miao Jianmin as the Chairman of the third session of the Board.

On 19 July 2018, the fifth meeting of the third session of the Board of the Company was held for the purpose of nominating Mr. Bai Tao as a candidate of Executive Director of the third session of the Board of the Company. On 11 September 2018, Mr. Bai Tao was elected as an Executive Director of the third session of the Board of the Company at the third extraordinary general meeting of the Company. The qualification for Mr. Bai Tao as a Director had been approved by the CBIRC on 23 October 2018.

For details of their biographies, see the "Directors, Supervisors, Senior Management and Employees" section in the 2018 annual report of the Company.

Duties and Responsibilities

The Board shall, according to the Articles of Association, report to the shareholders' general meeting and its main responsibilities include, but are not limited to, the following: (1) convene shareholders' general meetings and report to such meeting; (2) implement the resolutions of the shareholders' general meetings; (3) determine the development strategies, annual operation plans and investment plans of the Company; (4) formulate annual financial budget and final account statements of the Company; (5) formulate profit distribution plans and loss recovery plans of the Company; (6) formulate proposals for increases or reductions of the Company's registered capital and the issue of corporate bonds or other securities by the Company or the listing of the Company; (7) formulate plans for the repurchase of shares of the Company or merger, separation, dissolution and changes of the form of the Company; (8) formulate proposals for any amendment to the Articles of Association, prepare the procedural rules for shareholders' general meeting and meetings of the Board, and consider the working rules for professional committees of the Board; (9) consider and approve connected transactions of the Company, other than connected transactions required to be approved by the shareholders' general meeting under the laws, regulations, regulatory documents or requirements of the securities regulatory authorities where the Company's shares are listed, and the authorization scheme of the Company; (10) report on connected transactions and the implementation of the connected transaction management system at a shareholders' general meeting; (11) consider and approve the non-significant external investments, asset purchase, asset disposal and write-off of the Company; (12) within scope of authorization at the shareholders' general meeting, consider and approve the Company's external donations (except for matters authorized to be reviewed by the president); (13) decide or authorize the chairman to decide the establishment of the Company's internal management organization; (14) appoint or dismiss the president and secretary of the Board of the Company; appoint or dismiss the vice president, assistant to the president, the person in charge of finance, and the person in charge of compliance according to the nomination of the president; appoint or dismiss the person in charge of audit according to the nomination of the chairman or the Audit Committee; according to the proposal of the proposed shareholders, the chairman, more than one third of the directors or more than half (at least 2) independent directors, elect the chairman and members of the Nomination and Remuneration Committee; according to the nomination of the Nomination and Remuneration Committee, elect chairman and members of other professional committees (except for chairman of the Strategy and Investment Committee); (15) decide on the Company's risk management, compliance and internal control policies, formulate the Company's internal control compliance management, internal audit and other systems, and approve the Company's annual risk assessment report, compliance report, and internal control assessment report; (16) develop the Company's information disclosure, investor relationship management and other systems for managing information disclosure and investor relationship, etc.; (17) conduct due diligence evaluations on directors each year, and submit due diligence reports to shareholders' general meetings and the Board of Supervisors; (18) decide on the remuneration, performance appraisal and rewards and punishments of senior management personnel appointed by the Board; (19) review the corporate governance report of the Company; (20) submit to the general meeting of shareholders to appoint or dismiss the accounting firm; (21) listen to the working report of the president of the Company and review the work of the president; (22) select and appoint an external auditor to audit the directors and senior management of the Company; (23) other authorizations as stipulated in laws, regulations, regulatory documents, the Articles of Association and as conferred by the shareholders' general meeting.

THE BOARD *(Continued)*

Summary of Work Undertaken

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

Attendance in person/attendance by proxy/scheduled attendance

	Shareholders' General Meeting		The Board		Board Committees			
Directors	**Shareholders' General Meeting**	**Attendance**	**The Board**	**Attendance in person**	**Audit Committee**	**Nomination and Remuneration Committee**	**Strategy and Investment Committee**	**Risk Management Committee**
Executive Directors								
Miao Jianmin *(Chairman)*	2/5	40%	8/11	73%	–	–	7/0/7	–
Bai Tao *(Vice Chairman)*	0/1	0%	0/1	0%				
Xie Yiqun	4/5	80%	9/11	82%	–	–	1/0/1	–
Tang Zhigang	5/5	100%	9/11	82%	–	–	–	6/0/6
Non-executive Directors								
Wang Qingjian	5/5	100%	11/11	100%	8/0/8	–	7/0/7	–
Xiao Xuefeng	5/5	100%	11/11	100%	–	9/0/9	–	6/0/6
Hua Rixin	5/5	100%	11/11	100%	–	–	–	6/0/6
Cheng Yuqin	5/5	100%	10/11	91%	–	–	7/0/7	–
Wang Zhibin	0/5	0%	9/11	82%	–	–	–	6/0/6
Independent Non-executive Directors								
Shiu Sin Por	3/3	100%	8/8	100%	5/0/5	–	–	3/0/3
Ko Wing Man	1/3	33%	8/8	100%	5/0/5	–	–	3/0/3
Luk Kin Yu, Peter	0/5	0%	11/11	100%	7/1/8	9/0/9	–	–
Lin Yixiang	5/5	100%	10/11	91%	–	9/0/9	7/0/7	–
Chen Wuzhao	5/5	100%	11/11	100%	5/0/5	9/0/9	–	–
Resigned Directors								
Lau Hon Chuen	1/2	50%	1/3	33%	3/0/3	–	–	3/0/3
Xu Dingbo	1/2	50%	3/3	100%	3/0/3	3/0/3	–	–

During the reporting period, the Board convened five shareholders' general meetings in which 32 resolutions were submitted for consideration and approval with four reports presented; convened 11 Board meetings in which 96 resolutions were considered and reviewed. The main tasks accomplished by the Board included:

- Convened five general meetings;
- Considered and approved the operation plan and investment budget for fixed assets of the Company for the year 2019;
- Considered and approved the strategic asset allocation of PICC Group for 2018 and 2019 and capital planning (2018-2020);
- Considered and approved the audit plan and cost budget of PICC Group for the year 2018;

THE BOARD *(Continued)*

Summary of Work Undertaken *(Continued)*

- Considered and approved the final account statement and profit distribution for the year 2017;
- Considered and approved the resolution concerning the annual report and annual results announcement, the "Solvency II" solvency report for the year 2017, as well as the 2018 interim report and interim results announcement and the "Solvency II" solvency report for the first half of 2018;
- Considered and approved the statement on risk appetite for the year 2018;
- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company;
- Considered and approved the Company's self-assessment report on internal control, risk evaluation report, compliance report, corporate governance report and assessment report on the implementation of business plan as well as the evaluation and audit report of internal control on the insurance capital use for the year 2017;
- Considered and approved the resolution on optimizing and adjusting institutional establishment and functional setting of the Company;
- Considered and approved the "Administrative Measures for the Suspension and Exemption of Information Disclosure of The People's Insurance Company (Group) of China Limited", the amendments to the "Comprehensive Risk Management System of The People's Insurance Company (Group) of China Limited", and the Interim Administrative Measures for Disciplining the Capital Flows with Related Parties of The People's Insurance Company (Group) of China Limited", "Interim Administrative Measures for Raised Funds of The People's Insurance Company (Group) of China Limited", the "Administrative Measures for the Internal Reporting of Major Information of The People's Insurance Company (Group) of China Limited", the "Administrative Measures on Information Disclosure of The People's Insurance Company (Group) of China Limited", the "Terms of Reference of the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited and the Terms of Reference of the Audit Committee of the Board of Directors of the People's Insurance Company of China Limited;
- Elected the Chairman, Vice Chairman and appointed the President, Vice President, Responsible Compliance Officer, Chief Risk Officer;
- Nominated the candidates of Executive Directors, Non-executive Directors and Independent Non-Executive Directors for the third session of the Board;
- Elected the chairman and members of the Audit Committee of the third session of the Board, the chairman and members of the Nomination and Remuneration Committee, the members of the Strategy and Investment Committee, and the chairman and members of the Risk Management Committee;
- Considered and approved the 2017 remuneration settlement scheme for the Company's responsible officers, the 2017 performance evaluation and incentive scheme and the 2017 remuneration scheme for Directors and Supervisors;
- Considered and approved the resolution on the engagement of auditor for 2018 financial statements;
- Considered and approved the resolution on the granting of general mandate to issue shares;
- Considered and approved the resolution on extended validity period of A Share offering and related matters;

THE BOARD *(Continued)*

Summary of Work Undertaken *(Continued)*

- Considered and approved the resolutions on recommendation of candidates to the Board and Board of Supervisors of related subsidiaries and profit distribution of related subsidiaries;

- Considered and approved the “Resolution on the Connected Transaction Framework Agreement in Investment Business signed by Group Companies and PICC AMC, PICC Investment Holding and PICC Capital”, “Resolution on the Assets Entrustment Management Agreement and Supplemental Agreements signed by Group Companies and PICC AMC, PICC Hong Kong Asset”, and “Resolution on the Assets Entrustment Management Agreement and Supplemental Agreements signed by Group Companies and PICC AMC, PICC Hong Kong Asset”;

- Received the performance reports of the Directors of the Company for the year 2017, performance report of the Independent Directors of the Company for the year 2017, reports on the Company’s related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2017, report on specific auditing results of related party transactions for the year 2017.

DIRECTORS

Responsibility with respect to Financial Statements

The Directors are responsible for the preparation of financial statements for every financial year and the interim and quarterly periods thereof which shall give a true and fair view of the business operations of the Company and subject to compliance with the relevant accounting standards, the implementation of the accounting regulations issued by the Ministry of Finance and CBIRC.

Securities Transactions

The Company has established the Interim Management Measures for Shareholding and their Changes of Shares of the Company’s Directors, Supervisors and Senior Management to Regulate the Dealing in Securities by Directors in accordance with the Administrative Rules for Shareholding and their Changes of Shares held by the Listed Companies’ Directors, Supervisors and Senior Management and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules of the Stock Exchange (the “Model Code”). Following enquiries made by the Company, all Directors and Supervisors confirmed that they had complied with such requirements of the CSRC and the standards set out in the Model Code and such measures during the reporting period.

Independence of Independent Non-executive Directors

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

Training of Directors

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

Miao Jianmin: attended trainings and conferences organized by the Central Committee of the Communist Party of China, the State Council, the Central Commission for Discipline Inspection, the CBIRC and the Group, and conducted deeper study to grasp the State’s reform and development situation, macroeconomic trends, and industry regulatory trends, and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors’ continuous responsibilities and obligations, corporate governance, etc.

DIRECTORS *(Continued)*

Training of Directors *(Continued)*

Bai Tao: attended trainings and meetings organized by the Group in relation to the performance of directors' duties, and gained a deeper understanding of the domestic and foreign laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous liability obligations, corporate governance, etc.

Xie Yiqun: attended trainings and conferences organized by the Chinese Academy of Governance, the National Defense University and the Group in relation to the performance of directors' duties, and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Tang Zhigang: attended trainings and conferences organized by the Organization Department of the CPC Central Committee and the Group in relation to the performance of directors' duties, and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

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

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

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

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

Wang Zhibin: attended trainings and conferences organized by the Hong Kong and Macao research centre of the Hong Kong and Macau Affairs Office of the State Council and the Group in relation to the performance of directors' duties, and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Shiu Sin Por: attended trainings and meetings organized by the Group in relation to the performance of directors' duties, and gained a deeper understanding of the domestic and foreign laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous liability obligations, corporate governance, etc.

Ko Wing Man: attended trainings and meetings organized by the Group in relation to the performance of directors' duties, and gained a deeper understanding of the domestic and foreign laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous liability obligations, corporate governance, etc.

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

DIRECTORS *(Continued)*

Training of Directors *(Continued)*

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

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

Chairman/Vice Chairman/President

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

As at the date of this report, the Vice Chairman and President of the Company is Mr. Bai Tao. The President is responsible for leading the operation management of the Company, implementing Board resolutions, organizing the implementation of annual operation plans and investment proposals, formulating the internal management organization plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of other senior management. The Company's senior management team is the Company's execution body and assumes responsibilities to the Board. The powers of the Board and the senior management team are provided in accordance with the Company's Articles of Association. The senior management team's powers in relation to operation, management and decision-making are authorized by the Board.

Details of the duties and responsibilities of the Chairman, Vice Chairman and President are set out in the Articles of Associations.

BOARD COMMITTEES

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

Audit Committee

As at the end of the reporting period, the Audit Committee of the Board comprised four Directors including three Independent Non-executive Directors and one Non-executive Director, and an Independent Non-executive Director served as the Chairman. The Audit Committee completed the re-election in April 2018; on 19 April 2018, Mr. Xu Dingbo retired as the chairman of the Audit Committee of the Company, and Mr. Lau Hon Chuen retired as a member of the Audit Committee of the Company; on 19 April 2018, at the first meeting of the third session of the Board of the Company, Mr. Chen Wuzhao was elected as the chairman of the Audit Committee of the third session of the Board, and Mr. Shiu Sin Por, Mr. Luk Kin Yu, Peter and Mr. Wang Qingjian were elected as members of the Audit Committee of the third session of the Board; on 14 May 2018, the qualification for Mr. Shiu Sin Por as an Independent Non-executive Director was approved by the CBIRC, and Mr. Shiu Sin Por has served as a member of the Audit Committee with effect from that date.

Composition

Chairman:	Chen Wuzhao (Independent Non-executive Director)
Members:	Shiu Sin Por (Independent Non-executive Director), Luk Kin Yu, Peter (Independent Non-executive Director), Wang Qingjian (Non-executive Director)

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Duties and Responsibilities

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

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

Auditor's fees

In 2018, total fees in respect of audit services provided to the Company and its subsidiaries by Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership)/Deloitte Touche Tohmatsu ("Deloitte") were RMB32.79 million for interim review and annual audit, and the fees in respect of special audit services such as the audit for IPO and internal control for insurance funds were RMB21.49 million in total. In addition, Deloitte also provided non-audit services to the Company and its subsidiaries for a fee of RMB4.87 million.

Summary of Work Undertaken

During the reporting year, the Audit Committee of the Board held eight meetings, of which 32 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Audit Committee included:

- Reviewed and considered the annual report, annual results announcement, internal control evaluation report, risk assessment report, and the evaluation and audit report of internal control on the insurance capital use for the year 2017, the 2018 interim report and interim results announcement;

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the audit plan and cost budget of PICC Group for the year 2018;
- Reviewed and considered the "Resolution on the Interim Measures for the Comprehensive Evaluation of Audit Classification and Supervision of Provincial Branches of the People's Insurance Company (Group) of China Limited";
- Reviewed and considered the reports on the related party transactions and the implementation of its management system and evaluation of internal transactions for the year 2017 and report on the specific audit of related party transaction for the year 2017;
- Reviewed and considered the engagement of auditor for 2018 financial statements;
- Reviewed and considered the report on the audit work of PICC Group for the year 2017;
- Reviewed and considered the report on comprehensive analysis of audit findings and comprehensive analysis of corrective actions of PICC Group for the year 2017;
- Reviewed and considered the report on the audit work of PICC Group for the first half of 2018;
- Reviewed and considered the report on comprehensive analysis of audit findings and comprehensive analysis of corrective actions of PICC Group for the first half of 2018;
- Reviewed and considered the resolution on the "Relevant Report on the Special Audit of the Financial Statements of the A-Shares for Every Three Years";
- Reviewed and considered the resolution on the "Financial Statements and Review Reports for January-March 2018";
- Reviewed and considered the resolution on the "Estimation of Performance from January to June 2018";
- Reviewed and considered the resolution on the "Estimation of Performance from January to September 2018";
- Reviewed and considered the resolution on the "Formulation of the Interim Administrative Measures for Disciplining the Capital Flows with Related Parties of The People's Insurance Company (Group) of China Limited";
- Reviewed and considered the resolution on the "Terms of Reference of the Audit Committee of the Board of Directors of the People's Insurance Company of China Limited";
- Reviewed and considered the resolution on the "Connected Transaction Framework Agreement in Investment Business signed with PICC AMC, PICC Investment Holding and PICC Capital";
- Reviewed and considered the resolution on entering into of PICC Reinsurance's workplace lease contract;
- Reviewed and considered the resolution on the "Assets Entrustment Management Agreement and Supplemental Agreements signed by Group Companies and PICC AMC and PICC Hong Kong Asset";
- Reviewed and considered the resolution on the insurance business agreement signed by PICC Life and Industrial Bank for 2018-2019;
- Reviewed and considered the embedded value report as of the end of 2017 and as at 31 March 2018;

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the resolution on signing the Overall Entrustment Contract for Property Management with PICC Property and related party transactions under corresponding agreement;
- Reviewed and considered the resolution on the internal control evaluation report and internal control audit report as at 31 March 2018;
- Reviewed and considered the resolution on renewal of PICC Building Lease Contract with PICC Pension.

Nomination and Remuneration Committee

As at the end of the reporting period, the Nomination and Remuneration Committee of the Company comprised five Directors including four Independent Non-executive Directors and one Non-executive Director, and an Independent Non-executive Director served as the chairman. The Nomination and Remuneration Committee completed the re-election in April 2018; on 19 April 2018, Mr. Xu Dingbo retired as a member of the Nomination and Remuneration of the Company. On 19 April 2018, the Board of the Company elected Mr. Lin Yixiang as the chairman of the Nomination and Remuneration Committee of the third session of the Board, and elected Mr. Ko Wing Man, Mr. Luk Kin Yu, Peter, Mr. Chen Wuzhao and Mr. Xiao Xuefeng as members of the Nomination and Remuneration Committee of the third session of the Board. On 14 May 2018, the qualification for Mr. Ko Wing Man as an Independent Non-executive Director was approved by the CBIRC, and Mr. Ko Wing Man has served as a member of the Nomination and Remuneration Committee with effect from that date.

Composition

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

Duties and Responsibilities

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

BOARD COMMITTEES *(Continued)*

Nomination and Remuneration Committee *(Continued)*

Duties and Responsibilities (Continued)

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

Director Nomination

The Nomination and Remuneration Committee conducts a preliminary examination of the potential candidates for directorship of the Company according to laws, regulations, regulatory documents, regulatory requirements and the Articles of Association, and provides recommendation to the Board for determining whether they are submitted to the shareholders' general meeting for election. The Nomination and Remuneration Committee fully considers the board diversity (including but not limited to sex, age, cultural and educational background, expertise experience, skills, knowledge and term of office) and its advantages, and focuses on the educational background and working experiences, in particular management and research experiences in finance and insurance industries of the candidates, and also pay special attention to the independence of the Independent Non-executive Directors. Therefore, a shareholders' general meeting was held on 11 September 2018 to elect Mr. Bai Tao as an Executive Director. On 19 April 2018, Mr. Shiu Sin Por and Mr. Ko Wing Man were elected as Independent Non-executive Directors. Mr. Bai Tao and Mr. Shiu Sin Por have extensive experience in the financial and insurance industry. Mr. Ko Wing Man has extensive experience in government and corporate management, which will bring benefits to the business development of the Company.

BOARD COMMITTEES *(Continued)*

Nomination and Remuneration Committee *(Continued)*

Remuneration of Directors and Other Senior Management

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

For the remuneration of the Directors, Supervisors and senior management of the Company by band during the reporting period, please refer to the section of "Directors, Supervisors, Senior Management and Employees".

Summary of Work Undertaken

During the year, the Nomination and Remuneration Committee of the Board held nine meetings, of which 30 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Nomination and Remuneration Committee included:

- Reviewed and considered the matter in relation to the nomination of Director candidates of the third session of the Board of the Company, with a recommendation made to and adopted by the Board;
- Reviewed and considered the matter in relation to the nomination of the Chairman, President, Vice Chairman, Vice President, the secretory of the Board, responsible compliance officer and chief risk officer, with recommendation made to and adopted by the Board;
- Reviewed and considered the matters in relation to the nomination of chairman and members of the Audit Committee, nomination of the members of the Strategy and Investment Committee, nomination of chairman and members of the Risk Management Committee of the third session of the Board, with recommendation made to and adopted by the Board;
- Reviewed and considered the implementation of the performance appraisal and incentive scheme of the Company for the year 2017;
- Reviewed and considered the remuneration settlement scheme of the Company's responsible officers for the year 2017;
- Reviewed and considered the remuneration scheme for Directors and Supervisors of the Company for the year 2017;
- Reviewed and considered the resolution in relation to the recommendation of candidates of directors and supervisors of related subsidiaries;
- Reviewed and considered the resolution in relation to optimizing and adjusting institutional establishment and functional setting of the Group;
- Reviewed and considered the "Incentive and Restraint Mechanism" section of the corporate governance report for the year 2017;
- Reviewed the performance report of the Directors of the Company for the year 2017 and performance report of the Independent Directors of the Company for the year 2017.

BOARD COMMITTEES *(Continued)*

Strategy and Investment Committee

As at the end of the reporting period, the Strategy and Investment Committee of the Company comprised six Directors, including three Executive Directors, two Non-executive Directors and one Independent Non-executive Director. Pursuant to the Articles of Association, the chairman of the committee should be served by the Chairman of the Board. The Strategy and Investment Committee completed the re-election in April 2018; on 19 April 2018, the Board of the Company elected Mr. Xie Yiqun, Mr. Lin Yixiang, Mr. Wang Qingjian and Ms. Cheng Yuqin as members of the Strategy and Investment Committee of the third session of the Board; on 19 July 2018, the Board of the Company elected Mr. Bai Tao as a member of the Strategy and Investment Committee; on 23 October 2018, the qualification for Mr. Bai Tao as a Director was approved by the CBIRC, and Mr. Bai Tao has served as a member of the Strategy and Investment Committee with effect from that date.

Composition

Chairman: Miao Jianmin (Executive Director)

Members: Bai Tao (Executive Director), Xie Yiqun (Executive Director), Lin Yixiang (Independent Non-executive Director), Wang Qingjian (Non-executive Director), Cheng Yuqin (Non-executive Director)

Duties and Responsibilities

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

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

Summary of Work Undertaken

During the year, the Strategy and Investment Committee of the Board held seven meetings, of which 30 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Strategy and Investment Committee included:

- Reviewed and considered the operation plan, financial plan and fixed assets investment budget plan for the year of 2019;
- Reviewed and considered the strategic asset allocation plan of PICC Group for 2018 and 2019;

BOARD COMMITTEES *(Continued)*

Strategy and Investment Committee *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the first section of "Corporate Governance Operations" and the fifth section of "Corporate Governance Evaluation" under the corporate governance report of the Company for the year 2017;
- Reviewed and considered the report of the Board of Directors of the Company for the year 2017;
- Reviewed and considered the corporate governance report of the Company for the year 2017;
- Reviewed and considered the 2017 final account report and 2017 profit distribution of the Company and related matters;
- Reviewed and considered the evaluation report for the implementation of PICC Group's planning for the year 2017;
- Reviewed and considered the resolution on 2017 Corporate Social Responsibilities Report of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the Interim Administrative Measures for management of Raised Funds of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the resolution on formulation of Administrative Measures for the Suspension and Exemption of Information Disclosure of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the resolution on the amendments to the Administrative Measures for the Internal Reporting of Material Information of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the resolution on the amendments to the Administrative Measures for Information Disclosure of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the resolution on the amendments to the Terms of Reference of the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited;
- Reviewed and considered the matters of general mandate to issue shares;
- Reviewed and considered the capital planning of PICC Group (2018-2020);
- Reviewed and considered the resolution on profit distribution and transfer of the undistributed profits to the registered capital of related subsidiaries;
- Reviewed and considered the resolution on capital increase in PICC Reinsurance;
- Reviewed and considered the resolution on establishment of a public fund subsidiary by PICC AMC;
- Reviewed and considered the resolution on the A Share offering and related matters;
- Reviewed the report on the implementation of the 2017 annual financial plan of The People's Insurance Company (Group) of China Limited;
- Reviewed the report on the Capital Increase of Chongqing PICC Microfinance Co., Ltd. (重慶人保小額貸款有限責任公司) by PICC Financial Services.

BOARD COMMITTEES *(Continued)*

Risk Management Committee

As at the end of the reporting period, the Risk Management Committee of the Company comprised six Directors, including one Executive Director, three Non-executive Directors and two Independent Non-executive Directors, and the Executive Director served as the Chairman. The Risk Management Committee completed the re-election in April 2018; on 19 April 2018, Mr. Lau Hon Chuen retired as the chairman of the Risk Management Committee; on 19 April 2019, the Board of the Company elected Mr. Tang Zhigang as the chairman of the Risk Management Committee of the third session of the Board, and Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Xiao Xuefeng, Ms. Hua Rixin and Mr. Wang Zhibin as members of the Risk Management Committee of the third session of the Board; on 14 May 2018, the qualification for Mr. Shiu Sin Por and Mr. Ko Wing Man as the Independent Non-executive Directors was approved by the CBIRC, and Mr. Shiu Sin Por and Mr. Ko Wing Man have served as members of the Risk Management Committee with effect from that date.

Composition

Chairman:	Tang Zhigang (Executive Director)
Members:	Shiu Sin Por (Independent Non-executive Director), Ko Wing Man (Independent Non-executive Director), Xiao Xuefeng (Non-executive Director), Hua Rixin (Non-executive Director), Wang Zhibin (Non-executive Director)

Duties and Responsibilities

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

The primary duties of the Risk Management Committee include, but are not limited to, the following: (1) be responsible for our risk management, have a full understanding of various significant risks and the respective management status, supervise the operational effectiveness of our risk management controls; (2) review our overall goals, fundamental policies and terms of references for risk management, and make suggestions and recommendations to the Board; (3) review and approve our risk management organization and corresponding responsibilities, and make suggestions and recommendations to the Board; (4) review significant risk evaluations and solutions on material decisions, and make suggestions and recommendations to the Board; (5) review our annual risk evaluation report and make suggestions and recommendations to the Board; (6) review and submit our annual compliance report to the Board; (7) review the half-yearly compliance report of the Company; (8) consider suggestions made in relevant compliance reports and make recommendations to the Board; (9) formulate and amend the internal compliance code applicable to the Company's staff and Directors, assess and supervise our compliance policies and status, and make recommendations to the Board; and (10) perform other duties as required by applicable laws, regulations, other regulatory documents and the Articles of Association, the relevant requirements of the securities regulatory authority at the place where the Company's shares are listed, or other matters as authorized by the Board.

Summary of Work Undertaken

During the year, the Risk Management Committee of the Board held six meetings, of which 12 proposals were reviewed and considered. During the reporting period, the main tasks accomplished by the Risk Management Committee included:

- Reviewed and considered the amendmets to the comprehensive risk management system of the Company;
- Reviewed and considered the work plan on strengthening the rectification of violation cases and further improving internal control compliance level;
- Reviewed and considered the resolution on the renewal of the liability insurances for the Directors, Supervisors and senior management;
- Reviewed and considered the compliance report of the Company for the year 2017;

BOARD COMMITTEES *(Continued)*

Duties and Responsibilities *(Continued)*

Summary of Work Undertaken (Continued)

- Reviewed and considered the risk evaluation report of the Company for the year 2017;
- Reviewed and considered the solvency report of the Group for the year 2017;
- Reviewed and considered the risk appetite statement of the Group for the year 2018;
- Reviewed and considered the solvency report of the Group for the first half of 2018;
- Reviewed and considered the 2017 internal control evaluation report (being the 2017 corporate governance report: Part III "Internal Control Evaluation");
- Reviewed and considered the 2018 interim results announcement and interim report;
- Reviewed and considered the internal control evaluation report and internal control audit report for the first half of 2018;
- Reviewed and considered the resolution on proposing shareholder's general meeting to authorize purchase of the liability insurance for the prospectus;
- Reviewed and considered the resolution on internal control evaluation report and internal control audit report for the first quarter of 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

In 2018, the overall strategy of the Company in risk management was: to thoroughly implement the important spirit of the Central Committee of CPC and the State Council on tackling the tasks of preventing and defusing major risks, and the decision-making arrangements of the Party Committee of the Group to “hold the bottom line where the systemic risks don’t occur” and focus on building a unified and graded risk management and control system of the Group, mainly improving the front-line risk management capabilities on its business, strengthening risk dynamic monitoring and risk management in key areas, further improving the risk management level, further improving the Group’s overall risk prevention and control level, and effectively maintaining the bottom line where systemic risks don’t occur.

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

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

In 2018, the Company continued to strengthen risk management through risk appetite and economic capital tools. In terms of risk management environment, the Company continued to promote the implementation of the risk appetite system. The Company and related subsidiaries prepared the risk appetite statement which was made as an effective tool for integrating risk management policies within the whole group. In addition, the Company established daily operational mechanisms for the risk appetite system, including risk appetite preparation and updating, instruction and execution, monitoring and evaluation and re-inspection and adjustment, regularly hold the communication meetings for risk appetite to promote risk appetite to branches and business units for transmission and implementation, enabling risk appetite system to be effectively implemented and play a role in constraining risk. In terms of assessment and analysis, the Company continued to carry out economic capital measurement and analysis and prepare the annual “risk capital budget” to promote the formation of risk-and capital-constrained management of subsidiaries; in the aspect of information collection and reporting, the Company has formed a risk management information system, established risk monitoring and early warning mechanisms, and continuously optimized risk monitoring indicators system, and improved the quality and effectiveness of risk monitoring.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

In 2018, the Company continued to strengthen the construction of risk management and internal control systems, revised the basic system of risk management of the Group, strengthened the management and control mechanism of the Group's risk arrangement and coordination, actively complied with the Solvency II supervision requirements of the CIRC and promoted its implementation, and promoted implementation and performance of special risk management system and work mechanism, strengthened risk dynamic monitoring, assessment, early warning, response and reporting, intensified key risk management and control, further promoted risk management informatization construction, enhanced risk data collection and management, and continued to deepen the construction of internal control system of grassroots units, carried out the risk management and internal control research, supervision and inspection, carried out special internal control evaluation and audit of funds, strengthened key risk management and control, organized professional training in risk management and internal control, further enhanced professional team building and personnel training, improved risk performance evaluation indicator system, and improved fully risk management and internal control levels of the Company. PICC P&C has a sound risk management system to promote implementation of risk appetite in organizations and business lines, deepened the construction of risk management informatization, carried out self-inspection and rectification of violations and risk investigation in key areas, and optimized the process of risk assessment reporting for major categories. It continued to carry out internal control evaluation, deepen the construction of internal control system of grassroots units, strengthen the management of key risk positions, expand the coverage of compliance inspections, promote the identification and rectification of problems, and continuously improve the ability of internal monitoring to actively detect and prevent risks and support business management. PICC AMC strengthened risk management and control and held the bottom line where systemic risks do not occur. It highlighted key areas, effectively strengthened prevention and control of credit risk, market risk and liquidity risk, strengthened compliance management, conducted in-depth chaos rectification inspection and internal control compliance inspection, improved internal control compliance system construction, optimized alternative investment system processes, and prevented systemic and substantial risks. PICC Health comprehensively carried out risk prevention and control, investigation and rectification, and continuously promoted the construction of a comprehensive risk management system with solvency as the core, improved the risk management system construction and risk appetite system, optimized the risk indicators database, and carried out the second phase construction of the risk management information system, improved the risk performance appraisal system, strengthened pre-, ongoing-, and post-risk assessments, focused on risk prevention and control in key business areas, implemented rectification of major illness insurance business and management and control of risk areas of internet insurance business, continued to carry out internal control evaluation, and further promote construction of internal control system of grassroots units. PICC Life focused on improving the refinement, preposition, digitization and specialization levels of risk management, actively consolidated the risk management foundation and risk management culture, promoted risk management to actively participate in operations, improved risk management systems and risk appetite systems, and the risk indicators management formed a virtuous circle, and the effectiveness of the system construction of risk management was realized initially. The results of the construction of the internal control system at the grassroots level were actively strengthened, the regulatory requirements were implemented, and the internal control management of key positions was accelerated. PICC Investment Holding has established effective internal control in the front, middle and back office business lines, optimized internal control departments and responsibilities, continuously improved systems and processes, strengthened various business risk management and control, further conducted risk management and investigation of counterparties, and prevented and resolved credit risks. PICC Capital further optimized the decision-making process of investment products, enhanced the importance of project proposal and approval, and promptly promoted the risk investigation of existing investment businesses, actively implemented the transmission and explanation of the Group's risk appetite system, and comprehensively controlled various risks that the Company may face. PICC Reinsurance strengthened the transmission and implementation of the risk appetite system, continuously monitored risk indicators, strengthened catastrophe risk management and control, built a risk management information system, further promoted risk investigation and internal control self-evaluation in key areas, and strengthened internal control construction.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Company fully conducted the risk appraisal and internal control assessment covering the whole Group in 2018. The Board believed that during the reporting period, relevant management and control measures are sufficient to guarantee the actual demands of the Company in risk management. For internal control, all of the risk management and internal monitoring system of the Company covering all key aspects, including financial monitoring, operation monitoring and compliance monitoring are sufficient and effective. There are no factors affecting the conclusion on the appraisal of the effectiveness of the internal control during the period from the base date of the internal control appraisal report to the publication date of the internal control appraisal report. The Company was not aware of any matters that may have direct effects on the quality of the operation activities or the achievement of the targets of financial reports and the operation of the internal control system of the Group is sufficient and effective.

In 2018, the risk management system of the Company was sound and effective and it did not identify any significant risks affecting the normal operation of the Company. The Company continued to strengthen the frequency and effectiveness of the dynamic risks monitoring and established the annual, quarterly and other regular risk appraisal mechanisms. The management of the Company continues to conduct analysis and appraisal on various risks and consistently strengthened the frequency of risks monitoring. Besides the annual reporting to the Board, it conducts overall appraisal on significant risks every quarter and monitors sensitive risk indicators every month and collects, summarizes and reports significant risk matters every week. Meanwhile, the Company conducts special appraisal and reports on risks of overseas affiliates or branches and overseas investments. The Company has established a complete set of risk appraisal mechanism for the above risks, which will guarantee the effectiveness of risk management.

In 2018, the Company continued to manage insurance risk, market risk, credit risk, operational risk, strategic risk, reputational risk and liquidity risk in accordance with each special risk management system, and no major risk events occurred. For insurance risk, the Company conducted product pricing and underwriting based on strict actuarial tests and past experience analysis, reviewed the rationality of product pricing on a regular basis, strengthened reinsurance management, and entered into cooperative arrangements with relevant government agencies or other specialized organizations to obtain timely disaster information. For market risk, the Company used interest rate risk management tools to effectively manage interest rate risk, and evaluated market risk by using sensitivity analysis, value at risk and stress testing, and scenario analysis, analyzed, monitored, and managed exchange rate risk for each currency. For credit risk, the Company continued to intensify the credit risk management of investment business, strengthen the risk warning and prevention of credit products held, continuously improve the internal credit rating system, increase the dynamic tracking and monitoring of credit risks, and conduct special investigations on credit risks from time to time, and focused on the diversification of fixed-income investment portfolios to reasonably control the concentration of its investment business in main areas, regions and industries, and continuously improve the level of credit risk assessment, while strictly controlling the receivable premiums and losses from bad debts, and strengthen the management of counterparty qualifications. For operational risk, the Company established and improved a special operational risk management system and mechanism, conducted information collection and analysis of operational risk loss events, improved the internal control system, and strictly carried out the internal control work of the Company in accordance with the system documents such as the Internal Control Manual and the Internal Control Evaluation Manual. The Company further strengthened operational risk management and control, carried out training and promotion of operational risk management, and promoted the construction of operational risk management culture. For strategic risk, the Company applied a four-step strategy of "develop, implement, evaluate and adjust" to form an effective closed loop of strategic risk management and control, and regularly evaluated the implementation of the strategy, conducted business analysis reports, and effectively identified and evaluated strategic risk conditions. For reputation risk, the Company strengthened news propaganda, closely followed important moments, regularly released positive news, and strived to create a good public opinion environment, strengthen daily public opinion monitoring, increase monitoring frequency, expand monitoring scope, conduct regular public opinion analysis and judgment, and evaluate dissemination effect of public opinion to ensure that it can timely know the public opinion trend, improve the emergency response mechanism, refine the risk management workflow, strengthen the reputation risk performance assessment and constraints, and continuously improve the ability to prevent and resolve risks. For liquidity risk, the Company strengthened its asset and liability management, dynamically tracked and monitored the liquidity of investment assets, strengthened the design and management of insurance products to reduce the possibility of unexpected liquidity demand, established liquidity risk warning indicators, and regularly conducted dynamic cash flow testing. Please refer to the risk management in Note 42.2 of notes to the financial statements for details of the Company's insurance risk, market risk and credit risk.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

For information disclosure, the Company has formulated the Administrative Measures for Information Disclosure in accordance with the listing regulatory requirements and industry regulatory requirements, which provided the requirements on information disclosure content, information disclosure duties, information disclosure preparation and publication, and information disclosure disciplinary and accountability. In order to strengthen preparation work of the Company's periodic reports, the confidentiality of inside information, and regulate the collection, management and reporting of the Company's material information, the Company has respectively formulated the Interim Measures for the Accountability for Major Errors in Information Disclosure in Annual Reports and the Administrative Measures for Persons Knowing Inside Information and the Internal Reporting System for Material Information. Among them, the internal reporting of material information has been included in the indicator system of the Company's internal control report. The reporting obligors of material information obtains and identifies possible material information from the operational and management levels by using various information technology means, and report to the president of the Company and the Board at the first time, and then the Board will make the final decision whether to release material information, and disclose information within the reasonable and practical scope.

BOARD OF SUPERVISORS

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

Composition

As at the date of this report, the Board of Supervisors was composed of:

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

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

In 2018, the Board of Supervisors was re-elected. After the completion of the re-election, the members of the Board of Supervisors had not changed. On 19 April 2018, the first meeting of the third session of the Board of Supervisors was convened, at which Mr. Lin Fan was elected as the chairman of the third session of the Board of Supervisors, and elected members of the Performance and Duty Supervision Committee and the Financial and Internal Control Supervision Committee under the third session of the Board of Supervisors.

Duties and Responsibilities

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

BOARD OF SUPERVISORS *(Continued)*

Duties and Responsibilities *(Continued)*

The primary duties of the Board of Supervisors include the following: (1) review the periodic reports of the Company prepared by the Board and provide written review opinions; (2) report its work in the shareholders' general meeting; (3) examine the Company's financial conditions; (4) nominate the Independent Direcotrs; (5) supervise the conduct of the Directors and senior management in their performance of duties; propose the removal of Directors and senior management who have contravened any law, regulation, the Articles of Association or resolutions of the shareholders' general meeting; (6) demand rectification from a Director or any senior management when the acts of such persons are harmful to the Company's interest; (7) propose convening a shareholders' general meeting and to convene and preside over the shareholders 'general meeting when the Board fails to perform its duty of convening and presiding over the shareholders' general meeting; (8) propose resolutions at the shareholders' general meeting; (9) bring an action against a Director or senior management pursuant to Article 152 of the Company Law; (10) hold investigations when uncovering the Company's abnormal opeartions, and hire accounting firms, law firms or other professional organizations to assist if necessary, with the relevant expenses to be paid by the Company; and (11) exercise other powers specified under laws, regulations, regulatory documents, the Articles of Association and as granted by the shareholders' general meeting.

Summary of the Work Undertaken

During the year, the Board of Supervisors, pursuant to the relevant provisions of the Company Law and the Articles of Association, earnestly fulfilled its duties, and protected the interests of the Company, shareholders and employees. During the year, the Board of Supervisors convened nine meetings and considered, reviewed and received 75 resolutions. The Duty Performance and Due Diligence Supervision Committee convened seven meetings, the Financial and Internal Control Supervision Committee convened nine meetings. The attendance of meetings was as follows:

Name	Lin Fan	Jing Xin	Xu Yongxian	Wang Dajun	Ji Haibo
Attendance in person/scheduled attendance	8/9	8/9	9/9	8/9	9/9
Percentage of attendance in person	89%	89%	100%	89%	100%
Attendance by proxy/scheduled attendance	1/9	1/9	0/9	1/9	0/9
Percentage of attendance by proxy	11%	11%	0%	11%	0%

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

AMENDMENT OF THE ARTICLES OF ASSOCIATION

On 25 August 2017, in order to fulfill the general requirements for the CPC Central Committee to incorporate party building work into the Company's Articles of Association, amendments to the Articles of Association were approved at the 32nd meeting of the second session of the Board. On 31 October 2017, relevant amendments were submitted to the 2017 third extraordinary general meeting for approval.

On 27 December 2017, the Company made amendments to its Articles of Association according to the relevant provisions concerning the leadership role of the Party Committee under Chinese Communist Party Constitution approved at the 19th CPC National Congress and the Guidelines on Insurance Companies' Articles of Association of CIRC, taking into account its actual situation at the 36th meeting of the second session of the Board of Directors. On 1 March 2018, relevant amendments were submitted to the Company's 2018 first extraordinary general meeting for approval.

On 30 August 2018, the CBIRC approved the amendments to the Articles of Association by the above two shareholders' general meetings.

On 16 November 2018, the Company's shares were listed on the Shanghai Stock Exchange, and the Articles of Association applicable after the listing of the A shares became effective. For amendments as a result of issuance of the A shares, please refer to the H-share circular of the Company dated 15 June 2017.

INFORMATION DISCLOSURE AND INVESTOR RELATIONSHIP

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

In 2018, the Company effectively implemented various regulatory requirements for information disclosure, continuously improved the Company's information disclosure system, continuously improved the transparency of information disclosure, and ensured the timely, fair, truthful, accurate and complete disclosure of information; revised the Administrative Measures for Information Disclosure, the Administrative Measures for the Internal Reporting of Material Information, newly formulated the Administrative Measures for Suspension and Exemption of Information Disclosure. The Company completed the disclosure of its periodic reports and interim reports in accordance with laws and regulations, seriously performed the identification of stock price sensitive information, and no violations have been found in information disclosure. At the same time, the Company organized training in information disclosure for the whole system of the Group, timely researched and publicized new regulations for domestic and overseas listings; strictly enforced the registration and filing of person knowing inside information, strengthened the confidentiality of inside information of the Company, and protected the legal rights and interests of investors; maintained fair, impartial and open disclosure of corporate information.

After publishing the results for the year 2017 and the interim results for the year 2018, the Company communicated with investors with respect to the Company's operation results and trend of business development through press conferences and roadshows. Also, the Company invited certain shareholders to attend the Company's annual work conference to understand the operation and development of the Company. The Company strengthened daily communication with investors through receiving visit of investors, participating in large investor forums, and timely replying telephone, email and "SSE e-Interaction" enquiries. The Company has also established and maintained a good relationship with investors through the investor relations information on its website.

The Company has designated the Office of the Board/Investors Relationship Department to be responsible for enquiries received through telephone, fax, email and post. Please refer to the last page of this annual report for the Company's contact details, including telephone number, fax number, email address and registered address. The "Investor Relations" pages on the Company's website (www.picc.com) provides regularly updated information of the Company.

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2018. During the reporting period, there have been no significant changes to the scope of the Company's principal activities.

BUSINESS REVIEW

A review of the Group's business during the year, description of future business development, and description of possible risks and uncertainties that the Group may face, are set out in Chairman's Statement and Management Discussion and Analysis of the Annual Report. The risk management policies of the Group are set out in Corporate Governance Report. Management Discussion and Analysis section also contains financial highlights of the Group, and using financial key performance indicators to analysis the Group's performance during the year. Events which happened subsequent to the balance sheet date and have significant effect to the Company set out in Note 50 "Event After the Reporting Period" to the Consolidated Financial Statements. In addition, description of the environmental protection policies of the Group, relationship with major customers and employees and compliance with relevant laws and regulations which have significant effect to the Group, set out in Corporate Social Responsibility, Report of the Board of Directors and Significant Events of the Annual Report.

ENVIRONMENTAL ISSUES

During the reporting period, the Group continued to comply with and continuously promoted a number of related measures involving energy use, emission treatment and environmental changes. The Group has implemented various environmentally friendly policies, such as, efforts to reduce the consumption of paper, water and electricity resources; implementation of energy-saving management to reduce greenhouse gas emissions; following the principle of waste separation management through separated disposal of waste water, household waste and various types of waste generated during the office operation to achieve recycling of resources. In accordance with regulatory requirements, the Company issued 2018 social responsibility report, which specifies the Group's performance of social responsibilities (including environmental and social governance).

PRINCIPAL ACTIVITIES

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

FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY

According to the Articles of Association, the basic principles of profit distribution are: The Company will implement a sustainable and stable dividend distribution policy. The Company's dividend distribution shall emphasize on reasonable investment return to investors while taking into account of sustainable development of the Company. Subject to continuous profitability, regulatory compliance and normal operation and long-term development of the Company, priority shall be given to cash dividends for distribution.

According to the Articles of Association, detailed policies of profit distribution are:

1. Form of profit distribution: The Company shall distribute profits to its shareholders in proportion to their respective shareholdings, either in cash, stock or a combination of both. Priority shall be given to cash dividends for distribution if the conditions for cash dividends are met. The Company shall, in principle, distribute profits once a year. Where conditions allow, the Company may distribute interim dividends.

2. Specific conditions and ratio of cash dividend distribution of the Company: No profit shall be paid to shareholders for any year if the solvency of the Company fails to meet the regulatory requirements. Except in special circumstances, the Company shall distribute dividends mainly in cash if the normal operations of the Company are not affected, provided that the net profit for the year, the accumulated and undistributed profit and the capital reserve at the end of the year are positive. Special circumstances include: the Company has significant investment plans or otherwise incurs major cash expenses; its solvency falls below the requirements of regulatory authorities including the State Council's insurance regulatory body; the regulatory authorities such as the State Council's insurance regulatory body take regulatory measures to impose restrictions on the Company's distribution of cash dividends; other circumstances that are not suitable for distribution of cash dividends. The profit distribution plans will be formulated by the Board based on factors including the current solvency margin ratio, business development and demand, operating results and shareholders' return of the Company and its subsidiaries. Taking into consideration of the factors above and subject to the laws, regulations and regulatory requirements then in effect, the distributed profits in the form of cash each year shall be no less than 10% of the distributable profits of the same year. The Company may also distribute interim dividends in the form of cash in view of the profitability of the Company. The plans shall be implemented subject to submission to and approval by the shareholders' general meeting following consideration by the Board.

3. Conditions for distribution of share dividends by the Company: Where the operating income of the Company grows rapidly and the Board considers that the share price of the Company does not reflect the scale of its share capital, the Company may propose and execute a share dividend distribution proposal in addition to payment of the cash dividend distribution above taking into account factors such as the share price, scale of share capital and other circumstances of the Company.

4. The Board shall take into full account various factors, such as features of the industries in which the Company operates, the stage of its development, its own business model, profitability and whether there are significant capital expenditure arrangements, put forward differentiated cash dividend policies in accordance with the procedures as required by the Articles of Association.

According to the Articles of Association, decision-making procedures for profit distribution are:

1. When determining a profit distribution plan, the Board shall consider, among other factors, the timing, conditions and minimum ratio of cash dividend distribution, the conditions for adjustments and the requirements of the procedures for decision-making. The Independent Directors shall provide specific opinions in relation to the above. The Independent Directors may seek the opinion of the minority shareholders, devise a dividend distribution proposal accordingly and submit the same directly to the Board for consideration. Prior to the consideration of the specific cash dividend distribution plan by the shareholders at a general meeting, the Company shall communicate and exchange ideas through multiple channels with shareholders (in particular, the minority shareholders), attentively consider the opinions and requests of the minority shareholders and give timely response to the issues that concern them. The Board of Supervisors of the Company shall supervise the formulation and decision-making by the Board of the profit distribution plan of the Company.

FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY *(Continued)*

2. Where the Company has satisfied conditions for cash dividend distribution but has not prepared any cash dividend plan, or the profit distributed by the Company in cash is less than 10% of the distributable profits realized by it for that year, the Board shall give specific reasons for not distributing cash dividends, the exact purpose for the retained profits and the estimated investment return, and submit to the shareholders' general meeting for consideration after the Independent Directors have expressed their opinions, and disclosure has been made in the media designated by the Company. The Company shall provide access to online voting platforms for the shareholders.

Dividenddistribution policy in the recent three years as follows:

Unit: millions of RMB

Year of dividend distribution	Number of bonus shares for every 10 shares (share)	Cash dividends per 10 shares (before tax, RMB)	Number of conversion for every 10 shares (share)	Amount of cash dividends (before tax)	Net profit distributable to shareholders of ordinary shares of listed company in the consolidated statements for the year of dividend distribution	Proportion in net profit distributable to shareholders of ordinary shares of listed company in the consolidated statements (%)
2018	–	0.457	–	2,021	13,450	15%
2017	–	0.394	–	1,672	16,646	10%
2016	–	0.337881	–	1,433	14,334	10%

In addition to the cash dividend mentioned above, on 31 October 2017, the Company reviewed and approved the 2017 interim profit distribution policy at the Third Extraordinary General Meeting in 2017. Based on the balance of the undistributed profit as at the end of 2017, the discretionary surplus reserve of RMB10 billion is used as the interim profit distribution. No dividend will be paid by the Company to the Shareholders in respect of the 2017 interim profit distribution. The implementation of the above dividend distribution plan has been completed.

In addition, the retained undistributed profits of the Company are mainly for the purpose of strengthening the built-in capital accumulation to meet the capital complementing requirements and to promote long-term sustainable development of the Group, but it is not yet certain as to the expected revenue position.

Profit distribution proposed for 2018

According to the profit distribution policy for 2018 approved by the Board on 22 March 2019, the discretionary surplus reserve of RMB282.5 million is drawn according to 10% of the net profit in the Company's financial statements in 2018, it is proposed to distribute a cash dividend of RMB0.457 (before tax) to all shareholders for a total of approximately RMB2.021 billion, on the basis of 44,223,990,583 shares in issue. According to the Company's dividend distribution policy, combined with the solvency adequacy ratio, business development and demand, operating results, and shareholder returns of the Company and its subsidiaries, in view of the characteristics of the equity and financial structure of the two-level legal person of the Company and its subsidiaries, and fully considered the actual operation of the Company in the key investment period of transition to high-quality development, the Company has formulated a profit distribution plan. The profit distribution ratio in 2018 has been raised to 15%, which is 5 percentage points higher than the profit distribution ratio in 2017. The above profit distribution plan shall become effective upon the approval of the shareholders' general meeting.

FORMULATION AND IMPLEMENTATION OF PROFIT DISTRIBUTION POLICY *(Continued)*

Profit distribution proposed for 2018 *(Continued)*

Independent opinion issued by Independent Directors: The Company's profit distribution in 2018 has fully considered factors such as the solvency adequacy ratio, business development and demand, operating results and shareholder returns of the Company and its subsidiaries, the Company's structure of the two-level legal person, and the key investment period of transition to high-quality development. There is no damage to the interests of shareholders, especially minority shareholders, and it is also conducive to the Company's sustainable and stable development. It complies with relevant laws, regulations and the Articles of Association. It is legal and valid. At the same time, the Independent Directors have expressed their independent consent to the reasonableness of the dividend ratio below 30%.

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

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

CHANGES IN ACCOUNTING ESTIMATES

Please refer to Note 3 of the notes to the financial statements of this annual report for changes in the accounting estimates of the Company during the reporting period.

FINANCIAL HIGHLIGHTS

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

BUILDINGS, EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the buildings, equipment and investment properties of the Group during the year are set out in Note 27 and Note 26 to the consolidated financial statements respectively. As at 31 December 2018, the Group did not own any properties for investment purposes or held for development and/or sale where one or more percentage ratios (as defined under Rule 14.07 of the Listing Rules of the Stock Exchange) exceed 5%.

SHARE CAPITAL

Changes in the share capital of the Company in 2018 and the share capital of the Company as at 31 December 2018 are set out in the section headed "Changes in Shares and Shareholders".

USE OF PROCEEDS RAISED

According to the approval of the CSRC, the Company issued an initial public offering of 1,800,000,000 ordinary A-shares with a par value of RMB1 per share to domestic investors at an issue price of RMB3.34 per share. The shares were paid in RMB, amounting to RMB6,012,000,000.00 in aggregate. The net proceeds raised by the Company after deducting all the shares issuance expenses were RMB5,847,847,056.86. Net price per share received by the Company was approximately RMB3.25, and the closing price on the first day of listing (16 November 2018) was RMB4.81. The proceeds raised had all been used to supplement capital of the Company, and there was no changes to the projects of the Company to be invested by the proceeds raised.

PRE-EMPTIVE RIGHTS

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

REPURCHASE, DISPOSAL AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Company and its subsidiaries had not repurchased, disposed of or redeemed any listed securities of the Company and its subsidiaries except for the initial public offering of 1.8 billion A Shares of the Company on the Shanghai Stock Exchange.

RESERVES

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

DISTRIBUTABLE RESERVES

As of 31 December 2018, the distributable reserves of the Company amounted to RMB2,652 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2018 were RMB136.92 million, of which the donations made by the Company were RMB2.57 million.

EQUITY-LINKED AGREEMENT

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

MAJOR CUSTOMERS AND EMPLOYEES

During the reporting period, the Company had no individual customer with premium income exceeding 5% of the annual premium income of the Company and its subsidiaries. The contribution of the Company's business of any single customer is insignificant to the overall business of the Company. Premium income from the top five customers accounted for not more than 30% of the total premium income of the Company and its subsidiaries. In order to maintain the Company's stable development in the long run, the Company values its relationship with all customers and employees. The Company's business and financial status do not depend on individual customer and employee.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

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

Details of the remuneration of the Directors and Supervisors of the Company are set out in the section of "Directors, Supervisors, Senior Management and Employees".

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company during the reporting period are set out in Note 14 to the consolidated financial statements.

INDEMNITY FOR DIRECTORS

During the reporting period and up to the date of this annual report, there had been no permitted indemnity provision nor permitted indemnity provision that remained effective for the benefits of Directors or directors of subsidiaries. For the period from December 2017 to December 2018, the Company had purchased insurance as appropriate for Directors against legal liabilities arising from performance of their duties. Such insurance policies are governed by PRC laws.

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

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

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

INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2018, Mr. Wang Dajun, a Supervisor of the Company, held 50,000 H shares of the Company. Save as disclosed above, no other Directors, Supervisors and senior management had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

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

PUBLIC FLOAT

When H Shares of the Company were listed on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange granted its consent under Rule 8.08(1) of the Hong Kong Listing Rules to allow a decrease in the public holding of the Company's H Shares (after the Global Offering and the completion of the A Share Issuance), however, the minimum public float of H Shares should be the higher of (i) 14.43% of its total issued shares; and (ii) the percentage of H Shares held by the public immediately following the completion of the Global Offering and the A Share Issuance. Immediately after the completion of the A Share Issuance, the number of H Shares held by the public represents not less than 18.55% of its total issued shares. The Company has satisfied the public float requirement and maintained no less than 18.55% of the shares held by the public based on the publicly available information of the Company and as far as the Directors had known as at the latest practicable date before issue of this annual report.

CONNECTED TRANSACTIONS

During the reporting period, the Company had no connected transactions required to be disclosed pursuant to Chapter 14A of the Listing Rules. Please refer to Note 46 to the consolidated financial statements "Related Party Disclosures" for particulars of the related party transactions defined under International Financial Reporting Standards; such transactions are not connected transactions or continuing connected transactions as defined under Chapter 14A of Listing Rules.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

AUDITORS

As considered and approved by the shareholders' general meeting, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditor of the Company for the financial statements for the year ended 31 December 2018, prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and the International Financial Reporting Standards respectively. There were no changes in of the Company's auditors in the past three financial years.

By order of the Board
Miao Jianmin
Chairman

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

I. PERFORMANCE OF THE BOARD OF SUPERVISORS

(I) Organizing and convening Supervisors' meetings in accordance with the law

During the year, the Board of Supervisors convened nine meetings and considered and received 75 resolutions and reports with details as follows:

First, the 27th meeting of the second session of the Board of Supervisors was held on 1 March 2018. At the meeting, 5 resolutions were reviewed and approved, including the work report of the Board of Supervisors in 2017, the work plan of the Board of Supervisors in 2018, the implementation plan for the Board of Supervisors on performance of duties of the Board of Directors, the management and its members in 2017, and the evaluation report for performance of duties of the supervisors in 2017 and the resolution on nominating shareholder representative supervisor and independent supervisor candidate of the third session of the Board of Supervisors; 3 resolutions were received, including the resolution on purchase of liability insurance for the prospectus, the resolution on the 2018 annual audit plan and costs budget, the resolution on the assets entrustment management agreement and the assets entrustment management supplemental agreement signed by PICC Life and PICC AMC.

Second, the 28th meeting of the second session of the Board of Supervisors was held on 23 March 2018. At the meeting, 11 resolutions were reviewed and approved, including the resolution on 2017 final financial account, the resolution on profit distribution in 2017, the resolution on 2017 annual results announcement and annual report, and the resolution on A-share Audit Report and relevant special financial reports for the years of 2015, 2016 and 2017, the resolution on appointment of the auditor for 2018 annual financial statements of the Company, the resolution on the 2017 annual risk assessment report, the resolution on the 2017 internal control evaluation report and internal control audit report, the resolution on internal control evaluation report and audit related report of utilization of group companies' insurance funds for 2017, the resolution on the implementation report of the Group's 2017 annual development plan, the resolution on prospectus (supplementary to the 2017 annual report) for the initial public offering (A Shares) and the resolution on the embedded value report at the end of 2017; and 5 resolutions were received, including the 2017 directors' due diligence report, the 2017 independent directors' due diligence report, and the Group's 2018 risk appetite statement, the 2017 profit distribution plan and capital reserve capitalization plan of PICC P&C and the resolution on 2018 overall property management entrustment contract, auxiliary agreements and related transactions signed with PICC Property.

I. PERFORMANCE OF THE BOARD OF SUPERVISORS *(Continued)*

(I) Organizing and convening Supervisors' meetings in accordance with the law *(Continued)*

Third, the first meeting of the third session of the Board of Supervisors was held on 19 April 2018. At the meeting, 7 resolutions were reviewed and approved, including the resolution on exempting the notice term of the first meeting of the third session of the Board of Supervisors of the Company, the resolution on electing the chairman of the third session of the Board of Supervisors, the resolution on members of the supervision committee for duty performance and due diligence of the third session of the Board of Supervisors, the resolution on election of members of the financial and internal control supervision committee of the third session of the Board of Supervisors, the resolution on compliance report for 2017 and the resolution on solvency report in 2017; and 4 resolutions were received, including the resolution on overall asset strategic allocation plan of the Group, the report on the Company's related party transactions and the implementation of its management system and assessment of internal transactions for the year 2017, the report on the audit results of connected transactions in 2017 and the report on implementation of the 2017 financial plan.

Fourth, the second meeting of the third session of the Board of Supervisors was held on 24 May 2018. 4 resolutions were reviewed and approved, including the supervision and evaluation report of the Board of Supervisors on performance of duties of the Board, management and its members in 2017, the 2017 supervision report of the Board of Supervisors, the financial statements and review report for January – March 2018 and the resolution on amendments to the administrative measures for funds raised of the People's Insurance Company (Group) of China Limited; and 9 resolutions were received, including the report on internal auditing work in 2017, the report on investment of the Group, and the resolution on results forecast report for January-June 2018, the resolution on amendments to the administrative measures for governing the capital flows with related parties of the Company, and the resolution on amendments to the administrative measures for information disclosure of the Company, the resolution on formulation of the administrative measures for suspension and exemption of information disclosure of the Company, the resolution on amendments to the administrative measures of internal reports of material information of the Company, the resolution on the connected transaction framework agreement in investment business signed by Group Companies and PICC AMC, PICC Investment Holding and PICC Capital and the resolution on profit distribution plan of PICC Life for 2017.

Fifth, the third meeting of the third session of the Board of Supervisors was held on 29 June 2018. At the meeting, 6 resolutions were received, including the resolution on the insurance business agreement signed by PICC Life and Industrial Bank for 2018-2019, the report on issuance of supplementary bonds of Group Companies and PICC Life, and the resolution on the 2018 asset allocation plan of the Group Companies, the resolution on the assets entrustment management agreement and supplemental agreements signed by Group Companies and PICC AMC, PICC Hong Kong Asset, the work plan on strengthening the rectification of violation cases and further improving internal control compliance standard and the analysis report on capital use efficiency of subsidiaries.

Sixth, the fourth meeting of the third session of the Board of Supervisors was held on 15 August 2018. At the meeting, 5 resolutions were reviewed and approved, including the resolution on the prospectus for the initial public offering of shares (A Shares) (supplementary draft as at 331 reference date), the resolution on relevant report on the special audit of the financial statements of the A Shares for every three years, the resolution on the financial statements and review reports for January-June 2018, the resolution on the embedded value report at the end of 2017 and 31 March 2018, and the resolution on internal control evaluation report and internal control audit report of 31 March 2018; and the resolution on the estimation of consolidated results of the Group for January-September 2018 was received.

Seventh, the fifth meeting of the third session of the Board of Supervisors was held on 24 August 2018. At the meeting, 2 resolutions were reviewed and approved, including the 2018 interim results announcement and the interim report and the solvency report for the first half of 2018; and 2 resolutions were received, including the report on the classification and analysis of the audit work and issues found in audit and their rectifications in the first half of 2018 and the resolution on establishment of public fund subsidiary by PICC AMC.

I. PERFORMANCE OF THE BOARD OF SUPERVISORS *(Continued)*

(I) Organizing and convening Supervisors' meetings in accordance with the law *(Continued)*

Eighth, the sixth meeting of the third session of the Board of Supervisors was held on 15 October 2018. 2 resolutions were reviewed and approved, including the resolution on implementation rules for the Board of Supervisors on supervision and evaluation of annual performance of duties of the Board of Directors, the management and its members and the capital plan (2018-2020) of The People's Insurance Company (Group) of China Limited; and the report on the capital increase of Chongqing PICC Microfinance Co., Ltd. (重慶人保小額貸款有限責任公司) by PICC Financial Services.

Ninth, the seventh meeting of the third session of the Board of Supervisors was held on 21 December 2018. At the meeting, 8 resolutions were received, including the resolution on the 2019 business plan, the resolution on the 2019 financial plan, the resolution on the fixed assets investment budget for 2019, the resolution on capital increase to PICC Reinsurance, and the resolution on overall assets allocation plan of the Group in 2019, the resolution on amendments to the comprehensive risk management system of The People's Insurance Company (Group) of China Limited, the resolution on renewal of PICC Building lease contract with PICC Pension and the report on the standard operation of the Board of Supervisors after the listing of the Company's A shares and relevant requirements of the Supervisors.

When studying the deliberations and reviewing relevant resolutions, the Board of Supervisors seriously discussed the matters of concern and formed opinions and suggestions and gave feedback to the Board and management.

During the year, in accordance with the requirements of the responsibilities, the Duty Performance and Due Diligence Supervision Committee under the Board of Supervisors held seven meetings and the Financial and Internal Control Supervision Committee held nine meetings to recommend on the relevant resolutions and report to the Board of Supervisors. The Board of Supervisors also convened four special meetings to communicate with external auditors and related functional departments on related issues.

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

During the year, the Supervisors attended five shareholders' meetings, ten Board meetings on-site and five meetings of Board committees as well as participated in 11 resolution communication meetings. The Supervisors also attended operation management meetings, such as the annual work meeting and semi-annual work meeting, quarterly operational analysis meeting of major subsidiaries. Through attending and participating in such meetings, the Supervisors conducted effective oversight on relevant decision-making process and the performance of duties by the Board and the management, proposed monitoring comments and fully delivered the corporate governance functions of the Board of Supervisors.

(III) Performing Duties such as Performance Supervision, Financial Supervision and Development Planning Supervision

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

I. PERFORMANCE OF THE BOARD OF SUPERVISORS *(Continued)*

(III) Performing Duties such as Performance Supervision, Financial Supervision and Development Planning Supervision *(Continued)*

Performance supervision. The Board of Supervisors mainly conducts daily supervision of the performance of directors and senior management by attending and participating in meetings of the Board and management. It carried out supervision and evaluation of the annual performance of the Board, management and its members, and formed a supervision and evaluation report for the Board and management, and its opinions on the supervision and evaluation of directors and senior management. The Board of Supervisors believed that the Board of the Company strictly abided by the domestic and overseas listing rules and regulations of stock exchanges in 2018, operated in compliance with laws and regulations, and earnestly fulfilled the duties stipulated in the Articles of Association. All Directors performed their duties in compliance with laws and regulations in 2018, and met relevant requirements for their duty of loyalty and diligence. Under the leadership of the Party Committee of the Company and the decision-making of the Board, the management of the Company strictly abided by the Articles of Association and the Proposal for Delegation of the Board to the Management in 2018, and carried out relevant operation and management in compliance with laws and regulations, the promotion of "3411 Project" of the Company has achieved initial results. All senior management performed their duties in compliance with laws and regulations in 2018, and met the relevant requirements for their duty of loyalty and diligence.

Financial supervision. The Board of Supervisors reviewed or received resolutions relating to the Company's finances and put forward opinions and suggestions on issues such as profit model research of the Group, capital planning, solvency management, subsidiary capital use efficiency assessment of its subsidiaries, and profit distribution management of its subsidiaries; and communicated with external auditors and financial management departments on annual results audit, interim results review and annual audit plan of auditor.

Development planning and supervision. The Board of Supervisors continued to pay attention to the implementation of the Group's strategic planning. Focusing on the Group's "3411 Project", it continued to pay attention to the integration construction of the Group, resource integration and the transformation and development of major insurance subsidiaries, and provided its comments and suggestions on optimization of strategic investment planning, establishment of closed loop of sound strategic planning and management, formation of linking annual business plan with strategic development plan, and financial budget pairing.

Internal control supervision. The Board of Supervisors continued to understand and pay attention to the effectiveness of the Company's internal control by reviewing the Company's 2017 internal control evaluation report, and regular monitoring and analysis of the Company's internal control.

Risk management supervision. The Board of Supervisors paid close attention to the Company's major risks and the effectiveness of risk management, particularly new risks emerged during the Company's transformation to high-quality development, promptly pointed out major risks, analyzed and researched the Company's early warning results of risk management in recent years, and proposed improvements to the early warning system.

Internal audit supervision. The Board of Supervisors continued to strengthen the guidance and supervision of the internal audit work, regularly listened to the internal audit work report, and cooperated with the internal audit department to carry out the work, continuously paid attention to the problems found in the internal audit and their rectification, and put forward its opinions and suggestions.

Compliance management supervision. The Board of Supervisors continued to survey the performance of compliance management responsibilities of the Board and the management and the major compliance risks faced by the Company, paid attention to new compliance risks that might arise during the Company's transformation process and relevant requirements for corporate governance and compliance operation after its A Shares listing, and submitted its comments and suggestions.

I. PERFORMANCE OF THE BOARD OF SUPERVISORS *(Continued)*

(III) Performing Duties such as Performance Supervision, Financial Supervision and Development Planning Supervision *(Continued)*

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

(IV) Conducting special investiagtion and special research

According to the investigation and study on the equity interests of directors and supervisors deployed by the Ministry of Finance, the Board of Supervisors carried out the special research on the "return of commercial insurance company to its origin and serving development of real economies", and under the strong support of the Party Committee of the Company, the Board, management and the Strategic Planning Department of the Group Companies, based on the industry and taking PICC Group as its benchmark, the Board of Supervisors went into branches and important customers in Heilongjiang, Liaoning, Hubei and Zhejiang to conduct investigation and research, further understood the effectiveness and shortcomings of the insurance industry in serving development of real economies, formed a research report to the Ministry of Finance and the Party Committee of the Company and sent it to the Board, management and subsidiaries for reference.

According to the requirements of the "3411 Project" of the Group, in conjunction with the research projects of the Ministry of Finance and the "audit and investigation in construction of personal insurance team of PICC Life" project undertaken by the internal audit department of the Group, the Board of Supervisors went to Hubei, Zhejiang, Jiangsu, Jilin and Beijing to carry out investigation and research on implementation of the decision-making and deployment of the Group's transformation to high-quality development, and gained a deeper understanding of better practices that grassroots organizations have explored and problems found that they have identified in the process of transformation and development, as well as specific suggestions for promoting transformation and development, and formed a special research report to help the Company in the transformation high-quality development.

Focusing on the Company's transformation to high-quality development, the Board of Supervisors carried out research on its supervision indicator system, special research on analysis of capital use efficiency of subsidiaries, analysis of profit source of major insurance subsidiaries, and sorting out of profit model, and effectively played the role of "promoting supervision".

(V) Reinforcing the Construction of the Board of Supervisors

During the year, the Board of Supervisors continued to strengthen its own organization, structure and capacity, so that the performance of the Board of Supervisors can be standardized and more professional to achieve more effective results.

Firstly, in accordance with laws, regulations and regulatory requirements, the re-election of the Board of Supervisors was completed.

Secondly, it strengthened the reporting to the Party Committee. The annual work plan of the Board of Supervisors was reported to the Party Committee, major events such as evaluation proposals on annual performance of duties of the Board, management and its members, evaluation results and implementation rules should first be submitted to the Party Committee for review and then put into the corporate governance process.

Thirdly, the Board of Supervisors researched and formulated the "Implementation Rules for the Board of Supervisors on Supervision and Evaluation of Annual Performance of Duties of the Board of Directors, the Management and its Members", and further improved the working system of the Board of Supervisors.

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

II. WORK PERFORMANCE OF THE SUPERVISORS

Based on the attendance of all members of the Board of Supervisors in the shareholders' general meeting, meetings of the Board of Supervisors and the meetings of committees under it, their attendance in the Board meetings and its committees, the participation in specific meetings, communication meetings, specific investigation and research and special project research organised by the Board of Supervisors, provision of advice and recommendations on such resolutions and matters, the Board of Supervisors is of the view that during the year 2018, the performance of all members of the Board of Supervisors has met expectations and the requirements of laws and regulations, such as the Company Law and the Articles of Association. The Board of Supervisors also believes that members are able to perform the duties as Supervisors earnestly and diligently to actively facilitate the scientific development of the Company and effectively safeguard the interests of the shareholders, the Company and employees.

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

(I) Operation of the Company in accordance with law

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

(II) Facts about the financial statements

The annual financial statements of the Company are true and objective presentation of the financial position and operating results of the Company. The financial statements of the Company for the year 2018 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu respectively in accordance with the corresponding independent auditing standards, which have issued audit reports with standard unqualified opinions.

(III) Implementation of the Company's information disclosure management system

During the reporting period, the Company fulfilled its information disclosure obligations in strict accordance with regulatory requirements, earnestly implemented various information disclosure management systems, and disclosed information in a timely and fair manner. No false records, misleading statements or major omissions were found during the reporting period.

(IV) Material investments and significant financing

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

(V) Use of proceeds raised

During the reporting period, the use of proceeds raised by the Company was consistent with the use as stated in the prospectus.

(VI) Connected transactions

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

III. INDEPENDENT OPINIONS DELIVERED BY THE BOARD OF SUPERVISORS WITH RESPECT TO RELEVANT MATTERS *(Continued)*

(VII) Review of internal control report

During the reporting period, the management of the Company attached great importance to the construction of an internal control system. The Company established a complete, reasonable and effective internal control system, which enhanced the level of internal control management. The Board of Supervisors considered the Internal Control Evaluation Report of the Company for the year 2018 and had no objection to such report.

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

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

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

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

Deloitte Consulting (Shanghai) Co. Ltd. Beijing Branch, independent consulting actuaries, have prepared actuarial consultants' review reports on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 31 December 2018, and the value of one year's new business of PICC Life and PICC Health, respectively, in respect of our new life and health insurance businesses written for the 12 months ended 31 December 2018, on a range of assumptions. Copies of consulting actuaries' review reports are included in our annual report. These reports do not constitute an audit opinion of the financial information used in the report.

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

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

Independent Actuaries Review Opinion Report on Embedded Value of PICC Life

PICC Life has retained Deloitte Consulting (Shanghai) Co., Ltd. Beijing Branch to review its embedded value as at 31 December 2018. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Co., Ltd. Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and value of one year's new business as at 31 December 2018;
- Review the assumptions of the embedded value and value of one year's new business as at 31 December 2018;
- Review the various embedded value results as at 31 December 2018, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2017 to 31 December 2018, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the breakdown of value of one year's new business as at 31 December 2018 by distribution channels.

BASIS OF OPINION, RELIANCE AND LIMITATION

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

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

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

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

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Life to determine the embedded value results is in line with the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" issued by CAA in November 2016. This method is one that is commonly used by life and health insurance companies in China;
- The economic assumptions used by PICC Life have taken into account the current investment market conditions and the investment strategy of PICC Life;
- The operating assumptions used by PICC Life have been taken into account the past experience and the expectation of future experience; and
- The various embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

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

Paul Sheng
FSA

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED

1. Definition and Methodology

1.1 Definition

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

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

1.2 Methodology

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

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

2. Results Summary

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

2.1 Overall Results

Table 2.1.1 Embedded Value of PICC Life as at 31 December 2018 and 31 December 2017 (Unit: RMB Million)

	31/12/2018	31/12/2017
Risk Discount Rate	10.0%	10.0%
Adjusted Net Worth	44,257	39,467
Value of In-Force Business before CoC	33,394	28,469
Cost of Required Capital	(7,019)	(6,027)
Value of In-Force Business after CoC	26,375	22,442
Embedded Value	70,632	61,909

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

Table 2.1.2 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2018 and 31 December 2017 (Unit: RMB Million)

	31/12/2018	31/12/2017
Risk Discount Rate	10.0%	10.0%
Value of One Year's New Business before CoC	7,554	7,655
Cost of Required Capital	(1,819)	(1,967)
Value of One Year's New Business after CoC	5,735	5,687

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

2. Results Summary *(Continued)*

2.2 Results by Distribution Channels

PICC Life split the value of one year's new business by distribution channel. The results of the value of one year's new business by distribution channel as at 31 December 2018 and 31 December 2017 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2018 and 31 December 2017 by Distribution Channel (Unit: RMB Million)

Risk Discount Rate			10.0%		
Distribution Channel	Bancassurance	Individual insurance agent	Group sales	Reinsurance	Total
Value of One Year's New Business after CoC (2018)	**430**	**4,916**	**388**	**0**	**5,735**
Value of One Year's New Business after CoC (2017)	403	4,844	440	0	5,687

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

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

3. Assumptions

The assumptions below are used for the valuation of the embedded value and value of one year's new business as at 31 December 2018.

3.1 Risk Discount Rate

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

3.2 Rate of Investment Return

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

3.3 Policy Dividend

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

3.4 Mortality and Morbidity

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

3.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on PICC Life's own experience. They are in the range from 43% to 84% of gross premium depending on the lines of business.

3.6 Lapse Rates

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

3.7 Expenses and Commissions

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

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

3.8 Tax

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

4. Sensitivity Tests

PICC Life has conducted sensitivity tests on the value of in-force business and value of one year's new business. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. For the investment return assumption scenarios, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 Value of In-Force Business of PICC Life as at 31 December 2018 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	33,394	26,375
Risk Discount Rate at 9%	36,629	30,191
Risk Discount Rate at 11%	30,705	23,194
Rate of investment return increased by 50 bps	40,059	33,515
Rate of investment return decreased by 50 bps	26,919	19,434
Expenses increased by 10%	32,606	25,587
Expenses decreased by 10%	34,182	27,163
Lapse rate increased by 10%	32,599	25,935
Lapse rate decreased by 10%	34,254	26,839
Mortality increased by 10%	33,081	26,089
Mortality reduced by 10%	33,713	26,664
Morbidity increased by 10%	32,791	25,776
Morbidity reduced by 10%	34,003	26,980
Short-term business claim ratio increased by 10%	33,335	26,316
Short-term business claim ratio decreased by 10%	33,453	26,434
Participating Ratio (80/20)	32,667	25,193

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

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2018 of PICC Life under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	7,554	5,735
Risk Discount Rate at 9%	8,459	6,813
Risk Discount Rate at 11%	6,802	4,827
Rate of investment return increased by 50 bps	9,184	7,471
Rate of investment return decreased by 50 bps	5,958	4,035
Expenses increased by 10%	7,271	5,451
Expenses decreased by 10%	7,837	6,018
Lapse rate increased by 10%	7,291	5,551
Lapse rate decreased by 10%	7,831	5,926
Mortality increased by 10%	7,468	5,655
Mortality reduced by 10%	7,641	5,815
Morbidity increased by 10%	7,315	5,494
Morbidity reduced by 10%	7,796	5,978
Short-term business claim ratio increased by 10%	7,413	5,594
Short-term business claim ratio decreased by 10%	7,694	5,875
Participating Ratio (80/20)	7,365	5,443

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED *(Continued)*

5. Movement Analysis

Table 5.1 shows the analysis of embedded value movement from 31 December 2017 to 31 December 2018.

Table 5.1 Analysis of Embedded Value Movement from 31 December 2017 to 31 December 2018 (Unit: RMB Million)

Item	Description	Amount
1	Embedded Value as at 31 December 2017	61,909
2	New Business Contribution	6,093
3	Expected Return	4,691
4	Investment Return Variance	(2,977)
5	Other Experience Variance	(631)
6	Model and Assumption Modification	634
7	Capital Change and Market Value Adjustment	1,980
8	Others	(1,067)
9	Embedded Value as at 31 December 2018	70,632

Explanations on items 2 to 8 above:

2. The contribution of new business sold in 2018 to the embedded value at 31 December 2018;

3. The expected return in 2018 arising from the in-force business and adjusted net worth as at 31 December 2017;

4. Change in embedded value arising from variances between the actual investment return and the related investment return assumption in 2018;

5. Change in embedded value arising from variances between the actual experiences and assumptions other than the related investment return in 2018;

6. The impact on embedded value due to model enhancement and the changes in assumptions during 2018;

7. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2018;

8. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 31 December 2017 to 31 December 2018.

Independent Actuaries Review Opinion Report on Embedded Value of PICC Health

PICC Health has retained Deloitte Consulting (Shanghai) Co., Ltd. Beijing Branch to review its embedded value as at 31 December 2018. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Co., Ltd. Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and value of one year's new business as at 31 December 2018;
- Review the assumptions of the embedded value and value of one year's new business as at 31 December 2018;
- Review the various embedded value results as at 31 December 2018, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2017 to 31 December 2018, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the breakdown of value of one year's new business as at 31 December 2018 by distribution channels.

BASIS OF OPINION, RELIANCE AND LIMITATION

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

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

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

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

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Health to determine the embedded value results is in line with the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" issued by CAA in November 2016.This method is one that is commonly used by life and health insurance companies in China;

- The economic assumptions used by PICC Health have taken into account the current investment market conditions and the investment strategy of PICC Health;

- The operating assumptions used by PICC Health have been taken into account the past experience and the expectation of future experience; and

- The various embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

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

Paul Sheng
FSA

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED

1. Definition and Methodology

1.1 Definition

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

- **Embedded Value ("EV"):** this is the sum of the adjusted net worth and value of in-force business as at the valuation date;

- **Adjusted Net Worth ("ANW"):** this is the fair value of the assets attributable to shareholders in excess of liabilities of the business as at the valuation date;

- **Value of In-Force Business ("VIF"):** this is the present value of future cash flows attributable to shareholders arising from the in-force business and the corresponding assets as at the valuation date. The assets contributing to the cash flows are those supporting the corresponding liabilities of in-force business;

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

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

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

1.2 Methodology

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

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

2. Results Summary

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

2.1 *Overall Results*

Table 2.1.1 Embedded Value of PICC Health as at 31 December 2018 and 31 December 2017 (Unit: RMB Million)

	31/12/2018	31/12/2017
Risk Discount Rate	**10.0%**	10.0%
Adjusted Net Worth	**4,968**	5,897
Value of In-Force Business before CoC	**4,231**	2,165
Cost of Required Capital	**(510)**	(231)
Value of In-Force Business after CoC	**3,722**	1,934
Embedded Value	**8,689**	7,831

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

Table 2.1.2 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2018 and 31 December 2017 (Unit: RMB Million)

	31/12/2018	31/12/2017
Risk Discount Rate	**10.0%**	10.0%
Value of One Year's New Business before CoC	**706**	536
Cost of Required Capital	**(198)**	(68)
Value of One Year's New Business after CoC	**507**	468

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

2. Results Summary *(Continued)*

2.2 Results by Distribution Channels

PICC Health split the value of one year's new business by distribution channel. The results of the value of one year's new business by distribution channel as at 31 December 2018 and 31 December 2017 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2018 and 31 December 2017 by Distribution Channel (Unit: RMB Million)

Risk Discount Rate			10.0%		
Distribution Channel	Bancassurance	Individual insurance agent	Group sales	Reinsurance	Total
Value of One Year's New Business after CoC (2018)	**25**	**404**	**78**	**–**	**507**
Value of One Year's New Business after CoC (2017)	25	403	41	–	468

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

The expense assumptions used by PICC Health represent the expected long-term expense level in the future in the calculation of the value of in-force business and value of one year's new business. During the reporting period, PICC Health has achieved the expected long-term expense level. The maintenance expense overrun will no longer be calculated in accordance with the guidelines of CAA.

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

3. Assumptions

The assumptions below are used for the valuation of the embedded value and value of one year's new business as at 31 December 2018.

3.1 Risk Discount Rate

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

3.2 Rate of Investment Return

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

3.3 Policy Dividend

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

3.4 Mortality and Morbidity

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

3.5 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on PICC Health's own experience. They are in the range from 40% to 93% of gross premium depending on the lines of business.

3.6 Lapse Rates

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

3.7 Expenses and Commissions

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

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

3.8 Tax

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

4. Sensitivity Tests

PICC Health has conducted sensitivity tests on the value of in-force business and value of one year's new business. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. For the investment return assumption scenarios, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 Value of In-Force Business of PICC Health as at 31 December 2018 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	4,231	3,722
Risk Discount Rate at 9%	4,461	3,999
Risk Discount Rate at 11%	4,026	3,475
Rate of investment return increased by 50 bps	4,575	4,101
Rate of investment return decreased by 50 bps	3,888	3,342
Expenses increased by 10%	4,256	3,718
Expenses decreased by 10%	4,210	3,728
Lapse rate increased by 10%	4,114	3,652
Lapse rate decreased by 10%	4,357	3,794
Mortality increased by 10%	4,223	3,710
Mortality reduced by 10%	4,238	3,730
Morbidity increased by 10%	4,266	3,712
Morbidity reduced by 10%	4,277	3,819
Short-term business claim ratio increased by 5%	3,737	3,225
Short-term business claim ratio decreased by 5%	4,724	4,216
Participating Ratio (80/20)	4,219	3,706

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

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2018 of PICC Health under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	706	507
Risk Discount Rate at 9%	785	611
Risk Discount Rate at 11%	633	413
Rate of investment return increased by 50 bps	798	615
Rate of investment return decreased by 50 bps	615	401
Expenses increased by 10%	531	325
Expenses decreased by 10%	879	689
Lapse rate increased by 10%	731	553
Lapse rate decreased by 10%	676	456
Mortality increased by 10%	704	506
Mortality reduced by 10%	707	509
Morbidity increased by 10%	266	39
Morbidity reduced by 10%	1,137	979
Short-term business claim ratio increased by 5%	458	258
Short-term business claim ratio decreased by 5%	952	755
Participating Ratio (80/20)	697	496

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

31 DECEMBER 2018 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED *(Continued)*

5. Movement Analysis

Table 5.1 shows the analysis of embedded value movement from 31 December 2017 to 31 December 2018.

Table 5.1 Analysis of Embedded Value Movement from 31 December 2017 to 31 December 2018 (Unit: RMB Million)

Item	Description	Amount
1	Embedded Value as at 31 December 2017	7,831
2	New Business Contribution	531
3	Expected Return	601
4	Investment Return Variance	(262)
5	Other Experience Variance	133
6	Model and Assumption Modification	91
7	Capital Change and Market Value Adjustment	7
8	Others	(243)
9	Embedded Value as at 31 December 2018	8,689

Explanations on items 2 to 8 above:

2. The contribution of new business sold in 2018 to the embedded value at 31 December 2018;

3. The expected return in 2018 arising from the in-force business and adjusted net worth as at 31 December 2017;

4. Change in embedded value arising from variances between the actual investment return and the related investment return assumption in 2018;

5. Change in embedded value arising from variances between the actual experiences and assumptions other than the related investment return in 2018;

6. The impact on embedded value due to model enhancement and the changes in assumptions during 2018;

7. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2018;

8. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 31 December 2017 to 31 December 2018.

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

Opinion

We have audited the consolidated financial statements of The People's Insurance Company (Group) of China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 130 to 255, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key Audit Matters

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

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of long-term life and health insurance contract liabilities	
We identified the valuation of long-term life and health insurance contract liabilities as a key audit matter as the determination of these balances requires the use of appropriate actuarial methodologies and also highly judgmental assumptions. The Group recorded long-term life and health insurance contract liabilities of RMB274,493 million as at 31 December 2018. Assumptions used in the valuation of long-term life and health insurance contract liabilities include the discount rates, demographic assumptions such as mortality and morbidity, and the management assumptions over the future costs of obtaining and maintaining the life insurance business. Small movements in these assumptions can have a material impact on the long-term life and health insurance contract liabilities. Details of the long-term life and health insurance contract liabilities are set out in note 36 to the consolidated financial statements.	Our procedures in relation to the valuation of long-term life and health insurance contract liabilities included: • Testing the key internal controls relevant to our audit of the estimation of long-term life and health insurance contract liabilities; • Testing the underlying company data to source documentation on a sample basis; • With the assistance of our internal actuarial specialists: – Assessing the appropriateness of the models, methodologies and assumptions used (including assumptions on discount rates, mortality, morbidity, persistency and maintenance expenses); – Evaluating and challenging the management's key judgments and assumptions. Our evaluation and challenge included whether these judgments were supported by relevant experience, market information and formed a reasonable basis for setting the assumptions; – Reviewing the sensitivity analysis around the key assumptions, to assess the extent to which changes, both individually and in aggregate, would result in changes in long-term life and health insurance contract liabilities and its reasonableness; and – Verifying independently the calculations of actuarial models on a sample basis.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of non-life insurance contract liabilities	
We identified the valuation of non-life insurance contract liabilities as a key audit matter as the estimation of non-life insurance contract liabilities involves a significant degree of judgment. The Group recorded non-life insurance contract liabilities of RMB277,264 million as at 31 December 2018. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Small changes in these assumptions could result in material changes to the account balance. Details of the non-life insurance contract liabilities are set out in note 36 to the consolidated financial statements.	Our procedures in relation to the valuation of non-life insurance contract liabilities included: • Testing the key internal controls relevant to our audit of the estimation of non-life insurance contract liabilities; • Testing the underlying company data to source documentation on a sample basis; • With the assistance of our internal actuarial specialists: – Comparing the methodology, models and assumptions used against recognised actuarial practices to assess its reasonableness; – Performing independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves and comparing our re-projected claims reserves to those recorded by the management to assess their reasonableness; and – Evaluating the methodology and assumptions, or performing a diagnostic check to identify any abnormalities for the remaining classes.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of financial assets	
We identified the impairment of financial assets as a key audit matter as the Group applied significant judgement to determine whether objective evidence of impairment exists. This included for available-for-sale equity instruments, judging whether decline of fair value below cost is "significant" or "prolong", and for financial assets measured at amortised cost, judging whether objective evidence of impairment exists. Significant accounting estimates are also involved in determining the present values of expected future cash flows, or the fair values measured by significant unobservable inputs. As at 31 December 2018, the Group holds debt securities of RMB316,394 million, equity securities, mutual funds and trust schemes of RMB116,697 million, net insurance receivables of RMB44,218 million and investments classified as loans and receivables of RMB164,512 million. Impairment losses of RMB2,424 million were recorded for available-for-sale financial assets, and reversal of impairment losses of RMB347 million were recorded for insurance receivables for the current year. Details of these available-for-sale financial assets and insurance receivables, key estimation uncertainties of their impairment, and fair values measured based on unobservable input (Level 3) are disclosed in note 3, note 18, note 19, note 20, note 23 and note 43 to the consolidated financial statements, respectively.	Our procedures in relation to impairment assessment of financial assets included: • Testing the management's key controls over identification of financial assets with indications of impairment; • Testing the underlying company data, which used by the management to determine the level of impairment, to source documentation on a sample basis; • For financial assets identified with indication of impairment, assessing the appropriateness of the impairment methodologies, models and assumptions used in determining present value of future cash flows or fair values measured at Level 3. These assumptions include comparable transactions, pricing multiples, expected future cash flows generated by the instruments and the choice of discount rates; • Checking, on a sample basis, any other indication of impairment, including financial difficulties experienced by the issuers of the financial assets, default on repayment or delinquency on principal or interests; and • For equity available-for-sale financial instrument, whether the judgment on "significant" or "prolong" decline of fair value below cost is appropriate and consistently applied.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Shi Chung Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2019

Consolidated Income Statement

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

	Notes	2018	2017
Gross written premiums	5	498,608	476,447
Less: Premiums ceded to reinsurers	5	(29,623)	(27,870)
Net written premiums	5	468,985	448,577
Change in unearned premium reserves	5	(13,638)	(13,600)
Net earned premiums		455,347	434,977
Reinsurance commission income		9,805	8,803
Investment income	6	29,527	36,476
Other income	7	3,918	3,519
TOTAL INCOME		498,597	483,775
Life insurance death and other benefits paid		100,066	119,406
Claims incurred		242,449	221,042
Changes in long-term life insurance contract liabilities		(11,008)	(5,508)
Policyholder dividends		2,148	2,661
Claims and policyholders' benefits	8	333,655	337,601
Less: claims and policyholders' benefits ceded to reinsurers	8	(15,030)	(18,760)
Net claims and policyholders' benefits	8	318,625	318,841
Handling charges and commissions		81,728	68,094
Finance costs	9	6,555	5,569
Exchange (gains)/losses		(425)	668
Other operating and administrative expenses	10	76,859	71,648
TOTAL BENEFITS, CLAIMS AND EXPENSES		483,342	464,820
Share of profits and losses of associates and joint ventures		12,540	12,674
Losses on deemed disposal of an associate	25	(737)	(798)
PROFIT BEFORE TAX	12	27,058	30,831
Income tax expense	11	(8,343)	(7,780)
PROFIT FOR THE YEAR		18,715	23,051
Attributable to:			
Equity holders of the Company		12,912	16,099
Non-controlling interests		5,803	6,952
		18,715	23,051
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic (in RMB Yuan)	15	0.30	0.38

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

	Notes	**2018**	2017
PROFIT FOR THE YEAR		**18,715**	23,051
OTHER COMPREHENSIVE EXPENSE			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value losses		**(6,977)**	(164)
– Reclassification of losses/(gains) to profit or loss on disposals		**1,628**	(4,431)
– Impairment losses	6	**2,424**	887
Income tax effect	30	**377**	765
		(2,548)	(2,943)
Net gains on cash flow hedges		**–**	3
Income tax effect	30	**–**	2
		–	5
Share of other comprehensive income/(expense) of associates and joint ventures		**412**	(1,425)
Exchange differences arising on translation of foreign operations		**58**	(77)
NET OTHER COMPREHENSIVE EXPENSE THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(2,078)**	(4,440)
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	26	**454**	335
Income tax effect	30	**(113)**	(84)
		341	251
Actuarial losses on pension benefit obligation	38	**(187)**	(232)
Share of other comprehensive income of associates and joint ventures		**23**	113
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**177**	132
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		**(1,901)**	(4,308)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**16,814**	18,743
Attributable to:			
– Equity holders of the Company		**11,324**	12,865
– Non-controlling interests		**5,490**	5,878
		16,814	18,743

Consolidated Statement of Financial Position

At 31 December 2018
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2018**	31 December 2017
ASSETS			
Cash and cash equivalents	17	**61,601**	72,819
Debt securities	18	**316,394**	313,261
Equity securities, mutual funds and trust schemes	19	**116,697**	115,013
Insurance receivables, net	20	**44,218**	41,518
Reinsurance assets	21, 36	**27,025**	28,206
Term deposits	22	**98,653**	70,706
Restricted statutory deposits		**13,794**	11,311
Investments classified as loans and receivables	23	**164,512**	157,715
Investments in associates and joint ventures	25	**107,492**	97,740
Investment properties	26	**12,782**	12,155
Property and equipment	27	**25,778**	24,281
Intangible assets	28	**2,329**	1,494
Prepaid land premiums	29	**3,414**	3,649
Deferred tax assets	30	**8,662**	9,645
Other assets	31	**28,284**	28,393
TOTAL ASSETS		**1,031,635**	987,906
LIABILITIES			
Securities sold under agreements to repurchase	33	**54,889**	41,226
Payables to reinsurers	34	**15,551**	18,737
Income tax payable		**3,185**	4,462
Bonds payable	35	**57,732**	49,801
Insurance contract liabilities	36	**559,217**	557,011
Investment contract liabilities for policyholders	37	**41,808**	45,880
Policyholder dividends payable		**3,970**	5,205
Pension benefit obligation	38	**2,967**	2,899
Deferred tax liabilities	30	**1,021**	834
Other liabilities	39	**84,994**	74,970
TOTAL LIABILITIES		**825,334**	801,025
EQUITY			
Issued capital	40	**44,224**	42,424
Reserves	41	**108,829**	95,109
Equity attributable to equity holders of the Company		**153,053**	137,533
Non-controlling interests		**53,248**	49,348
TOTAL EQUITY		**206,301**	186,881
TOTAL EQUITY AND LIABILITIES		**1,031,635**	987,906

The consolidated financial statements on pages 130 to 255 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

Miao Jianmin
DIRECTOR

Bai Tao
DIRECTOR

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

	Attributable to equity holders of the Company														
	Share capital *(note 40)*	Share premium account	Available-for-sale financial asset revaluation reserve	General risk reserve *(note 41(a))*	Agriculture catastrophic loss reserve *(note 41(b))*	Asset revaluation	Share of other comprehensive (expense)/income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve * *(note 41(c))*	Other reserves *(note 41(d))*	Actuarial losses on pension benefit obligation *(note 38)*	Retained profits	Subtotal	Non-controlling interests	Total
Balance at 1 January 2018	42,424	19,925	159	8,473	1,705	2,625	(304)	(52)	11,759	(15,153)	(884)	66,856	137,533	49,348	186,881
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	12,912	12,912	5,803	18,715
Other comprehensive (expense)/income for the year	-	-	(1,991)	-	-	267	279	44	-	-	(187)	-	(1,588)	(313)	(1,901)
Total comprehensive (expense)/income for the year	-	-	(1,991)	-	-	267	279	44	-	-	(187)	12,912	11,324	5,490	16,814
Appropriations to general risk reserve and surplus reserve	-	-	-	1,401	-	-	-	-	282	-	-	(1,683)	-	-	-
Appropriations to agriculture catastrophic loss reserve	-	-	-	-	192	-	-	-	-	-	-	(192)	-	-	-
Utilisations of agriculture catastrophic loss reserve	-	-	-	-	(192)	-	-	-	-	-	-	192	-	-	-
Dividends paid to shareholders *(note 16)*	-	-	-	-	-	-	-	-	-	-	-	(1,672)	(1,672)	(1,590)	(3,262)
Issue of new shares	1,800	4,048	-	-	-	-	-	-	-	-	-	-	5,848	-	5,848
Others	-	-	-	-	-	-	20	-	-	-	-	-	20	-	20
Balance at 31 December 2018	44,224	23,973	(1,832)	9,874	1,705	2,892	(5)	(8)	12,041	(15,153)	(1,071)	76,413	153,053	53,248	206,301

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

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

* This reserve contains both statutory and discretionary surplus reserves.

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

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		27,058	30,831
Adjustments for:			
Investment income	6	(29,527)	(36,476)
Exchange (gains)/losses		(425)	668
Share of profits and losses of associates and joint ventures		(12,540)	(12,674)
Losses on deemed disposal of an associate	25	737	798
Depreciation of property and equipment	12, 27	2,193	1,900
Amortisation of intangible assets	12, 28	281	203
Amortisation of prepaid land premiums	12, 29	172	152
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums	7	(151)	(72)
Finance costs except for interests credited to policyholders	9	4,861	4,152
(Reversal)/recognition of impairment losses on receivables and other assets	12	(416)	445
Investment expenses		279	789
Operating cash flows before working capital changes		(7,478)	(9,284)
Increase in insurance receivables, net		(2,353)	(7,605)
(Decrease)/increase in investment contract liabilities for policyholders		(4,072)	7,510
Increase in insurance contract liabilities, net		3,387	21,311
Increase in other assets, net		(1,340)	(3,074)
Increase/(decrease) in other liabilities, net		3,239	(494)
Cash (used in)/generated from operations		(8,617)	8,364
Income tax paid		(8,186)	(8,989)
Net cash used in operating activities		(16,803)	(625)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		30,284	28,721
Dividends received		6,432	6,016
(Increase)/decrease in policy loans		(857)	143
Capital expenditures		(5,116)	(3,125)
Proceeds from disposals of investment properties, property and equipment, intangible assets and prepaid land premiums		363	254
Investments in associates and joint ventures		(338)	–
Purchases of investments		(201,493)	(255,498)
Proceeds from disposals of investments		184,165	225,085
Payments for investment expenses		(279)	(789)
(Increase)/decrease in term deposits, net		(27,768)	21,063
Net cash (used in)/generated from investing activities		(14,607)	21,870

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

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by subsidiaries		–	29
Issue of new shares		5,848	–
Increase in securities sold under agreements to repurchase	44	13,663	8,160
Issue of bonds payable	44	30,000	3,500
Proceeds from bank borrowings		600	–
Repayment of bonds payable	44	(22,000)	–
Repayment of bank borrowings		(600)	–
Interests paid	44	(4,185)	(3,763)
Dividends paid		(3,262)	(2,885)
Net cash generated from financing activities		20,064	5,041
Net (decrease)/increase in cash and cash equivalents		(11,346)	26,286
Cash and cash equivalents at beginning of the year		72,819	46,729
Effects of exchange rate changes on cash and cash equivalents		128	(196)
Cash and cash equivalents at end of the year		61,601	72,819
Analysis of balances of cash and cash equivalents			
Demand deposits and deposits with banks with original maturity of no more than three months	17	38,548	29,528
Securities purchased under resale agreements with original maturity of no more than three months	17	23,053	43,291
Cash and cash equivalents at end of the year		61,601	72,819

(Amounts in millions of Renminbi, unless otherwise stated)

1. CORPORATE INFORMATION

The People's Insurance Company (Group) of China Limited (the "Company") was established on 22 August 1996 in the People's Republic of China ("PRC") and its registered office is located at No.88, West Chang'an Avenue, Xi Cheng District, Beijing 100031, PRC. The Company's predecessor, the People's Insurance Company of China, is a state-owned enterprise established on 20 October 1949 by the PRC government. The ultimate controlling party of the Company is the Ministry of Finance ("MOF") of the PRC.

The Company is an investment holding company. During the year ended 31 December 2018, the Company's subsidiaries mainly provided integrated financial products and services and were engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses. The Company and its subsidiaries are collectively referred to as the "Group".

These consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company, and all values are rounded to the nearest million except when otherwise indicated.

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments and insurance contract liabilities.

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

2.3 APPLICATION OF NEW AND AMENDMENTS TO IFRSs

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

IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

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

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

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

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group will continue to apply IFRS 4 Insurance Contracts to its insurance contracts and apply IFRS 15 to non-insurance contracts (or unbundled components of insurance contracts). As the Group provides various services including handling certain taxes or levies for relevant authorities, managing certain contracts classified as investment contracts and asset management services, implementations of IFRS 15 affect the recognition or measurement of income from these services. However, the directors of the Company consider the application of IFRS 15 has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

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

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The Standard introduces new requirements for classification and measurement of financial assets and financial liabilities, expected credit loss for financial assets, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, except for entities engaging predominantly in insurance activities and opt for deferral or overlay approach as permitted by Amendments to IFRS 4.

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

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

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

During the year ended 31 December 2016, the Group performed an assessment based on these amendments. The carrying amount of the Group's liabilities connected with insurance exceed 90% of the carrying amount of the Group's total liabilities and, as such, the Group concluded that its activities were predominantly connected with insurance as at 31 December 2015, and is eligible to apply the deferral approach. The Group has decided to apply the temporary exemption in its reporting period commencing on 1 January 2018.

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

The Group has applied uniform accounting policies in accounting for its subsidiaries, associates and joint ventures in these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

The additional disclosures about the temporary exemption from IFRS 9 are as follows:

(i) ***Fair value of financial assets***

The table below presents the fair value of the following groups of financial assets (Note) under IFRS 9 as at 31 December 2018 and fair value changes for the year ended 31 December 2018:

	Fair value as at 31 December 2018	Fair value changes for the year ended 31 December 2018
Financial assets at fair value through profit or loss (A)	20,551	(693)
Financial assets that are managed and whose performance are evaluated on a fair value basis (B)	–	–
Financial assets other than A and B		
– Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") (C)	428,068	19,414
– Financial assets with contractual terms that do not meet SPPI criterion (D)	159,062	(5,674)
Total	607,681	13,047

Note: The table above includes only financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and investments classified as loans and receivables. All other financial assets (including cash, term deposits, insurance receivables and other assets) held by the Group are financial assets that meet SPPI criterion and their carrying amounts approximate their fair value. Accordingly, they have not been included in the table above.

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

(ii) Credit risk exposure

For the financial assets that meet SPPI criterion classified as C above, the credit rating of financial assets is assessed by qualified rating agencies in the PRC except for overseas bonds. The credit risk exposure is listed below:

Credit rating of financial assets that meet SPPI criterion (other than overseas bonds)

	Carrying amount as at 31 December 2018 *(Note 1)*
AAA	344,766
AA+	8,886
AA	2,761
AA-	754
A+	272
A and below	1,825
Not rated*	59,330
Subtotal	418,594

* Included in the not rated category, there is an aggregate carrying amount of RMB55,513 million of government bonds and certain financial bonds issued by policy banks, that have low credit risks and without any credit rating.

For the oversea bonds that meet SPPI criterion classified as C above, Moody's credit rating is used, since there is no domestic rating. The credit risk exposure is listed below:

Credit rating of financial assets that meet SPPI criterion

	Carrying amount as at 31 December 2018 *(Note 1)*
Aa (included Aa1, Aa2 and Aa3)	648
A (included A1, A2 and A3)	129
Baa (included Baa1, Baa2 and Baa3)	493
Subtotal	1,270
Total	419,864

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

(ii) Credit risk exposure (continued)

	As at 31 December 2018	
	Carrying amount	**Fair value**
Financial assets that do not have low credit risk *(Note 2)*	**18,315**	**18,823**

Note 1: For financial assets measured at amortised cost, carrying amount before adjusting impairment allowance is disclosed here.

Note 2: Financial assets that do not have low credit risk refer to financial assets with either credit rating below AAA or Moody's credit rating below Baa3.

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 3	*Definition of a Business*[5]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[7]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[6]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018, except for entities engaging predominantly in insurance activities and opt for deferral/overlay approach as permitted by Amendments to IFRS 4.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
6 Effective for annual periods beginning on or after 1 January 2020.
7 Effective for annual periods beginning on or after 1 January 2019, or the annual period in which the Group first adopts IFRS 9, whichever is later.

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

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

IFRS 9 – Financial Instruments

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

Key requirements of IFRS 9:

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2018, the following principal impacts to the consolidated financial statements on initial application of IFRS 9 are expected:

Classification and measurement

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

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

IFRS 9 – Financial Instruments *(continued)*

Classification and measurement (continued)

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

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

- Equity instruments classified as available-for-sale financial assets carried at cost less impairment as disclosed in note 19: the Group will measure their fair value and the subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, the difference between the amortised cost and fair value of these investments will be recognised in retained profits at the date of transition.

- Financial assets at fair value through profit or loss as disclosed in note 18 and note 19: all these at fair value through profit or loss financial assets are held within a business model whose objective is achieved by selling these financial instruments in the open market, so they will be measured at fair value with fair value gains or losses to be recognised in profit or loss under both IAS 39 and IFRS 9.

Impairment

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

IFRS 16 – Leases

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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

IFRS 16 – Leases *(continued)*

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB2,842 million as disclosed in note 45. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB92 million and refundable rental deposits received of RMB2 million as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advanced lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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

IFRS 17 – Insurance Contracts

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 17 – Insurance Contracts *(continued)*

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

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

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

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

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

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

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

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

(i) changes in variable fee,

(ii) the time value of money, and

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

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

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

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

IFRS 17 – Insurance Contracts *(continued)*

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of consolidation *(continued)*

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Investment in associates and joint ventures

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

(3) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(4) Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve(attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

(5) Financial assets

Initial recognition and measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Available-for-sale financial assets

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

Measured at fair value

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

Measured at cost less impairment

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Subsequent measurement (continued)

Loans and receivables

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

Held-to-maturity financial assets

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

Effective interest method

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

Derecognition of financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Financial assets *(continued)*

Derecognition of financial assets (continued)

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

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

(6) Impairment of financial assets

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

Available-for-sale financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Financial assets carried at amortised cost

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

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

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

Financial assets carried at cost

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

(7) Financial liabilities

Initial recognition and measurement

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial liabilities *(continued)*

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

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

Effective interest method

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Financial guarantee contracts

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

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

(9) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Fair value measurement

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

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

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

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

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

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

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

(11) Investment properties

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(Amounts in millions of Renminbi, unless otherwise stated)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(11) Investment properties *(continued)*

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

(12) Property and equipment and depreciation

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

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

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

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

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

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

(13) Construction in progress

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

(14) Intangible assets (other than goodwill)

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(14) Intangible assets (other than goodwill) *(continued)*

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

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

(15) Impairment of non-financial assets

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

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

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

(16) Insurance receivables

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

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

(17) Insurance contracts

Product classification and unbundling

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(17) Insurance contracts *(continued)*

Product classification and unbundling (continued)

Some contracts issued by the Group may contain both an insurance component and a deposit component. If these two components are distinct and can be measured reliably, the underlying amounts are unbundled. The unbundled insurance component is accounted for according to IFRS 4 and the unbundled deposit component is accounted for as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the entire contract will be accounted for as an insurance contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract up to derecognition, even if the insurance risk subsequently reduces significantly. Investment contracts can, however, be reclassified as insurance contracts after initial recognition if insurance risk becomes significant.

Significant insurance risk testing

For insurance contracts issued by the Group, tests are performed to determine if the contracts contain significant insurance risk, and contracts of a similar nature are grouped together for this purpose. When performing the significant insurance risk testing, the Group makes judgements in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is significant.

(18) Insurance contract liabilities

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

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

Unearned premium reserves

Unearned premium reserves are recognised at inception of non-life and short-term health insurance contracts until the insurance coverage expires. The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as handling charges and commissions, underwriting personnel expenses, tax and surcharges, insurance security fund and other incremental costs are recorded as expenses in profit or loss against an equal and opposite amount of premium being recognised as revenue. Subsequent to the initial recognition, unearned premium reserves are released on a 1/365 or 1/24 basis according to the insurance coverage period. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Insurance contract liabilities *(continued)*

Insurance contract liabilities other than unearned premium reserves

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

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

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Insurance contract liabilities *(continued)*

Liability adequacy tests

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

Derecognition of insurance contract liabilities

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

(19) Reinsurance

The Group cedes insurance risk in the normal course of business for part of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance contract liabilities or settled claims associated with the reinsured policies and are in accordance with the related reinsurance contracts.

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

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

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

Commissions receivable on outward reinsurance contracts are recorded as income in the income statement. The reinsurers' share of unearned premium reserves is reduced by commissions receivable on outward reinsurance contracts at inception and subsequently the reduced balance is released over the term of the contract in the same manner as the related unearned premium reserves. Reinsurers' share of loss and loss adjustment expense reserves also includes their share of risk margin to the gross balance of loss and loss adjustment expense reserves.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial instruments. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the cedant. Investment income or expense on these contracts is accounted for using the effective interest method when accrued.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Provisions

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

- an entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

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

(21) Employee benefits

Retirement benefits cost and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance. The Group has made annuity contributions in proportion to its employees' salaries.

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

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

- service costs (including past service costs, gains and losses on curtailment and settlements);
- interest expenses; and
- remeasurement.

The Group presents the first two components of its defined benefit costs in profit or loss in "Other Operating and Administrative Expenses" and "Finance Costs". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficits in the Group's defined benefit plan.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Employee benefits *(continued)*

Short-term and other long-term employee benefits

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

Short-term employee benefits refer to employee wages, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates.

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

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

(22) Policyholder dividends

Policyholder dividends represent dividends payable by the Group to policyholders in accordance with the terms of insurance contracts. The dividends are calculated and provided based on the dividend distribution determination and the results of actuarial valuation.

When policyholders' dividends are declared, they are accounted for as financial liabilities and initially measured at fair value and subsequently measured at amortised costs.

(23) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Leasing *(continued)*

Leasehold land and building

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

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

(24) Revenue recognition

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Commission income arising from the collection of motor vehicles and vessels taxes due to the relevant authorities

The Group earns commission income arising from the collection of motor vehicles and vessels taxes due to the relevant authorities. The commission income is recognised when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the relevant authorities.

Assets management income and management fee charged to policyholders

Insurance and investment contract policyholders are charged for policy administration services and investment management services. These income is recognised when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(24) Revenue recognition *(continued)*

Gross premiums

Premium income and reinsurance premium income are recognised when the insurance contracts are issued, related insurance risk is undertaken by the Group, it is probable that the related economic benefits will flow to the Group and the related income can be reliably measured.

Premiums from life insurance contracts with instalment or single payments are recognised as revenue when due. Premiums from direct non-life insurance contracts are recognised as revenue according to the total premiums stated in the contracts.

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

(25) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other direct costs that an entity incurs in connection with the borrowing of funds.

(26) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(27) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or a joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(28) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted by facts and circumstances. The presumption is rebutted when the investment properties are depreciable and are held within the context of a business model whose objective is to substantially consume over time the economic benefits embodied in the investment properties, rather than through sale.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right exists to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 2.5, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(1) Unbundling, classification and significant risk testing of contracts

The Group made judgement on whether a contract transfers insurance risk, and whether the transfer of insurance risk has commercial substance and is significant. The results of the judgement affect the classification of the contract at initial recognition.

When a contract transfers significant insurance risk and financial risks, the Group has reached a judgment on whether the financial risks and the deposit component are distinct and separately measurable and the Group's accounting policies fully reflect the rights and obligations from such deposit component. The results of this judgement would affect the unbundling of the contract.

When performing significant insurance risk testing, contracts exhibiting homogenous risks for a particular product are grouped together. Subsequently, adequate representative samples are drawn from individual groups, taking into account their risk distributions and characteristics.

The unbundling and classification of contracts affect revenue recognition, measurement of liabilities and presentation of the consolidated financial statements of the Group.

(2) Significant influence on an investee when less than 20 per cent of voting power is held

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

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

An investee is accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset in accordance with IAS 39.

The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 25 to these consolidated financial statements.

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

Critical judgements in applying accounting policies *(continued)*

(3) Consolidations of structured entities

The Group has interest in a range of structured entities in its daily operations for investment purposes. These entities vary in legal forms and investors' rights on removals of the managers, changing underlying assets and liquidations. Certain subsidiaries of the Company are also engaged in launching and managing these structured entities. The Group has to assess whether it has control over these entities. The decision mainly depends on whether the Group is the investment manager, whether or not the Group has powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers. Details of these structured entities are disclosed in note 47 to these consolidated financial statements.

(4) Impairment assessment on investments in associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investment in an associate exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose suitable discount rates in order to calculate the present values of those cash flows.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the year end, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(1) Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract reserve, the Group needs to make reasonable estimates in payments which the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

The main assumptions made in measuring these liabilities are as follows:

- For insurance contracts under which future insurance benefits will be affected by investment income of the underlying asset portfolio, with the consideration of the Cai Kuai [2017] No. 637 issued by the former China Insurance Regulatory Commission ("CIRC") and other relevant regulations, the discount rate assumption is based on the benchmarking yield curve for the measurement of insurance contract liabilities published by China Central Depository and Clearing Co., Ltd, with consideration of the impact of the tax and liquidity premium. The discount rates assumption for the measurement were determined based on information currently available at the end of the reporting period and are presented as follows:

(Amounts in millions of Renminbi, unless otherwise stated)

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

Key sources of estimation uncertainty *(continued)*

(1) Valuation of insurance contract liabilities (continued)

	31 December 2018	31 December 2017
Discount rates	2.94%-6.56%	2.94%-6.49%

For insurance contracts under which future insurance benefits will be affected by investment income of the underlying asset portfolio, the discount rates are determined based on expected future investment returns of the investment portfolio backing the liabilities. The discount rates used by the Group are as follows:

	31 December 2018	31 December 2017
Discount rates	5.00%-5.25%	5.00%-5.50%

The discount rate and investment return assumptions are affected by the future economic environment, capital market performance, investment channels of insurance funds, investment strategy and etc., and therefore subject to uncertainty.

The discount rates are the assumptions which have the most significant impacts on the measurement of the long-term life insurance contract liabilities. The changes of these assumptions during the year ended 31 December 2018 decreased long-term life insurance contract liabilities by RMB142 million (2017: increased RMB2,885 million).

- Mortality, morbidity and disability rates are based on the Group's own experience, market experience and development trends. Mortality rates are determined based on the Group's historical data, estimations of current and future expectations and the understanding of China's insurance market, and presented using the standard Chinese mortality tables. Morbidity rates are determined based on factors such as the pricing assumptions of the Group's products and historical data. The assumptions of mortality and morbidity rates are affected by factors such as changes in lifestyles of national citizens, social development, and improvement of medical treatment, and hence subject to uncertainty.

- Lapse rates depend on policy year, product type and sales channel. The assumptions of lapse rates are affected by factors such as future economic environment and market competition, and hence subject to uncertainty.

- Expenses depend on costs analysis and future development trends. For future expenses sensitive to inflation, the Group also considers the effect of inflation. The expense assumptions include assumptions of acquisition costs and maintenance costs. The Group only considers expenses directly related to policy acquisition and maintenance.

- Future policyholder dividends depend on factors such as expected investment yields, dividend policy and policyholders' reasonable expectations. The assumption of participating insurance accounts is affected by the above factors, and hence bears uncertainty. Future policyholder dividends for individual participating insurance business of the Group are measured assuming that the Group will award to policyholders 70% of the distributable surplus calculated according to these contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

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

Key sources of estimation uncertainty *(continued)*

(1) Valuation of insurance contract liabilities (continued)

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) for the liability adequacy test over unearned premium reserves as follows:

Type	31 December 2018	31 December 2017
Agricultural insurance	33.8%	33.8%
Motor vehicle insurance	3.0%	3.0%
Other non-life insurance	6.0%	6.0%
Short-term health insurance	3.0%	3.0%

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) of claim reserves as follows:

Type	31 December 2018	31 December 2017
Agricultural insurance	33.3%	33.3%
Motor vehicle insurance	2.5%	2.5%
Other non-life insurance	5.5%	5.5%
Short-term health insurance	2.5%	2.5%

The Group considers risk margin for discount rate, mortality and morbidity and expense assumptions to compensate for the uncertain amounts and timing of future cash flows. The Group determines the risk margin level itself using an appropriate estimation technique as the regulations have not imposed any specific requirement on it.

The major assumptions needed in measuring claim reserves include the claim development factors and expected claim ratios, which can be used to forecast trends of future claims so as to estimate the ultimate claim expenses. The claim development factors and the expected loss ratios for various measurement units are based on past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, premium rates and claims handling processes, and changing trends in external environment such as economic conditions, regulations and legislation.

Management is of the opinion that as at the end of the reporting period, claim reserve is sufficient to cover all incurred events to date but cannot guarantee there is no underprovision or overprovision of the reserve, which is an estimate of the ultimate losses.

The carrying values of insurance contract liabilities are disclosed in note 36 to these consolidated financial statements.

(2) Fair values of financial assets determined using valuation techniques

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Fair values of financial assets, their hierarchy, valuation techniques and key inputs are disclosed in note 43 to these consolidated financial statements.

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

Key sources of estimation uncertainty *(continued)*

(3) Impairment of financial assets

Financial assets measured at amortised cost

When there is an objective evidence that there is impairment in loans and receivables and held-to-maturity investments, the Group assesses the degree of risk and collectability of each item. The Group needs to recognise an impairment loss in the income statement if the present value of expected future cash flows is less than the carrying amount of a financial asset measured at amortised cost. The Group mainly considers the financial situation, credit rating, and collaterals of the debtors in estimating the future cash flows.

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

Financial assets measured at amortised cost include cash equivalents, insurance receivables, term deposits, restricted statutory deposits, held-to-maturity investments, investments classified as loans and receivable and miscellaneous receivables. The carrying values of these assets are disclosed in the consolidated statement of financial position and respective notes.

Available-for-sale financial assets

The Group considers that impairment provision is needed for an available-for-sale financial assets investment. If fair value of an available-for-sale financial instrument is below its carrying amount, the Group determines whether impairment exists by: for equity instruments, judging whether this decline below cost is "significant" or "prolonged" as explained in note 2.5(6); for debt instruments, whether the decline in fair value is due to market interest rates or interest rates specific to the issuers of the financial instruments, or presence of other objective evidence of impairment.

4. OPERATING SEGMENT INFORMATION

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

For management purposes, the Group is organised into business units based on principal activities of subsidiaries and has the following operating and reportable segments:

- The non-life insurance segment offers a wide variety of insurance products to both personal and corporate customers including automobile insurance, agricultural, property and liabilities insurance;
- The life insurance segment offers a wide range of participating, endowments, annuity and universal life insurance products;
- The health insurance segment offers a wide range of health and medical insurance products;
- The asset management segment offers asset management services;
- The headquarters segment provides management and support for the Group's business through its strategy, risk management, treasury, finance, legal and human resources functions;
- The others segment comprises insurance agent business, reinsurance business and other operating business of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

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

As the revenue, net profit, assets and liabilities of operations outside Mainland China constitutes less than 1% of the consolidated amounts in these financial statements, geographical segmental information is not presented.

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

During the reporting period, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

Segment revenue and results for the year ended 31 December 2018

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	344,675	92,677	13,797	–	–	4,333	(135)	455,347
Reinsurance commission income	10,419	448	151	–	–	168	(1,381)	9,805
Investment income	14,656	12,355	1,278	584	4,450	439	(4,235)	29,527
Other income	2,475	728	133	1,610	1	831	(1,860)	3,918
TOTAL INCOME – SEGMENT INCOME	372,225	106,208	15,359	2,194	4,451	5,771	(7,611)	498,597
– External income	374,667	105,643	15,322	1,498	478	989	–	498,597
– Intersegment income	(2,442)	565	37	696	3,973	4,782	(7,611)	–
Net claims and policyholders' benefits	213,661	90,170	11,913	–	–	2,964	(83)	318,625
Handling charges and commissions	74,072	7,953	662	–	–	–	(959)	81,728
Finance costs	2,076	2,978	476	7	1,002	16	–	6,555
Exchange gains	(211)	(161)	(5)	–	(42)	(6)	–	(425)
Other operating and administrative expenses	63,751	8,281	2,302	1,338	905	2,910	(2,628)	76,859
TOTAL BENEFITS, CLAIMS AND EXPENSES	353,349	109,221	15,348	1,345	1,865	5,884	(3,670)	483,342
Share of profits and losses of associates and joint ventures	7,896	3,736	10	3	846	(45)	94	12,540
Loss on deemed disposal of an associate	(737)	–	–	–	–	–	–	(737)
PROFIT/(LOSS) BEFORE TAX	26,035	723	21	852	3,432	(158)	(3,847)	27,058
Income tax (expense)/credit	(7,950)	5	–	(214)	(192)	(10)	18	(8,343)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	18,085	728	21	638	3,240	(168)	(3,829)	18,715

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2017

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	309,552	105,428	17,997	–	–	1,748	252	434,977
Reinsurance commission income	9,374	273	93	–	–	102	(1,039)	8,803
Investment income	15,901	17,320	2,008	452	4,438	162	(3,805)	36,476
Other income	2,025	754	121	1,618	1	379	(1,379)	3,519
TOTAL INCOME – SEGMENT INCOME	336,852	123,775	20,219	2,070	4,439	2,391	(5,971)	483,775
– External income	337,586	123,375	20,190	1,432	815	377	–	483,775
– Intersegment income	(734)	400	29	638	3,624	2,014	(5,971)	–
Net claims and policyholders' benefits	192,586	108,162	17,182	–	–	875	36	318,841
Handling charges and commissions	59,754	8,369	796	–	–	–	(825)	68,094
Finance costs	2,000	2,122	543	4	899	1	–	5,569
Exchange losses	442	185	2	1	35	3	–	668
Other operating and administrative expenses	60,137	7,725	1,689	1,301	823	1,809	(1,836)	71,648
TOTAL BENEFITS, CLAIMS AND EXPENSES	314,919	126,563	20,212	1,306	1,757	2,688	(2,625)	464,820
Share of profits and losses of associates and joint ventures	7,919	3,625	–	(1)	923	–	208	12,674
Loss on deemed disposal of an associate	(356)	(398)	–	–	(44)	–	–	(798)
PROFIT/(LOSS) BEFORE TAX	29,496	439	7	763	3,561	(297)	(3,138)	30,831
Income tax (expense)/credit	(7,315)	(285)	–	(199)	99	–	(80)	(7,780)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	22,181	154	7	564	3,660	(297)	(3,218)	23,051

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2018 and 2017, and other segment information for the years ended 31 December 2018 and 2017:

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
31 December 2018								
Segment assets	559,314	391,661	35,086	10,887	118,646	14,882	(98,841)	1,031,635
Segment liabilities	408,433	360,767	29,528	2,323	22,744	7,257	(5,718)	825,334
Other segment information:								
Capital expenditures	4,012	332	198	311	160	103	–	5,116
Depreciation and amortisation	2,053	244	59	33	155	17	85	2,646
Interest income	14,063	13,828	1,090	189	299	425	126	30,020
31 December 2017								
Segment assets	530,450	381,802	43,096	10,293	109,569	11,382	(98,686)	987,906
Segment liabilities	392,477	350,242	37,463	2,205	20,587	3,541	(5,490)	801,025
Other segment information:								
Capital expenditures	1,908	706	109	306	62	34	–	3,125
Depreciation and amortisation	1,806	176	54	31	111	8	69	2,255
Interest income	13,304	12,866	1,425	146	222	139	213	28,315

The headquarters, non-life and life segments hold equity interests of 0.85%, 5.91%, and 6.14% (31 December 2017: 0.85%, 5.91%, and 6.14%), respectively, in the Industrial Bank, an associate of the Group. These interests are accounted for as available-for-sale financial assets in headquarters and non-life segments, while accounted for as investment in associate in life segment. On consolidation, these interests in aggregate are accounted for as an associate and the impacts of relevant adjustments to the consolidated financial statements are allocated to the respective segments according to their respective equity interest holding.

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

5. GROSS AND NET WRITTEN PREMIUMS

	2018	2017
(a) Gross written premiums		
Long-term life insurance premiums	93,354	113,111
Short-term health insurance premiums	15,172	12,438
Non-life insurance premiums	390,082	350,898
Total	498,608	476,447
(b) Premiums ceded to reinsurers		
Long-term life insurance premiums	(1,501)	(1,083)
Short-term health insurance premiums	(287)	(1,167)
Non-life insurance premiums	(27,835)	(25,620)
Total	(29,623)	(27,870)
Net written premiums	468,985	448,577
(c) Change in unearned premium reserves		
Change in gross unearned premium reserves	(14,789)	(12,150)
Less: Change in reinsurers' share of unearned premium reserves	1,151	(1,450)
Net amount	(13,638)	(13,600)

6. INVESTMENT INCOME

	2018	2017
Dividend, interest and rental income (a)	34,370	32,650
Realised (losses)/gains (b)	(1,883)	4,823
Fair value losses (c)	(536)	(110)
Impairment losses of available-for-sale financial assets	(2,424)	(887)
TOTAL	29,527	36,476

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(a) Dividend, interest and rental income

	2018	2017
Operating lease income from investment properties	554	575
Interest income		
Current and term deposits	5,203	4,992
Debt securities		
– Held-to-maturity	6,027	5,857
– Available-for-sale	8,258	7,727
– At fair value through profit or loss	211	271
Derivative financial assets	–	3
Loans and receivables	10,321	9,465
SUBTOTAL	30,020	28,315
Dividend income		
Equity securities, mutual funds and trust schemes		
– Available-for-sale	3,503	3,369
– At fair value through profit or loss	293	391
SUBTOTAL	3,796	3,760
TOTAL	34,370	32,650

(b) Realised (losses)/gains

	2018	2017
Debt securities		
– Available-for-sale	530	90
– At fair value through profit or loss	34	9
Equity securities and mutual funds		
– Available-for-sale	(2,162)	4,330
– At fair value through profit or loss	(285)	394
TOTAL	(1,883)	4,823

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(c) Fair value losses

	2018	2017
Debt securities		
– At fair value through profit or loss	104	(105)
Equity securities and mutual funds		
– At fair value through profit or loss	(797)	195
Investment properties *(note 26)*	157	(200)
TOTAL	(536)	(110)

7. OTHER INCOME

	2018	2017
Commission income arising from the collection of motor vehicles and vessels taxes due to the relevant authorities	1,064	1,166
Assets management income	758	706
Management fee charged to policyholders	230	318
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums	151	72
Government grants *(note)*	244	240
Others	1,471	1,017
TOTAL	3,918	3,519

Note: Government grants of the Group mainly include agricultural insurance subsidies and subsidies for its insurance business operated in Tibet Autonomous Region.

(Amounts in millions of Renminbi, unless otherwise stated)

8. CLAIMS AND POLICYHOLDERS' BENEFITS

	2018 Gross	2018 Ceded	2018 Net
Life insurance death and other benefits paid	100,066	31	100,035
Claims incurred	242,449	14,692	227,757
– Short-term health insurance	11,989	773	11,216
– Non-life insurance	230,460	13,919	216,541
Changes in long-term life insurance contract liabilities	(11,008)	307	(11,315)
Policyholder dividends	2,148	–	2,148
TOTAL	333,655	15,030	318,625

	2017 Gross	2017 Ceded	2017 Net
Life insurance death and other benefits paid	119,406	17	119,389
Claims incurred	221,042	18,733	202,309
– Short-term health insurance	10,390	1,578	8,812
– Non-life insurance	210,652	17,155	193,497
Changes in long-term life insurance contract liabilities	(5,508)	10	(5,518)
Policyholder dividends	2,661	–	2,661
TOTAL	337,601	18,760	318,841

9. FINANCE COSTS

	2018	2017
Interest expenses relating to:		
Bonds payable	2,841	2,494
Interest credited to policyholders *(note 37)*	1,694	1,417
Securities sold under agreements to repurchase	1,659	1,367
Interest cost on benefit obligation *(note 38)*	108	96
Due to bank borrowings	7	–
Others	246	195
TOTAL	6,555	5,569

(Amounts in millions of Renminbi, unless otherwise stated)

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2018	2017
Employee costs	39,130	32,984
Taxes and surcharges	2,275	2,299
Depreciation and amortisation	2,338	1,926
Contributions to China Insurance Security Fund *(note)*	3,137	2,897
(Reversal)/recognition of impairment losses *(note 12)*	(416)	445
Others	30,395	31,097
TOTAL	76,859	71,648

Note: Insurance companies in China are required to make regular contributions to China Insurance Security Fund ("CISF") according to the types and premiums of products sold during the year. CISF was established to provide protection for policyholders when an insurance company in China is in financial troubles.

11. INCOME TAX EXPENSE

	2018	2017
Current tax	6,897	10,653
Adjustments in respect of prior years	12	42
Deferred tax *(note 30)*	1,434	(2,915)
TOTAL	8,343	7,780

In accordance with the relevant PRC income tax rules and regulations, the Company and its subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% (2017: 25%) on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The People's Insurance Company of China (Hong Kong) Limited ("PICC Hong Kong") and PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), subsidiaries incorporated in Hong Kong, were subject to a profits tax rate of 16.5% for the year ended 31 December 2017. Since 1 January 2018, PICC Hong Kong was nominated to adopt a profits tax rate of 8.25% for the first HKD2 million of its assessable profits and a profits tax rate of 16.5% for the remaining assessable profits. PICC AMHK was still subject to a profits tax rate of 16.5% during the year.

(Amounts in millions of Renminbi, unless otherwise stated)

11. INCOME TAX EXPENSE *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the CIT rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	2018	2017
Profit before tax	27,058	30,831
Tax at the statutory tax rate	6,765	7,708
Adjustments in respect of prior years	12	42
Tax effect of share of profits and losses of associates	(2,951)	(2,969)
Income not subject to tax	(1,637)	(888)
Expenses not deductible for tax	5,590	3,511
Unrecognised deductible temporary differences and tax losses	564	384
Effects of different tax rates applied to subsidiaries	–	(8)
Tax charge for the year	8,343	7,780
Effective tax rate	30.8%	25.2%

Handling charges and commission expenses are not deductible for tax purposes when they exceed certain percentages of the amounts of premiums income subtracted by surrender expenses.

12. PROFIT BEFORE TAX

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

	2018	2017
Employee costs (a) *(note)*	41,185	39,026
Depreciation of property and equipment *(note 27) (note)*	2,193	1,900
(Reversal)/recognition of impairment losses on insurance receivables *(note 20(a))*	(347)	426
(Reversal)/recognition of impairment losses on other assets *(note 31(c))*	(69)	11
Impairment losses on prepaid land premiums *(note 29)*	–	8
Minimum lease payments under operating leases in respect of land and buildings	1,262	1,089
Amortisation of intangible assets *(note 28) (note)*	281	203
Amortisation of prepaid land premium *(note 29) (note)*	172	152
Auditors' remuneration	33	31

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(Amounts in millions of Renminbi, unless otherwise stated)

12. PROFIT BEFORE TAX *(continued)*

(a) Employee costs

	2018	2017
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	**36,812**	35,198
– Pension scheme contributions	**4,373**	3,828
TOTAL	**41,185**	39,026

Note: Certain employee costs, depreciation and amortisation are recorded as claims handling expenses and are not included in other operating and administrative expenses.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Certain directors, supervisors and senior managements are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

The total compensation package for the Company's key management for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's 2018 consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

Directors', supervisors' and senior management's remuneration for the years of 2018 and 2017, are disclosed as follows:

(a) Directors and Supervisors

	2018					
	Fees (in RMB'000)	Salaries and allowances (in RMB'000)	Performance related bonuses (in RMB'000)	Social insurance, housing fund and other benefits (in RMB'000)	Retirement benefits (in RMB'000)	Total (in RMB'000)
Executive Directors:						
Miao Jianmin (Chairman of the Board) (i)	–	312	234	73	226	845
Bai Tao (Vice Chairman of the Board) (ii)	–	156	117	38	115	426
Xie Yiqun	–	281	211	73	209	774
Tang Zhigang	–	278	208	73	209	768
Non-executive Directors:						
Wang Qingjian	–	–	–	–	–	–
Xiao Xuefeng	–	–	–	–	–	–
Hua Rixin	–	–	–	–	–	–
Cheng Yuqin	–	–	–	–	–	–
Wang Zhibin	–	–	–	–	–	–
Independent Non-executive Directors:						
Shiu Sin Por (iii)	167	–	–	–	–	167
Ko Wing Man (iii)	167	–	–	–	–	167
Luk Kin Yu	250	–	–	–	–	250
Lin Yixiang	300	–	–	–	–	300
Chen Wuzhao	283	–	–	–	–	283
Directors who have resigned:						
Lau Hon Chuen (iv)	121	–	–	–	–	121
Xu Dingbo (iv)	121	–	–	–	–	121
Total	1,409	1,027	770	257	759	4,222
Supervisors:						
Lin Fan (Chairman of the Board of Supervisors)	–	312	234	73	226	845
Xu Yongxian	–	806	846	284	167	2,103
Jing Xin	300	–	–	–	–	300
Wang Dajun	–	619	713	229	138	1,699
Ji Haibo	–	571	726	229	131	1,657
Total	300	2,308	2,519	815	662	6,604

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(Amounts in millions of Renminbi, unless otherwise stated)

13. DIRECTORS', SUPERVISORS' AND SENIOR MAMAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors and Supervisors *(continued)*

2017 (Restated)

	Fees (in RMB'000)	Salaries and allowances (in RMB'000)	Performance related bonuses (in RMB'000)	Social insurance housing fund and other benefits (in RMB'000)	Retirement benefits (in RMB'000)	Total (in RMB'000)	Incentive income for the term of office from 2015 to 2017* (in RMB'000)
Executive Directors:							
Miao Jianmin							
(Chairman of the Board) (i)	–	208	259	46	162	675	121
Xie Yiqun (v)	–	62	76	15	49	202	30
Tang Zhigang (v)	–	46	58	11	37	152	26
Non-executive Directors:							
Wang Qingjian (vi)	–	–	–	–	–	–	–
Xiao Xuefeng (vi)	–	–	–	–	–	–	–
Hua Rixin	–	–	–	–	–	–	–
Cheng Yuqin	–	–	–	–	–	–	–
Wang Zhibin	–	–	–	–	–	–	–
Independent Non-executive Directors:							
Lau Hon Chuen	300	–	–	–	–	300	–
Xu Dingbo	300	–	–	–	–	300	–
Luk Kin Yu	250	–	–	–	–	250	–
Lin Yixiang	300	–	–	–	–	300	–
Chen Wuzhao (vii)	208	–	–	–	–	208	–
Directors who have resigned:							
Wu Yan (viii)	–	286	357	61	46	750	493
Yao Zhiqiang (ix)	–	–	–	–	–	–	–
Wang Qiao (ix)	–	–	–	–	–	–	–
Wang Yincheng (x)	–	23	17	5	4	49	–
Du Jian (xi)	–	–	–	–	–	–	–
Total	1,358	625	767	138	298	3,186	670
Supervisors:							
Lin Fan (Chairman of the Board of Supervisors)	–	312	389	67	242	1,010	508
Xu Yongxian	–	806	900	278	175	2,159	–
Jing Xin (xii)	250	–	–	–	–	250	–
Wang Dajun	–	591	750	223	134	1,698	–
Ji Haibo (xii)	–	124	163	49	28	364	–
Supervisor who has resigned:							
Yao Bo (xiii)	–	377	407	121	79	984	–
Total	250	2,210	2,609	738	658	6,465	508

13. DIRECTORS', SUPERVISORS' AND SENIOR MAMAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors and Supervisors *(continued)*

* In 2018, according to the salary management regulations issued by the MOF, the Group has finalised the incentive income for the term of office from 2015 to 2017. The incentive income is assessed once every three years.

(i) Miao Jianmin was appointed as executive director in July 2017 and as the Chairman of the Board in January 2018.
(ii) Bai Tao was appointed as Vice Chairman of the Board in October 2018.
(iii) Shiu Sin Por and Ko Wing Man were both appointed in May 2018.
(iv) Lau Hon Chuen and Xu Dingbo resigned in May 2018.
(v) Xie Yiqun and Tang Zhigang were appointed in October 2017 and November 2017, respectively.
(vi) Wang Qingjian and Xiao Xuefeng were appointed in July 2017 and October 2017, respectively.
(vii) Chen Wuzhao was appointed as independent non-executive director in March 2017.
(viii) Wu Yan resigned in December 2017.
(ix) Yao Zhiqiang and Wang Qiao resigned in July 2017 and October 2017, respectively.
(x) Wang Yincheng resigned in March 2017.
(xi) Du Jian requested to resign in August 2014, but he had still acted as independent non-executive director of the Company according to the regulatory requirements until March 2017
(xii) Jing Xin and Ji Haibo were appointed in March 2017 and October 2017, respectively.
(xiii) Yao Bo resigned in July 2017.

The compensation amounts for the directors and supervisors during their appointment were stated above. The total compensation for the year ended 31 December 2017 was restated after finalisation in year 2018.

Executive directors' emoluments shown above were mainly for the services in connection with management of affairs of the Company and the Group. Non-executive directors did not receive any remuneration from the Company.

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

(Amounts in millions of Renminbi, unless otherwise stated)

13. DIRECTORS', SUPERVISORS' AND SENIOR MAMAGEMENT'S EMOLUMENTS *(continued)*

(b) Senior Management

The information set out below does not include remuneration of directors or supervisors. The relevant information of their remuneration is disclosed in note 13(a).

	2018 (in RMB'000)	2017 (in RMB'000) (Restated)
Salaries and allowances	5,616	4,864
Performance related bonuses	6,090	5,927
Social insurance, housing fund and other benefits	1,770	1,398
Retirement benefits	1,401	1,634
Subtotal	14,877	13,823
Incentive income	–	2,100
TOTAL	14,877	15,923

The number of senior management, excluding directors and supervisors, whose remuneration fell within the following bands are as follows:

	2018	2017 (Restated)
Nil to HKD500,000	1	–
HKD500,001 to HKD1,000,000	2	–
HKD1,000,001 to HKD1,500,000	–	3
HKD1,500,001 to HKD2,000,000	1	2
HKD2,000,001 to HKD2,500,000	1	–
HKD2,500,001 to HKD3,000,000	4	1
HKD3,000,001 to HKD3,500,000	–	3
TOTAL	9	9

(Amounts in millions of Renminbi, unless otherwise stated)

14. FIVE HIGHEST PAID INDIVIDUALS

During the year of 2018, the five highest paid individuals included one supervisor and no director, details of whose remuneration are set out in note 13 above, while during the year of 2017 the five highest paid individuals did not include any director or supervisor. Details of the remuneration for the year of 2018 of the remaining four (2017: five) highest paid individuals who are neither director nor supervisor of the Company are as follows:

	2018 (in RMB'000)	2017 (in RMB'000) (Restated)
Salaries, allowances	3,693	4,499
Performance related bonuses	4,204	5,368
Social insurance, housing fund and other benefits	1,149	1,396
Retirement benefits	666	875
TOTAL	9,712	12,138

The number of the highest paid individuals who are neither director nor supervisor of the Company whose remuneration fell within the following bands is as follows:

	2018	2017 (Restated)
HKD2,500,001 to HKD3,000,000	4	2
HKD3,000,001 to HKD3,500,000	–	3
TOTAL	4	5

15. EARNINGS PER SHARE

The calculation of basic earnings per share for the years of 2018 and 2017 is based on the profit attributable to equity holders of the Company and the number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Company for the year	12,912	16,099
Weighted average number of ordinary shares in issue (in million shares)	42,574	42,424
Basic earnings per share (in RMB Yuan)	0.30	0.38

The weighted average number of ordinary shares in issue during the year was adjusted to reflect the effect of the issue of new shares after the completion of A share offering in 2018.

No diluted earnings per share has been presented for the years of 2018 and 2017 as the Group had no potential ordinary shares in issue during the years.

(Amounts in millions of Renminbi, unless otherwise stated)

16. DIVIDENDS

	2018	2017
Dividends recognised as distributions during the year:		
2017 Final, paid-RMB3.94 cent per share	1,672	–
2016 Final, paid-RMB3.37881 cent per share	–	1,433

As at 22 March 2019, final dividend in respect of the year ended 31 December 2018 of RMB4.57 cent per share has been proposed by the Board of Directors and is subject to approval by the shareholders at the forthcoming general meeting.

17. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Money at call and short notice	37,336	26,771
Deposits with banks with original maturity of no more than three months	1,212	2,757
Securities purchased under resale agreements with original maturity of no more than three months	23,053	43,291
TOTAL	61,601	72,819

18. DEBT SECURITIES

	31 December 2018	31 December 2017
Classification of debt securities		
At fair value through profit or loss, at fair value	8,253	7,574
Available-for-sale, at fair value	179,964	183,210
Held-to-maturity, at amortised cost	128,177	122,477
TOTAL	316,394	313,261

(Amounts in millions of Renminbi, unless otherwise stated)

19. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES

	31 December 2018	31 December 2017
Investments, at fair value		
Mutual funds	61,944	54,044
Shares	35,161	27,036
Equity schemes and others	19,277	26,903
Subtotal	116,382	107,983
Investments, at cost less impairment Shares	115	107
Total equity securities and mutual funds	116,497	108,090
Trust schemes, at fair value	200	6,923
TOTAL	116,697	115,013

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2017, the Group is the sole funding provider of a trust scheme of carrying value of RMB6,723 million. Up to 31 December 2018, the Group has fully redeemed such trust scheme.

	31 December 2018	31 December 2017
Classification of equity securities and mutual funds		
At fair value through profit or loss, at fair value	12,298	16,183
Available-for-sale, at fair value	104,084	91,800
Available-for-sale, at cost less impairment	115	107
Total equity securities and mutual funds	116,497	108,090
Classification of trust schemes		
Available-for-sale, at fair value	200	6,923
TOTAL	116,697	115,013

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(Amounts in millions of Renminbi, unless otherwise stated)

20. INSURANCE RECEIVABLES, NET

	31 December 2018	31 December 2017
Premiums receivable and agents' balances	**33,117**	22,848
Receivables from reinsurers	**14,309**	22,272
Subtotal	**47,426**	45,120
Less: Impairment provisions on		
– Premiums receivable and agents' balances	**(3,009)**	(3,343)
– Receivables from reinsurers	**(199)**	(259)
TOTAL	**44,218**	41,518

(a) The movements of provision for impairment of insurance receivables are as follows:

	2018	2017
At 1 January	**3,602**	3,218
(Reversal)/recognition of impairment losses *(note 12)*	**(347)**	426
Amount written off as uncollectible	**(47)**	(42)
At 31 December	**3,208**	3,602

(b) An ageing analysis of insurance receivable as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

	31 December 2018	31 December 2017
Not yet due and up to 3 months	**37,008**	30,382
More than 3 months to 6 months	**3,004**	4,288
More than 6 months to 12 months	**3,592**	5,652
More than 1 year to 2 years	**511**	1,033
More than 2 years	**103**	163
Total	**44,218**	41,518

(Amounts in millions of Renminbi, unless otherwise stated)

21. REINSURER ASSETS

	31 December 2018	31 December 2017
Reinsurers' share of		
Unearned premium reserves	9,872	8,721
Claim reserves	16,697	19,336
Long-term life insurance reserves	456	149
TOTAL	27,025	28,206

22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2018	31 December 2017
More than 3 months to 12 months	1,220	761
More than 1 year to 2 years	520	100
More than 2 year to 3 years	1,107	692
More than 3 years	95,806	69,153
TOTAL	98,653	70,706

These term deposits of the Group bear fixed or variable interests and range from 1.60%-7.44% and 2.60%-4.95% per annum as at 31 December 2018, respectively (31 December 2017: range from 0.10%-7.50% and 6.30%-6.60% per annum respectively).

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2018	31 December 2017
Long-term debt investment schemes	104,813	105,290
Trust schemes	42,768	35,540
Asset management products	14,431	14,385
Reinsurance arrangement classified as investment contract	2,000	2,000
Subordinated debt held	500	500
TOTAL	164,512	157,715

The interest rates of these long-term debt investment schemes are 4.20%-7.80% per annum as at 31 December 2018 (31 December 2017: 3.50%-8.00%).

Trust schemes invest in predominantly debt instruments and offer the Group expected returns ranging from 4.60%-7.10% (31 December 2017: ranging from 4.50%-7.10%) per annum.

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in an active market. These financial products include securitised assets, asset management products offered by securities companies and asset management companies. The interest rates of these products are 3.50%-6.60% per annum as at 31 December 2018 (31 December 2017: 3.50%-6.60%).

Included in the balance of reinsurance arrangement classified as investment contract was an amount paid under a reinsurance arrangement which did not transfer significant insurance risk. This arrangement offered a fixed interest rate of 6.35% as at 31 December 2018 (31 December 2017: 6.35%) per annum. Both the Group and the reinsurer have a right to terminate the arrangement at the end of reinsurance contract or subsequent to the fifth anniversary of the effective date of the reinsurance contract.

The original terms of subordinated debt is 10 years with a redemption right exercisable by the issuer as at the end of the fifth year. The interest rate of the debt is 7.60% per annum as at 31 December 2018 (31 December 2017: 5.60%).

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries as of 31 December 2018 and 2017 are set out below:

Name	Place of incorporation/ registration	Paid up/ registered share capital	Proportion of shareholders' interest and voting rights 31 December 2018 Direct	31 December 2018 Indirect	31 December 2017 Direct	31 December 2017 Indirect	Principal activities/ place of operation
PICC Property and Casualty Company Limited ("PICC P&C")*	Beijing, PRC	RMB22,242,765,303*	68.98%	–	68.98%	–	Non-life insurance, PRC
PICC Asset Management Company Limited ("PICC AMC")	Shanghai, PRC	RMB1,298,000,000	100.00%	–	100.00%	–	Investment management of insurance companies, PRC
PICC Capital Investment Management Company Limited ("PICC Capital")	Tianjin, PRC	RMB200,000,000	100.00%	–	100.00%	–	Investment management, PRC
PICC Health Insurance Company Limited ("PICC Health")	Beijing, PRC	RMB8,568,414,737	69.32%	26.13%	69.32%	26.13%	Health insurance, PRC
PICC Life Insurance Company Limited ("PICC Life")	Beijing, PRC	RMB25,761,104,669	71.08%	8.92%	71.08%	8.92%	Life insurance, PRC
PICC Investment Holding Company Limited ("PICC Investment Holding")	Beijing, PRC	RMB800,000,000	100.00%	–	100.00%	–	Investment holding, PRC
PICC (Hong Kong) Limited	Hong Kong	HKD500,000,000	75.00%	–	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited	Beijing, PRC	RMB170,727,800	92.71%	–	92.71%	–	Insurance and reinsurance brokerage, PRC
PICC Services (Europe) Ltd.	London, United Kingdom	GBP500,000	100.00%	–	100.00%	–	Claim handling agency, United Kingdom
PICC Asset Management (Hong Kong) Company Limited	Hong Kong	HKD50,000,000	100.00%	–	100.00%	–	Management of insurance investments, Hong Kong
PICC Financial Services Company Limited ("PICC Financial Services")	Tianjin, PRC	RMB1,000,000,000	100.00%	–	100.00%	–	Internet finance, PRC
PICC Reinsurance Company Limited	Beijing, PRC	RMB3,000,000,000	51.00%	49.00%	51.00%	49.00%	Reinsurance business, PRC
PICC Pension Company Limited ("PICC Pension")	Hebei, PRC	RMB4,000,000,000	100.00%	–	100.00%	–	Endowment insurance, PRC

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES *(continued)*

(a) General information of subsidiaries *(continued)*

* On 22 June 2018, the shareholders of PICC P&C at the general meeting approved a conversion of RMB7,414 million from share premium account to issued capital on the basis of 5 shares for every 10 existing shares. After this conversion, the registered capital became 22,242 million. On 8 March 2019, PICC P&C has completed the registration of the change in registered capital with the relevant PRC administrative authority for industry and commerce.

Only principal subsidiaries which are directly held by the Company and have material impact on the consolidated financial statements are listed above. Other subsidiaries did not materially affect the Group's net financial position and operating results and were therefore not separately disclosed.

As at 31 December 2018, market value of shares of PICC P&C which is listed on the Main Board of The Stock Exchange of Hong Kong Limited is RMB127,795 million (31 December 2017: RMB100,255 million).

Subordinated debts and capital supplementary bonds issued by these subsidiaries are set out in note 35 to these consolidated financial statements.

The Company and the following subsidiaries had issued subordinated debts and capital supplementary bonds at the end of the year, which are all held by third parties:

	31 December 2018		31 December 2017	
	Nominal Amount	**Carrying Amount**	Nominal Amount	Carrying Amount
The Company	**18,000**	**17,978**	16,000	15,995
PICC P&C	**23,000**	**23,420**	23,000	23,262
PICC Life	**12,000**	**12,014**	6,000	6,223
PICC Health	**4,300**	**4,320**	4,300	4,321
	57,300	**57,732**	49,300	49,801

At the end of the reporting period, the Company had other indirectly held subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

		Number of subsidiaries	
Principal activities of the subsidiaries	**Place of incorporation and operation in the PRC**	**31 December 2018**	31 December 2017
Insurance intermediaries	Beijing, Shanghai, Shenzhen and others	**7**	5
Insurance training services	Hainan	**1**	1
Property development and management	Beijing, Shanghai and others	**9**	9
Hotels, restaurants and others	Beijing, Zhejiang, Chongqing and others	**4**	4
		21	19

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 31 December 2018	31 December 2017	Profit allocated to non-controlling interests 2018	2017	Accumulated non-controlling interests 31 December 2018	31 December 2017
PICC P&C and its subsidiaries	Beijing, PRC	31.02%	31.02%	4,804	6,145	43,900	41,297
PICC Life and its subsidiaries	Beijing, PRC	20.00%	20.00%	145	28	6,184	6,319

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup elimination.

In particular, an interest in the equity interest of Industrial Bank is accounted for as an available-for-sale financial assets in the consolidated financial statements of PICC P&C but when combined with voting rights held by the Company and PICC Life, this interest is accounted for as an associate in the Group's consolidated financial statements. The information presented in this note does not consider the impact had these equity interests been accounted for as an associate in the consolidated financial statements of PICC P&C.

PICC P&C

	31 December 2018	31 December 2017
Total assets	550,619	524,566
Total liabilities	409,116	391,452
Total shareholders' equity	141,503	133,114
Equity attributable to owners of the Group	97,603	91,817
Non-controlling interests of the Group	43,900	41,297

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

PICC P&C *(continued)*

	2018	2017
Total income	360,684	327,502
Total benefits, claims and expenses	(341,001)	(304,916)
Share of profits of associates	4,482	4,575
Losses on deemed disposal of an associate	(737)	–
Income tax expense	(7,942)	(7,353)
Profit for the year	15,486	19,808
Profit attributable to owners of the Group	10,682	13,663
Profit attributable to the non-controlling interests of the Group	4,804	6,145
Other comprehensive expense for the year	(2,085)	(1,424)
Total comprehensive income for the year	13,401	18,384
Dividends paid to non-controlling interests	1,555	1,421
Net cash inflow from operating activities	9,879	21,407
Net cash outflow from investing activities	(8,732)	(7,523)
Net cash outflow from financing activities	(2,038)	(4,340)
Net cash (outflow)/inflow	(891)	9,544

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

PICC Life

	31 December 2018	31 December 2017
Total assets	391,661	381,802
Total liabilities	360,767	350,242
Total shareholders' equity	30,894	31,560
Equity attributable to owners of the Group	24,710	25,241
Non-controlling interests of the Group	6,184	6,319

	2018	2017
Total income	106,208	123,775
Total benefits, claims and expenses	(109,221)	(126,563)
Share of profit of an associate	3,736	3,625
Losses on deemed disposal of an associate	–	(398)
Income tax expense	5	(285)
Profit for the year	728	154
Profit attributable to owners of the Group	583	126
Profit attributable to the non-controlling interests of the Group	145	28
Other comprehensive expense for the year	(1,265)	(1,345)
Total comprehensive expense for the year	(537)	(1,191)
Dividends paid to non-controlling interests	31	26
Net cash outflow from operating activities	(17,773)	(18,611)
Net cash inflow from investing activities	7,181	23,110
Net cash inflow from financing activities	10,629	6,112
Net cash inflow	37	10,611

(Amounts in millions of Renminbi, unless otherwise stated)

24. PARTICULARS OF SUBSIDIARIES *(continued)*

(c) Significant restrictions

As certain major subsidiaries of the Company are engaged in insurance business and regulated by the relevant insurance regulatory authorities, the ability of the Company and its subsidiaries to access assets held by these subsidiaries to settle liabilities of the Group is restricted. As such, there are restrictions on the Group's ability to access or use the assets of these subsidiaries to settle the liabilities of the Group. Please refer to note 42.1(b) for detailed disclosure on the relevant regulatory capital requirements.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) The Group's investments in the associates and joint ventures as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Associates		
Cost of investment in associates *(note)*	**66,160**	66,756
Share of post-acquisition profits and other comprehensive income	**38,226**	28,094
Subtotal	**104,386**	94,850
Joint ventures		
Cost of investment in joint ventures	**3,086**	2,890
Share of post-acquisition profits and other comprehensive income	**20**	–
Subtotal	**3,106**	2,890
Total	**107,492**	97,740

Note: In 2018 and 2017, two associates of the Group completed their private offering in respective year. Since the Group did not subscribe for the shares proportionately, its total equity interests in respective associate were diluted, resulting in a loss in deemed disposal of RMB737 million and RMB798 million respectively and such loss is included in the profit or loss of the current period.

Included in the carrying amount of investments in associates as at 31 December 2018 was an aggregate amount of RMB94,141 million (31 December 2017: RMB84,958 million) in respect of listed entities and their corresponding fair values amounted to RMB62,010 million (31 December 2017: RMB71,963 million) on the same date.

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows:

Associates	Place of registration	Principal activities /Place of operation	Percentage of ownership interest and voting rights held by the Group 31 December 2018 Direct	31 December 2018 Indirect	31 December 2017 Direct	31 December 2017 Indirect
Industrial Bank [(1)]	Fujian Province, PRC	Banking, PRC	**0.85%**	**12.05%**	0.85%	12.05%
Hua Xia Bank [(2)]	Beijing, PRC	Banking, PRC	**–**	**16.66%**	–	19.99%

The above table lists the associates of the Group which principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

Industrial Bank and Hua Xia Bank are financial institutions. Therefore, their abilities to distribute dividends are subject to fulfillment of the relevant regulatory capital requirements.

(1) Industrial Bank

On 31 December 2012, the Company, PICC P&C and PICC Life in aggregate subscribed for approximately 1.38 billion shares of Industrial Bank through a private placement. After the completion of the subscription, the Group as a whole became the second largest shareholder of Industrial Bank.

In 2013, a member of senior management of PICC Life was nominated to be a director of Industrial Bank. The Group has been able to exercise significant influence on Industrial Bank, and therefore accounted for its equity interest in Industrial Bank as an associate using equity method of accounting.

On 9 July 2015, PICC P&C and PICC Life, the Company's subsidiaries, acquired 280 million and 328 million shares, respectively, of Industrial Bank in the open market. Therefore, the Group's aggregate interest in this associate was increased from 10.87% to 14.06%.

On 31 March 2017, Industrial Bank completed its private offering. The Group did not subscribe the shares proportionately, therefore its total equity interest in Industrial Bank was diluted from 14.06% to 12.90%. The Group is of the view that it still has significant influence over Industrial Bank, as it appointed one director to the board of directors of Industrial Bank and the Group was the second largest shareholder of Industrial Bank. As such, a deemed disposal loss amounting to RMB798 million was recognised in profit or loss.

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

(1) Industrial Bank (continued)

	30 September 2018	30 September 2017
Total assets	6,543,229	6,406,993
Total liabilities	6,082,373	5,992,998
Net assets attributable to		
Equity holders of Industrial Bank	454,423	408,389
Non-controlling interests	6,433	5,606
Total equity	460,856	413,995

	Period from 1 October 2017 to 30 September 2018	Period from 1 October 2016 to 30 September 2017
Revenue	151,554	141,442
Profit attributable to		
Equity holders of Industrial Bank	60,652	57,017
Non-controlling interests	559	552
Profit for the period	61,211	57,569
Other comprehensive income/(expense) attributable to		
Equity holders of Industrial Bank	367	(4,327)
Non-controlling interests	(23)	(16)
Other comprehensive income/(expense) for the period	344	(4,343)
Total comprehensive income attributable to		
Equity holders of Industrial Bank	61,019	52,690
Non-controlling interests	536	536
Total comprehensive income for the period	61,555	53,226
Dividends received from the associate during the period	1,741	1,634

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

(1) Industrial Bank (continued)

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

	30 September 2018	30 September 2017
Net assets of Industrial Bank attributable to equity holders of Industrial Bank	454,423	408,389
Total preference shares issued by Industrial Bank	(25,905)	(25,905)
Net assets attributable to ordinary share holders of Industrial Bank	428,518	382,484
Proportion of the Group's ownership's interest in Industrial Bank	12.90%	12.90%
The Group's ownership's interest in net assets of Industrial Bank	55,279	49,340
Goodwill	445	445
Net fair value adjustment to the investee's identifiable assets and liabilities	2,426	2,426
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	(725)	(532)
Carrying amount of the Group's interest in Industrial Bank	57,425	51,679
Fair value of shares listed in Mainland China	40,025	45,517

The Group account for its share of the profit of Industrial Bank from 1 October 2017 to 30 September 2018 (31 December 2017: 1 October 2016 to 30 September 2017).

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

(2) Hua Xia Bank

On 28 December 2015, PICC P&C entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to transfer to PICC P&C 877 million shares, 267 million shares and 992 million shares of Hua Xia Bank, respectively, held by them (amounting to a total of 2,136 million shares, representing approximately 19.99% of the total issued shares of Hua Xia Bank) and PICC P&C conditionally agreed to purchase these shares. This transaction was completed on 17 November 2016. The Group holds the view that it has had significant influence over Hua Xia Bank since 17 November 2016 and therefore accounted for its interests in Hua Xia Bank as an associate using equity method of accounting.

On 28 December 2018, Hua Xia Bank completed its private offering. The Group did not subscribe for the shares proportionately, therefore its total equity interest in Hua Xia Bank was diluted from 19.99% to 16.66%. The Group is of the view that it still has significant influence over Hua Xia Bank, so the Group continues to account for the investment in Hua Xia Bank as an associate. As such, a deemed disposal loss amounting to RMB737 million was recognised in profit or loss.

The Group's interests in Hua Xia Bank are held for strategic purposes.

	31 December 2018	31 December 2017
Total assets	2,680,580	2,508,927
Net assets attributable to Equity holders of Hua Xia Bank	217,141	168,055
	2018	**2017**
Revenue	72,227	66,384
Profit attributable to Equity holders of Hua Xia Bank	20,854	19,819
Dividends received from the associate during the year	387	387

(Amounts in millions of Renminbi, unless otherwise stated)

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

(2) Hua Xia Bank (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hua Xia Bank recognised in the consolidated financial statements:

	31 December 2018	31 December 2017
Net assets of Hua Xia Bank attributable to equity holders of Hua Xia Bank	217,141	168,055
Total preference shares issued by Hua Xia Bank	(19,979)	(19,979)
Net assets attributable to ordinary share holders of Hua Xia Bank	197,162	148,076
Proportion of the Group's ownership's interest in Hua Xia Bank	16.66%	19.99%
The Group's ownership's interest in net assets of Hua Xia Bank	32,847	29,600
Net fair value adjustment to the investee's identifiable assets and liabilities	(65)	(78)
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	141	89
Carrying amount of the Group's interest in Hua Xia Bank	32,923	29,611
Fair value of shares listed in Mainland China	18,942	23,069

(c) Aggregate information of associates and joint ventures that are not individually material.

As at 31 December 2018, apart from the two associates disclosed above, the Group has in aggregate 18 (31 December 2017: 15) immaterial associates and joint ventures and their aggregate information is presented below:

	2018	2017
The Group's share of profit	1,019	996
The Group's share of other comprehensive income/(expense)	33	(202)
The Group's share of total comprehensive income	1,052	794
Aggregate carrying amount of the Group's interests in these associates and joint ventures	17,144	16,450

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENT PROPERTIES

	2018	2017
At beginning of the year	12,155	10,695
Additions	90	800
Transfers from property and equipment *(note 27)*	996	1,348
Transfer from prepaid land premium *(note 29)*	85	30
Gains on revaluation of properties upon transfer from property and equipment	360	277
Gains on revaluation of properties upon transfer from prepaid land premiums	94	58
Increase/(decrease) in fair value of investment properties *(note 6(c))*	157	(200)
Transfer to property and equipment *(note 27)*	(1,120)	(835)
Disposals	(35)	(18)
At end of the year	12,782	12,155

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB3,556 million as at 31 December 2018 (31 December 2017: RMB3,932 million). The directors of the Group do not expect this to have any impacts on the operation of the Group.

As at 31 December 2018 and 31 December 2017, the Group's investment properties were not pledged as collateral.

The Group's investment properties were revalued at the end of the reporting period by independent professional valuers. The investment properties held by PICC P&C were revalued by JLL (Beijing) Real Estate Appraisal & Consultancy Co., Ltd.. The investment properties held by PICC Life were revalued by DTZ Debenham Tie Leung Limited. The investment properties held by PICC Investment Holding were revalued by Beijing Guorongxinghua Assets Appraisal Company Limited. Valuations were carried out by the following two approaches:

(1) The income approach determining the fair value at the evaluation point by discounting the target properties' rental income derived from existing lease agreements and the potential rental income projected by reference to the current market rental status, at an appropriate capitalisation rate; or

(2) The direct comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

The independent valuers usually determine the fair value of the investment properties by one of these approaches according to their professional judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used from the prior years. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

One of the key inputs used in valuing these investment properties is the capitalisation rate used, which ranges from 2.00% to 7.50% as at 31 December 2018 (31 December 2017: ranges from 2.00% to 7.50%). A slight increase in the capitalisation rate used would result in a significant decrease in fair value measurement of investment properties, and vice versa.

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT

	Land and buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2018	26,892	8,294	2,139	2,966	40,291
Additions	194	1,667	331	1,519	3,711
Transfer of construction in progress	656	2	–	(658)	–
Transfer from investment properties *(note 26)*	1,120	–	–	–	1,120
Transfer to investment properties *(note 26)*	(511)	–	–	(560)	(1,071)
Disposals	(70)	(531)	(208)	(108)	(917)
As at 31 December 2018	28,281	9,432	2,262	3,159	43,134
ACCUMULATED DEPRECIATION					
As at 1 January 2018	7,295	6,687	1,182	–	15,164
Provided for the year *(note 12)*	948	954	291	–	2,193
Transfer to investment properties *(note 26)*	(75)	–	–	–	(75)
Disposals	(56)	(514)	(202)	–	(772)
As at 31 December 2018	8,112	7,127	1,271	–	16,510
IMPAIRMENT LOSSES					
As at 1 January 2018 and 31 December 2018	829	2	–	15	846
NET CARRYING VALUES					
As at 31 December 2018	19,340	2,303	991	3,144	25,778
As at 1 January 2018	18,768	1,605	957	2,951	24,281

As at 31 December 2018, certain acquired buildings of the Group with a net book value of RMB1,801 million (31 December 2017: RMB1,914 million) were still in the process of title registration. The directors of the Group do not expect this to have any impacts on the operation of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

27. PROPERTY AND EQUIPMENT *(continued)*

	Land and buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2017	26,966	7,830	1,983	2,481	39,260
Additions	153	888	519	1,169	2,729
Transfer of construction in progress	547	11	–	(558)	–
Transfer from investment properties *(note 26)*	835	–	–	–	835
Transfer to investment properties *(note 26)*	(1,564)	–	–	(71)	(1,635)
Disposals	(45)	(435)	(363)	(55)	(898)
As at 31 December 2017	26,892	8,294	2,139	2,966	40,291
ACCUMULATED DEPRECIATION					
As at 1 January 2017	6,760	6,294	1,246	–	14,300
Provided for the year *(note 12)*	845	810	245	–	1,900
Transfer to investment properties *(note 26)*	(286)	–	–	–	(286)
Disposals	(24)	(417)	(309)	–	(750)
As at 31 December 2017	7,295	6,687	1,182	–	15,164
IMPAIRMENT LOSSES					
As at 1 January 2017	830	2	–	15	847
Transfer to investment properties *(note 26)*	(1)	–	–	–	(1)
As at 31 December 2017	829	2	–	15	846
NET CARRYING VALUES					
As at 31 December 2017	18,768	1,605	957	2,951	24,281
As at 1 January 2017	19,376	1,534	737	2,466	24,113

(Amounts in millions of Renminbi, unless otherwise stated)

28. INTANGIBLE ASSETS

	Software	
	2018	2017
COST		
At beginning of the year	2,468	1,968
Additions	1,118	501
Disposals	(6)	(1)
At end of the year	3,580	2,468
ACCUMULATED AMORTISATION		
At beginning of the year	974	771
Amortisation *(note 12)*	281	203
Disposals	(4)	–
At end of the year	1,251	974
NET CARRYING VALUES		
At end of the year	2,329	1,494
At beginning of the year	1,494	1,197

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

29. PREPAID LAND PREMIUMS

	2018	2017
COST		
At beginning of the year	5,203	5,261
Additions	51	29
Transfer to investment properties *(note 26)*	(111)	(60)
Disposals	(50)	(27)
At end of the year	5,093	5,203
ACCUMULATED AMORTISATION		
At beginning of the year	1,507	1,392
Amortisation *(note 12)*	172	152
Transfer to investment properties *(note 26)*	(26)	(25)
Disposals	(21)	(12)
At end of the year	1,632	1,507
IMPAIRMENT LOSSES		
At beginning of the year	47	44
Provided for the year *(note 12)*	–	8
Transfer to investment properties *(note 26)*	–	(5)
At end of the year	47	47
NET CARRYING VALUES		
At end of the year	3,414	3,649
At beginning of the year	3,649	3,825

The above items of prepaid land premiums are amortised on a straight-line basis over 30-70 years.

30. DEFERRED TAX ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Deferred tax assets	8,662	9,645
Deferred tax liabilities	(1,021)	(834)
TOTAL	7,641	8,811

(Amounts in millions of Renminbi, unless otherwise stated)

30. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The movements of deferred tax assets and liabilities of the Group during 2018 and 2017 are as follows:

	2018			
	As at 1 January	Charged to income statement during the year	Credited to equity during the year	As at 31 December
Provision for impairment losses	1,408	(169)	–	1,239
Employee benefits payable	829	(430)	–	399
Fair value change of available-for-sale financial assets	(234)	–	377	143
Fair value change of financial assets carried at fair value through profit or loss	(50)	107	–	57
Fair value change of investment properties	(1,748)	(44)	(113)	(1,905)
Insurance contract liabilities	7,988	(851)	–	7,137
Others	618	(47)	–	571
Net value	8,811	(1,434)	264	7,641

	2017			
	As at 1 January	Charged to income statement during the year	Credited to equity during the year	As at 31 December
Provision for impairment losses	1,342	66	–	1,408
Employee benefits payable	1,332	(503)	–	829
Fair value change of available-for-sale financial assets	(999)	–	765	(234)
Fair value change of financial assets carried at fair value through profit or loss	(28)	(22)	–	(50)
Cash flow hedging	(2)	–	2	–
Fair value change of investment properties	(1,714)	50	(84)	(1,748)
Insurance contract liabilities	5,063	2,925	–	7,988
Others	219	399	–	618
Net value	5,213	2,915	683	8,811

Unrecognised deductible temporary differences and deductible tax losses arising from entities in the Group, which do not have sufficient future taxable profits available for realisation, amounted to RMB15,553 million as at 31 December 2018 (31 December 2017: RMB14,111 million), of which deductible tax losses arising from entities in PRC amounted to RMB6,021 million as at 31 December 2018 (31 December 2017: RMB8,580 million).

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

30. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The expiry dates of unused tax losses are as follows:

	31 December 2018	31 December 2017
2018	–	2,998
2019	2,257	2,640
2020	210	526
2021	1,730	1,730
2022	686	686
2023	1,138	–
TOTAL	6,021	8,580

31. OTHER ASSETS

	Notes	31 December 2018	31 December 2017
Interest receivables		10,561	10,206
Other receivables	(a)	1,632	4,973
Policy loans	(b)	3,537	2,680
Dividends receivables		255	84
Others		13,873	12,098
TOTAL		29,858	30,041
Less: Impairment provision on other assets	(c)	(1,574)	(1,648)
Net carrying value		28,284	28,393

(Amounts in millions of Renminbi, unless otherwise stated)

31. OTHER ASSETS *(continued)*

(a) Other receivables

	31 December 2018	31 December 2017
Prepayments and deposits	820	2,639
Securities settlement account	220	1,810
Others	592	524
TOTAL	1,632	4,973
Less: Impairment provision	(378)	(383)
Net carrying value	1,254	4,590

In December 2016, PICC Life agreed to purchase an equity interest of 10.1764% in China Credit Trust, an associate of the Group. As at 31 December 2017, included in the balance of prepayments and deposits was prepaid consideration of RMB1,899 million in respect of this transaction. This transaction was terminated in January 2018 and refund of this prepaid consideration was received in March 2018.

(b) Policy loans are secured by cash values of the relevant insurance policies of PICC Life and PICC Health and carry interest rate at 5.22%-6.45% per annum as at 31 December 2018 (31 December 2017: 5.22%-6.45%).

(c) The movements of provision for impairment of other assets are as follow:

	2018	2017
At 1 January	1,648	1,637
(Reversal)/recognition of impairment losses *(note12)*	(69)	11
Amount written off as uncollectible	(5)	–
At 31 December	1,574	1,648

(Amounts in millions of Renminbi, unless otherwise stated)

32. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(a) Deposits with restricted rights or ownership

As at 31 December 2018, term deposits amounting to RMB1,515 million (31 December 2017: RMB1,620 million) was subject to various restrictions, in particular for the Group's involvement in agricultural insurance and satellite launch risk insurance against non-commercial use satellites.

(b) Securities pledged for repurchase transactions

As described in note 33 to these consolidated financial statements, the Group entered into a number of arrangements to sell certain bond securities with commitments to repurchasing in the future. These bond securities are continued to be recognised in these consolidated financial statements and classified as at fair value through profit or loss, available-for-sale, or held-to-maturity securities, but they are in effect pledged as collaterals for these transactions.

	31 December 2018	31 December 2017
Carrying amount of transferred assets	71,388	57,485
Carrying amount of associated liabilities		
– Securities sold under agreements to repurchase	54,889	41,226
Net	16,499	16,259

33. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2018	31 December 2017
Transactions by market places:		
Stock exchange	25,514	19,661
Inter-bank market	29,375	21,565
TOTAL	54,889	41,226

Debt securities are pledged for these transactions and details are set out in note 32(b) to these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

34. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2018	31 December 2017
Payables to reinsurers	15,551	18,737

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

35. BONDS PAYABLE

As at 31 December 2018, bonds payable comprised subordinated debts and capital supplementary bonds.

	31 December 2018	31 December 2017
Subordinated debts:		
Carrying amount repayable in		
– No more than one year	807	817
– More than two years and up to five years	8,297	22,218
– More than five years	–	8,213
Subtotal	9,104	31,248
Capital supplementary bonds:		
Carrying amount repayable in		
– More than five years	48,628	18,553
TOTAL	57,732	49,801

Original terms of these subordinated debts and capital supplementary bonds are ten years. With proper notice to the counterparties, the Group has an option to redeem the subordinated debts and the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rate range of the subordinated debts is 4.38%-6.19% for the first five years (2017: 4.38%-6.19%) and 6.88%-8.19% for the following five years (2017: 6.88%-8.19%). The interest range of the capital supplementary bonds is 3.65%-5.05% for the first five years (2017: 3.65%-4.95%) and 4.65%-6.05% for the following five years (2017: 4.65%-5.95%).

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES

	31 December 2018		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health insurance contracts (a)	274,493	456	274,037
Short-term health insurance contracts (b)			
– Claim reserves	5,574	226	5,348
– Unearned premium reserves	1,886	17	1,869
Non-life insurance contracts (c)			
– Claim reserves	136,394	16,471	119,923
– Unearned premium reserves	140,870	9,855	131,015
Total insurance contract liabilities	559,217	27,025	532,192

	31 December 2017		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health insurance contracts (a)	285,501	149	285,352
Short-term health insurance contracts (b)			
– Claim reserves	4,563	511	4,052
– Unearned premium reserves	1,637	164	1,473
Non-life insurance contracts (c)			
– Claim reserves	138,980	18,825	120,155
– Unearned premium reserves	126,330	8,557	117,773
Total insurance contract liabilities	557,011	28,206	528,805

(a) Long-term life and health insurance contracts

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	291,009	139	290,870
Additions	113,898	27	113,871
Payments	(47,138)	(17)	(47,121)
Surrenders	(72,268)	–	(72,268)
At 31 December 2017	285,501	149	285,352
Additions	89,058	339	88,719
Payments	(31,666)	(32)	(31,634)
Surrenders	(68,400)	–	(68,400)
At 31 December 2018	274,493	456	274,037

(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term health insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	3,513	560	2,953
Claims incurred	10,390	1,578	8,812
Claims paid	(9,340)	(1,627)	(7,713)
At 31 December 2017	4,563	511	4,052
Claims incurred	11,989	773	11,216
Claims paid	(10,978)	(1,058)	(9,920)
At 31 December 2018	5,574	226	5,348

(2) Unearned premiums reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	1,498	92	1,406
Premiums written	12,438	1,167	11,271
Premiums earned	(12,299)	(1,095)	(11,204)
At 31 December 2017	1,637	164	1,473
Premiums written	15,172	287	14,885
Premiums earned	(14,923)	(434)	(14,489)
At 31 December 2018	1,886	17	1,869

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(Amounts in millions of Renminbi, unless otherwise stated)

36. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	128,174	20,149	108,025
Claims incurred	210,652	17,155	193,497
Claims paid	(199,846)	(18,479)	(181,367)
At 31 December 2017	138,980	18,825	120,155
Claims incurred	230,460	13,919	216,541
Claims paid	(233,046)	(16,273)	(216,773)
At 31 December 2018	136,394	16,471	119,923

(2) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2017	114,319	10,079	104,240
Premiums written	350,898	25,620	325,278
Premiums earned	(338,887)	(27,142)	(311,745)
At 31 December 2017	126,330	8,557	117,773
Premiums written	390,082	27,835	362,247
Premiums earned	(375,542)	(26,537)	(349,005)
At 31 December 2018	140,870	9,855	131,015

(Amounts in millions of Renminbi, unless otherwise stated)

37. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

	31 December 2018	31 December 2017
Interest-bearing deposits	40,118	44,183
Non-interest-bearing deposits	1,690	1,697
Total	41,808	45,880

The movements in investment contract liabilities for policyholders are as follows:

	2018	2017
At beginning of the year	45,880	38,370
Deposits received after deducting fees	7,129	17,049
Deposits withdrawn	(12,895)	(10,956)
Interest credited *(note 9)*	1,694	1,417
At end of the year	41,808	45,880

38. PENSION BENEFIT OBLIGATION

The Group is committed to certain pension and medical benefits for employees who retired on or prior to 31 July 2003. The amounts of these pension and medical benefits are paid monthly according to a policy agreed with these employees and number of years of services of these employees with the Group. The Group also offered an early retirement program to certain employees for its group reorganisation in 2003. For employees who joined this program, they are entitled to various periodic benefits up to their normal retirement ages. The beneficiaries of these pension benefits are not in active employment with the Group and these benefits are fully vested. There is no plan asset for these pension benefits.

(a) The movements in the present value of early retirement and retirement benefits are shown below:

	2018	2017
At beginning of the year	2,899	2,800
Interest cost on benefit obligation *(note 9)*	108	96
Actuarial losses arising from changes in financial assumptions	115	279
Actuarial losses/(gains) arising from experience adjustments	72	(47)
Benefits paid	(227)	(229)
At end of the year	2,967	2,899

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION *(continued)*

(a) The movements in the present value of early retirement and retirement benefits are shown below: *(continued)*

The plans typically expose the Group to interest rate risk and longevity risk.

- Interest rate risk: a decrease in the bond interest rate will increase the plan liability.
- Longevity risk: the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

In aggregate, actuarial losses of RMB187 million were credited to other comprehensive income for the current year of 2018 (2017: actuarial losses of RMB232 million).

Willis Towers Watson was engaged by the Group to measure the retirement benefit plans at the end of both years.

(b) The discount rates and the principal actuarial assumptions for the above obligations are as follows:

	31 December 2018	31 December 2017
Discount rates:		
– Early retirement benefits	**3.00%**	3.75%
– Retirement benefits	**3.50%**	4.00%
– Supplementary medical benefits	**3.50%**	4.00%
Average annual growth rates:		
– Early retirement benefits	**2.50%**	2.50%
– Medical expenses	**8.00%**	8.00%

Discount rates are set to be the government bond yields with similar maturities and vary for different types of benefits. The durations of early retirement benefits, retirement benefits and supplementary medical benefits are 3 years, 8 years and 12 years as at 31 December 2018 (31 December 2017: 3 years, 8 years and 12 years).

(c) The maturity of these benefits, in terms of undiscounted cash flows, is presented as follows:

	31 December 2018	31 December 2017
No more than 3 months	**49**	50
3 to 12 months (including 12 months)	**148**	149
1 to 5 years (including 5 years)	**789**	793
More than 5 years	**3,479**	3,674
Total	**4,465**	4,666

In order to reimburse the Company for this pension benefit obligation, a receivable of RMB2,847 million was recognised on the restructuring and reorganisation of the Company, as described in note 41(d)(2).

(Amounts in millions of Renminbi, unless otherwise stated)

38. PENSION BENEFIT OBLIGATION *(continued)*

(d) Sensitivity analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate and average annual growth rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Change in assumptions	Effect on the pension benefit obligation 2018	2017
Discount rate	+50bps	**(146)**	(142)
Discount rate	-50bps	**160**	155
Average annual growth rate	+50bps	**156**	152
Average annual growth rate	-50bps	**(144)**	(141)

39. OTHER LIABILITIES

	31 December 2018	31 December 2017
Premiums received in advance	**28,249**	21,037
Salaries and welfare payable	**14,339**	13,287
Claims payable	**10,994**	12,199
Handling charges and commission payable	**7,700**	8,098
Net value added tax and other taxes payable	**7,661**	6,718
Insurance security fund	**1,034**	966
Interests payable	**1,345**	708
Others	**13,672**	11,957
TOTAL	**84,994**	74,970

Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2018 and 31 December 2017, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

(Amounts in millions of Renminbi, unless otherwise stated)

40. SHARE CAPITAL

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB 1 each (in million shares)		
Owned by MOF	29,896	29,896
Owned by National Council for Social Security Fund	3,802	3,802
Owned by other shareholders		
Including: A shares	1,800	–
H shares	8,726	8,726
	44,224	42,424
Share capital (in RMB million)		
Owned by MOF	29,896	29,896
Owned by National Council for Social Security Fund	3,802	3,802
Owned by other shareholders		
Including: A shares	1,800	–
H shares	8,726	8,726
	44,224	42,424

On 16 November 2018, the Company completed its A shares offering on the Shanghai Stock Exchange. The Company issued 1,800 million A shares at an issue price of RMB3.34 per share. The Company raised a total net proceed of RMB5,848 million, of which an amount of RMB1,800 million was recorded in issued capital. The difference between the net proceed and issued capital of RMB4,048 million is credited to share premium account.

41. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) General risk reserve

Pursuant to "Financial Standards of Financial Enterprises – Implementation Guide" issued by the MOF of the PRC on 30 March 2007, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance businesses. The Group's respective entities would need to make appropriations for such reserves based on their respective annual profit or year-end risk assets as determined in their annual financial statements. This reserve is not available for profit distribution and cannot be transferred to capital.

(b) Agriculture catastrophic loss reserve

Pursuant to "Regulation for the general risk reserve for catastrophic losses" issued by the MOF of the PRC on 8 December 2013, the Group is required to make appropriations to a reserve when the agriculture insurance business 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 underwriting agriculture insurance business.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RESERVES *(continued)*

(c) Surplus reserve

In accordance with the Company Law and the Articles of Association, the Company is required to make appropriations to a statutory surplus reserve based on their profit for the year (after offsetting any prior years' losses) as determined based on applicable financial regulations in the PRC in their annual statutory financial statements. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Company may also make appropriations to a discretionary surplus reserve provided that the appropriation is approved by a resolution of the shareholders. Subject to resolutions passed in general meetings, the statutory and discretionary surplus reserves can be transferred to the share capital. The balance of the statutory surplus reserve fund after transfers to the share capital should not be less than 25% of the share capital.

On 31 October 2017, a shareholders' meeting was convened to approve an appropriation of RMB10 billion from the retained profits to discretionary surplus reserve. According to the PRC Company Law, this surplus reserve fund can be utilised to make good losses, converted into share capital and support business operations of the Company.

(d) Principal items of other reserves were summarised as follows:

	Transfer to share capital *(1)*	Compensation for post-employment benefit obligation *(2) (note 38)*	Transactions with non-controlling interests	Total
As at 1 January 2018 and 31 December 2018	**(17,942)**	**2,847**	**(58)**	**(15,153)**
As at 1 January 2017 and 31 December 2017	(17,942)	2,847	(58)	(15,153)

(1) In 2009, the Company obtained approval from the MOF for converting into a joint stock company. During the process, certain assets were revalued and the corresponding revaluation surplus was transferred to the share capital. On consolidation, these revaluations were reversed, and created a negative balance.

(2) In 2009, the Company recognised an amount of RMB2,847 million recoverable from the MOF as compensation for the Company's assumption of post-employment benefit obligation. The amount was recognised as a special capital contribution from the MOF and was credited to other reserves. The amount has been fully recovered from the MOF.

42. CAPITAL AND RISK MANAGEMENT

42.1 Capital management

(a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The risk management structure runs through the board of directors, the management and all functional departments and covers all business sectors and branches at all levels of the Group. The board of directors is ultimately responsible for the risk management, internal control, and compliance policy formulation of the Group. A risk management committee is responsible for having a comprehensive understanding of significant risks faced by the Group and relevant risk management, as well as supervising the effectiveness of the operation of risk management system.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.1 Capital management *(continued)*

(b) Capital management approach

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to adjust the capital position of the Group in light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity shareholders' funds and issued bonds. The Group also makes reinsurance arrangements to manage its regulatory capital requirements.

The Group has had no significant changes in its policies and processes in respect of its capital structure during the current year.

The comprehensive and core solvency margin ratios of the Group's principal subsidiaries are listed below:

	31 December 2018		
	PICC P&C	**PICC Life**	**PICC Health**
Actual capital	**162,860**	**73,242**	**10,355**
Core capital	**135,172**	**60,577**	**6,680**
Minimum capital	**59,136**	**30,069**	**3,678**
Comprehensive solvency margin ratio (%)	**275%**	**244%**	**282%**
Core solvency margin ratio (%)	**229%**	**201%**	**182%**

	31 December 2017		
	PICC P&C	PICC Life	PICC Health
Actual capital	154,590	54,010	10,930
Core capital	127,326	47,192	7,099
Minimum capital	55,552	24,631	2,763
Comprehensive solvency margin ratio (%)	278%	219%	396%
Core solvency margin ratio (%)	229%	192%	257%

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the China Banking Insurance Regulatory Commission ("CBIRC"). These capital requirements are generally known as solvency requirements in the insurance industry.

Insurance companies comply with requirements on both the core capital and actual capital (sum of core and supplementary capital). Under China Risk Oriented Solvency System, the minimum capital is calculated by formula prescribed by the CBIRC. The minimum capital requirement is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For subsidiaries of the Group, core capital is principally net assets with adjustments to life insurance liabilities under solvency calculations, while supplementary capital mainly comprises subordinated debts and capital supplementary bonds issued by these subsidiaries.

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.1 Capital management *(continued)*

(b) Capital management approach *(continued)*

Comprehensive and core solvency margin ratios are defined as actual capital and core capital divided by the minimum capital requirements, respectively. Comprehensive and core solvency margin ratio have to be higher than 100% and 50% respectively for compliance with the solvency requirements.

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

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

42.2 Risk management

The Group's activities are exposed to insurance risk and varieties of financial risks. The Group issues contracts that transfer insurance risk or financial risk or both. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund the obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are credit risk, liquidity risk and market risk. This section summarises these risks.

(a) Insurance risk

(1) Insurance risk types

The risk under an insurance contract is the possibility of occurrence of insured events and uncertainty of the amount and timing of the resulting claims. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of a policyholder's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful risk selection and implementation of underwriting strategy and guidelines.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance risk types (continued)

When the underwriting risks principally are mortality risks, epidemics, widespread changes in lifestyle and natural disasters may result in earlier or more claims than expected; when the underwriting risks principally are longevity risks, continued improvement in medical science and social conditions that would improve longevity and may result in losses to annuity or similar contracts. For contracts with discretionary participation features, a significant portion of these insurance risks is shared with the insured parties.

Insurance risk of life insurance contracts is also affected by the policyholders' rights to terminate the contracts, to pay reduced premiums, refuse to pay premiums or to avail annuity conversion rights. Therefore, the resulting insurance risk is subject to policyholders' behaviour and decisions.

For non-life insurance contracts, claims are often affected by many factors such as climate changes, natural disasters, calamities, and terrorist activities.

Gross and net premiums written to certain extent represent the risk of the Group before and after reinsurance and the information is presented in note 5 to these consolidated financial statements.

(2) Insurance risk concentration

Non-life claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC (including Hong Kong).

The Group's concentration of non-life insurance risk before and after reinsurance, measured by geographical turnover and net written premiums of non-life insurance, is as follows:

	2018		2017	
	Gross	**Net**	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	**173,085**	**160,178**	157,311	145,946
North-eastern China	**24,061**	**21,719**	21,468	19,001
Northern China	**51,196**	**48,554**	44,743	42,044
Central China	**60,089**	**56,321**	51,032	47,808
Western China	**81,651**	**75,475**	76,344	70,479
Total premiums written from non-life insurance contracts	**390,082**	**362,247**	350,898	325,278

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(2) Insurance risk concentration (continued)

For life and health insurance contracts, their insurance risks usually do not vary significantly in relation to the geographical locations of the insured and therefore geographical concentration by locations is not presented.

The concentration of insurance risk for life and health insurance contracts is reflected by the major lines of business. Prior to August 2013, traditional long-term life insurance products sold by the Group was priced at a valuation interest rate of 2.5% per annum. Subsequently, this pricing assumption was relaxed for traditional products in 2013 and then for participating products in 2015. Among the gross long-term liabilities of RMB274,493 million as at 31 December 2018 (31 December 2017: RMB285,501 million), RMB105,705 million (31 December 2017: RMB98,722 million) was reserved for products priced/guaranteed at 2.5%, while RMB76,373 million (31 December 2017: RMB120,852 million) was reserved for products priced/guaranteed at 4.025%. If the actual investment returns generated by premiums of long term life insurance products were less than those assumed in the pricing, the Group may incur losses on these insurance contracts.

Participating insurance products are very common in the PRC insurance market. Long term life insurance liabilities in relation to participating insurance products were RMB110,789 million as at 31 December 2018 (31 December 2017: RMB82,445 million), which constitutes around 40% (31 December 2017: 29%) of the total long term life insurance liabilities of the Group.

(3) Reinsurance

The Group limits its exposure to losses within non-life and short-term health insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on the quota share basis or the surplus line basis with retention limits varying by product lines. There are profit commission, sliding, scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's non-life premiums ceded to the top three reinsurance companies amounted to RMB13,227 million in total (2017: RMB12,084 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that these reinsurers are unable to meet their obligations assumed under such reinsurance agreements.

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to parts of non-life insurance contracts.

Reinsurance	Estimation method
Proportional treaty	As a certain percentage of gross claim liabilities
Facultative	Case estimates of individual large claims multiplied by an incurred but not reported ("IBNR")
Other treaties	Incurred claims loss development method and Bornhuetter-Ferguson method

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis

Long-term life insurance contracts

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the pre-tax impact on profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions have to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reasons for the asymmetry of sensitivities. The impacts to future dividend distributions to policyholders are considered in determining the impact of changes in individual assumptions.

Long-term life and health insurance contracts held by PICC Life:

	Change in assumptions	Pre-tax impact on profit and equity 2018	2017
Discount rate	+50bps	9,366	6,900
Discount rate	-50bps	(11,035)	(7,942)
Mortality/morbidity	+10%	(1,712)	(1,009)
Mortality/morbidity	-10%	1,769	1,070
Lapse and surrenders rate	+25%	911	973
Lapse and surrenders rate	-25%	(930)	(1,051)
Expenses	110%	(502)	(309)
Expenses	90%	497	308

Long-term life and health insurance contracts held by PICC Health:

	Change in assumptions	Pre-tax impact on profit and equity 2018	2017
Discount rate	+25bps	214	147
Discount rate	-25bps	(224)	(154)
Mortality/morbidity	+10%	(977)	(61)
Mortality/morbidity	-10%	638	62
Lapse and surrenders rate	+10%	227	95
Lapse and surrenders rate	-10%	(247)	(85)
Expenses	110%	(140)	(27)
Expenses	90%	130	27

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Long-term life insurance contracts *(continued)*

Sensitivity analysis (continued)

The above analyses do not take into account the mitigating effect from asset-liability management and possible actions taken by management in view of these changes. Any change in discount rate is assumed to be a parallel shift in yield curve.

When the sensitivity analysis was performed for these actuarial assumptions, reasonably possible changes in discount rates and lapse and surrender rates were determined to be 25 basis points and 10% for PICC Health, compared with 50 basis points and 25% for PICC Life. It is because the size of operations of PICC Health was smaller than that of PICC Life and the duration of liabilities was shorter for former.

Non-life insurance and short-term health insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The range of reasonable estimates of claim reserve, projected using different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

It is not possible to quantify the sensitivity of certain variables such as legislative change and uncertainty in the estimation process with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claim reserve is not quantifiable with certainty at the end of 2018 and 2017.

If the average cost per claim or the number of claims changes, the claim reserves will change proportionately. When the other assumptions remain unchanged, if the future average cost per claim increases by 5%, the net claim reserves of the Group will increase by approximately RMB6,263million as at 31 December 2018 (31 December 2017: RMB6,210 million).

As the claims of life insurance are usually settled within one year, an analysis of the development of claims was not reflected in the table below.

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

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts ***(continued)***

Key assumptions (continued)

The following analysis shows the development of non-life claims over a period of time on a gross basis:

	Accident year-gross					
	Year ended 31 December					
	2014	2015	2016	2017	2018	Total
Estimated cumulative claims:						
At the end of current year	151,013	168,926	191,940	211,396	236,441	959,716
One year later	150,277	168,283	192,759	213,021	–	724,340
Two years later	149,230	167,910	191,925	–	–	509,065
Three years later	149,701	167,241	–	–	–	316,942
Four years later	147,605	–	–	–	–	147,605
Estimated cumulative claims	147,605	167,241	191,925	213,021	236,441	956,233
Cumulative claims paid	(143,035)	(160,443)	(184,171)	(186,784)	(155,535)	(829,968)
Subtotal as at 31 December 2018						126,265
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						10,129
Non-life unpaid claim reserves, gross						136,394

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health insurance contracts *(continued)*

Key assumptions (continued)

The following analysis shows the development of non-life claims over a period of time on a net basis:

	Accident year-net					
	Year ended 31 December					
	2014	2015	2016	2017	2018	Total
Estimated cumulative claims:						
At the end of current year	131,589	150,517	170,928	193,634	217,277	863,945
One year later	131,454	149,983	171,127	193,517	–	646,081
Two years later	130,638	149,367	171,099	–	–	451,104
Three years later	131,046	148,822	–	–	–	279,868
Four years later	129,208	–	–	–	–	129,208
Estimated cumulative claims	129,208	148,822	171,099	193,517	217,277	859,923
Cumulative claims paid	(125,222)	(143,045)	(164,916)	(170,901)	(145,994)	(750,078)
Subtotal as at 31 December 2018						109,845
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						10,078
Non-life unpaid claim reserves, net						119,923

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years.

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, subordinated debts, debt investment schemes, interests receivable, other receivables, debt securities, trust schemes, insurance receivables and reinsurance arrangements. The Group holds a diversified portfolio of debt instruments and does not have concentration risk except for treasury bonds issued by the Chinese Government. The total amounts of Chinese Government issued debt securities was RMB29,191 million as at 31 December 2018 (31 December 2017: RMB18,493 million).

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which the Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged.

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A-(or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch or Moody's) or above. The Group's management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

Credit exposure

The carrying amounts of financial assets included on the consolidated statement of financial position best represent the maximum credit risk exposure at the reporting date without taking account of any collaterals held or other credit enhancements.

Included in cash and cash equivalents are certain securities purchased under resale agreements, and the relevant collaterals are certain bonds.

Included in investments classified as loans and receivables are debt investment schemes which are guaranteed by banks or other corporates. Their carrying values are disclosed in note 23.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Aging analysis of financial assets

	As at 31 December 2018						
		Past due but not impaired					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	61,601	–	–	–	–	–	61,601
Debt securities	316,394	–	–	–	–	26	316,420
Equity securities, mutual funds and trust schemes	200	–	–	–	–	–	200
Insurance receivables, net	31,566	3,634	3,298	3,017	9,949	5,911	47,426
Reinsurance assets	27,025	–	–	–	–	–	27,025
Term deposits	98,653	–	–	–	–	–	98,653
Restricted statutory deposits	13,794	–	–	–	–	–	13,794
Investments classified as loans and receivables	164,512	–	–	–	–	–	164,512
Other financial assets	18,369	558	984	1,904	3,446	1,963	23,778
Total	732,114	4,192	4,282	4,921	13,395	7,900	753,409
Less: impairment losses	–	–	–	–	–	(4,808)	(4,808)
Net amount	732,114	4,192	4,282	4,921	13,395	3,092	748,601

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

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Aging analysis of financial assets (continued)

	As at 31 December 2017						
		Past due but not impaired					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	72,819	–	–	–	–	–	72,819
Debt securities	313,261	–	–	–	–	26	313,287
Equity securities, mutual funds and trust schemes	6,923	–	–	–	–	–	6,923
Insurance receivables, net	24,749	1,145	3,387	7,638	12,170	8,201	45,120
Reinsurance assets	28,206	–	–	–	–	–	28,206
Term deposits	70,706	–	–	–	–	–	70,706
Restricted statutory deposits	11,311	–	–	–	–	–	11,311
Investments classified as loans and receivables	157,715	–	–	–	–	–	157,715
Other financial assets	20,934	588	741	1,397	2,726	1,902	25,562
Total	706,624	1,733	4,128	9,035	14,896	10,129	731,649
Less: impairment losses	–	–	–	–	–	(5,272)	(5,272)
Net amount	706,624	1,733	4,128	9,035	14,896	4,857	726,377

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Aging analysis of financial assets (continued)

For receivables arising from direct insurance business, the Group assesses any impairment on a collective basis according to default history of similar lines of business and aging. For financial assets other than receivables arising from direct insurance companies, the Group considers, on an individual basis, any default on amounts due, financial strength and repayment histories of the relevant counterparties when arriving at the amount of impairment.

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. As at 31 December 2018, 100% (31 December 2017: 100%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2018, 96.25% (as at 31 December 2017: 98.45%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks and CSDCC have a high credit quality.

The credit risk associated with securities purchased under agreements to resell will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collaterals held and maturity term of no more than three months as at 31 December 2018 and 2017.

(2) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet the Group's obligations as they become due.

The Group is exposed to liquidity risk on insurance that permit surrender, withdrawal or other forms of early termination. As disclosed in note 23, the Group holds certain financial instruments that are classified as loans and receivables as active markets do not exist for these instruments. The Group also classified certain debt securities as held-to-maturity financial assets and is only allowed to dispose of these financial assets prior to maturities in limited situation without tainting other held-to-maturity financial assets. Therefore, the Group's ability to manage liquidity risks by disposing of these financial assets will be limited by these factors. Moreover, quoted financial assets held by the Group are mainly traded on the stock exchanges or in inter-bank markets in the Mainland China. Any significant decrease in liquidity in these markets will impair the Group's ability to manage its liquidity risk.

The Group manages the liquidity risks of its major operating subsidiaries by requiring them to perform cash flow forecasts on a quarterly basis under different scenarios and establish contingency plans for any expected shortfall of liquidity.

The Group held cash and cash equivalents which accounted for 5.97% of total assets as at 31 December 2018 (31 December 2017: 7.37%).

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of financial assets and financial liabilities

The table below summarises maturity profiles of financial assets and financial liabilities of the Group. Maturity profiles of financial assets and financial liabilities are prepared, using the contractual collection or repayment dates.

All amounts are based on undiscounted contractual cash flows.

	As at 31 December 2018						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Financial assets:							
Cash and cash equivalents	37,336	24,278	–	–	–	–	61,614
Debt securities	–	6,742	34,333	147,164	235,739	–	423,978
Equity securities, mutual funds and trust schemes	–	27	102	4,156	200	114,664	119,149
Insurance receivables, net	10,318	13,912	11,793	8,042	153	–	44,218
Term deposits	–	17,110	10,770	75,289	7,720	–	110,889
Restricted statutory deposits	–	120	2,126	13,047	–	–	15,293
Investments classified as loans and receivables	–	16,051	18,006	120,645	38,318	–	193,020
Other financial assets	2,173	9,770	8,064	2,038	225	–	22,270
Total financial assets	49,827	88,010	85,194	370,381	282,355	114,664	990,431
Financial liabilities:							
Securities sold under agreements to repurchase	–	55,609	–	–	–	–	55,609
Payables to reinsurers	5,592	8,469	1,111	356	23	–	15,551
Bonds payable	–	–	2,435	11,830	68,858	–	83,123
Investment contract liabilities for policyholders	1,734	1,199	419	124	3,838	35,662	42,976
Policyholder dividends payable	3,969	–	1	–	–	–	3,970
Other financial liabilities	12,282	31,325	3,828	1,364	282	–	49,081
Total financial liabilities	23,577	96,602	7,794	13,674	73,001	35,662	250,310
Net liquidity gap	26,250	(8,592)	77,400	356,707	209,354	79,002	740,121

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of financial assets and financial liabilities (continued)

	As at 31 December 2017						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Financial assets:							
Cash and cash equivalents	28,056	45,091	–	–	–	–	73,147
Debt securities	–	23,477	27,077	155,216	221,490	–	427,260
Equity securities, mutual funds and trust schemes	–	1	493	7,570	–	107,811	115,875
Insurance receivables, net	16,657	13,206	6,153	5,382	120	–	41,518
Term deposits	–	3,022	8,998	49,339	20,186	–	81,545
Restricted statutory deposits	–	827	1,275	11,464	–	–	13,566
Investments classified as loans and receivables	–	12,124	15,465	110,135	59,960	–	197,684
Other financial assets	6,714	8,037	6,417	2,607	200	–	23,975
Total financial assets	51,427	105,785	65,878	341,713	301,956	107,811	974,570
Financial liabilities:							
Securities sold under agreements to repurchase	–	41,255	–	–	–	–	41,255
Payables to reinsurers	9,675	7,725	908	424	5	–	18,737
Bonds payable	–	–	1,749	12,032	57,331	–	71,112
Investment contract liabilities for policyholders	1,893	2,596	1,110	1,002	4,095	35,194	45,890
Policyholder dividends payable	5,202	–	–	3	–	–	5,205
Other financial liabilities	11,731	28,688	2,795	2,161	1,836	–	47,211
Total financial liabilities	28,501	80,264	6,562	15,622	63,267	35,194	229,410
Net liquidity gap	22,926	25,521	59,316	326,091	238,689	72,617	745,160

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

Maturity profiles of reinsurance assets and insurance liabilities

For reinsurance assets and insurance liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims or benefits. These expected timing is made on various assumptions, including settlement speed of non-life claims, surrenders of certain life insurance policies, and longevity of retired former employees. Therefore, actual timing may deviate from the analysis presented below.

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

All amounts are based on undiscounted contractual cash flows.

	As at 31 December 2018				
	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Reinsurance assets	3,334	13,260	7,963	2,930	27,487
Insurance contract liabilities	71,876	167,648	136,274	514,854	890,652

	As at 31 December 2017				
	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Reinsurance assets	4,271	13,890	7,871	2,556	28,588
Insurance contract liabilities	88,691	182,959	125,816	485,550	883,016

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) or market prices (price risk).

The Group uses multiple methods managing market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal operations and transactions are conducted in RMB, and is also exposed to foreign exchange risk in respect of United States Dollars ("USD") because certain non-life insurance contracts are denominated in USD. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

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

31 December 2018	RMB	HKD	USD	Others	Total
Cash and cash equivalents	54,757	2,484	4,291	69	61,601
Debt securities	315,124	–	1,270	–	316,394
Equity securities, mutual funds and trust schemes	111,173	1,932	3,592	–	116,697
Insurance receivables, net	39,026	271	4,584	337	44,218
Reinsurance assets	25,025	618	1,347	35	27,025
Term deposits	97,741	67	839	6	98,653
Restricted statutory deposits	13,794	–	–	–	13,794
Investments classified as loans and receivables	164,512	–	–	–	164,512
Other financial assets	21,814	48	337	5	22,204
Total financial assets	842,966	5,420	16,260	452	865,098
Securities sold under agreements to repurchase	54,889	–	–	–	54,889
Payables to reinsurers	13,099	154	2,135	163	15,551
Bonds payable	57,732	–	–	–	57,732
Insurance contract liabilities	555,634	1,332	2,121	130	559,217
Investment contract liabilities for policyholders	41,808	–	–	–	41,808
Policyholder dividends payable	3,970	–	–	–	3,970
Other financial liabilities	47,789	184	1,090	18	49,081
Total financial liabilities	774,921	1,670	5,346	311	782,248
Net exposure	68,045	3,750	10,914	141	82,850

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2017	RMB	HKD	USD	Others	Total
Cash and cash equivalents	68,121	909	3,776	13	72,819
Debt securities	311,804	–	1,457	–	313,261
Equity securities, mutual funds and trust schemes	109,614	4,169	1,230	–	115,013
Insurance receivables, net	37,460	115	3,823	120	41,518
Reinsurance assets	26,817	266	1,098	25	28,206
Term deposits	68,085	95	2,520	6	70,706
Restricted statutory deposits	11,311	–	–	–	11,311
Investments classified as loans and receivables	157,715	–	–	–	157,715
Other financial assets	23,324	50	536	8	23,918
Total financial assets	814,251	5,604	14,440	172	834,467
Securities sold under agreements to repurchase	41,226	–	–	–	41,226
Payables to reinsurers	18,298	46	337	56	18,737
Bonds payable	49,801	–	–	–	49,801
Insurance contract liabilities	554,412	836	1,692	71	557,011
Investment contract liabilities for policyholders	45,866	14	–	–	45,880
Policyholder dividends payable	5,205	–	–	–	5,205
Other financial liabilities	45,456	215	1,528	12	47,211
Total financial liabilities	760,264	1,111	3,557	139	765,071
Net exposure	53,987	4,493	10,883	33	69,396

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Sensitivity analysis (continued)

	31 December 2018	
Exchange rate of foreign currencies	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**400**	**740**
-5%	**(400)**	**(740)**

	31 December 2017	
Exchange rate of foreign currencies	Pre-tax impact on profit	Pre-tax impact on equity
+5%	428	771
-5%	(428)	(771)

The method used for deriving sensitivity information and significant variables has not changed from the previous year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Based on asset liability matching gap analysis, the Group implements sensitive analysis and stress tests to monitor and to evaluate interest rate risk regularly. The Group manages interest rate risk by monitoring the average duration and expiry dates as well as adjusting composition of portfolio.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days at a confidence level of 99% for bond investments measured at fair value. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 trading days. The said assumptions may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2018	2017
Interest rate VaR	**988**	962

(Amounts in millions of Renminbi, unless otherwise stated)

42. CAPITAL AND RISK MANAGEMENT *(continued)*

42.2 Risk management *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group holds a diversified portfolio of equity instruments and therefore does not have significant concentration risk in any particular individual instrument. However, the Group principally invests in the stock markets of Hong Kong and Mainland China and is subject to price risk arising from volatilities of these two markets.

The Group's price risk policy requires setting and managing investment objectives. Subject to laws and regulatory policies, the Group manages price risk by diversification of investments, setting limits for investments in different securities, etc.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and mutual fund investments measured at fair value (other than those measured at level 3 fair value) over a holding period of 10 trading days at a confidence level of 99%. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 trading days. The said assumptions may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2018	2017
Equity price VaR	**5,597**	2,625

(Amounts in millions of Renminbi, unless otherwise stated)

43. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

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

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Cash and cash equivalents	61,601	61,601	72,819	72,819
At fair value through profit or loss				
– Equity securities, mutual funds and trust schemes	12,298	12,298	16,183	16,183
– Debt securities	8,253	8,253	7,574	7,574
Available-for-sale				
– Equity securities, mutual funds and trust schemes	104,284	104,284	98,723	98,723
– Debt securities	179,964	179,964	183,210	183,210
Held-to-maturity investment				
– Debt securities	128,177	131,711	122,477	120,388
Loans and receivables				
– Insurance receivables, net	44,218	44,218	41,518	41,518
– Term deposits	98,653	98,653	70,706	70,706
– Restricted statutory deposits	13,794	13,794	11,311	11,311
– Investments classified as loans and receivables	164,512	170,623	157,715	159,799
– Other financial assets	22,204	22,204	23,918	23,918
Total financial assets	837,958	847,603	806,154	806,149
Financial liabilities				
Other financial liabilities – measured at amortised cost				
– Securities sold under agreements to repurchase	54,889	54,889	41,226	41,226
– Payables to reinsurers	15,551	15,551	18,737	18,737
– Bonds payable	57,732	59,681	49,801	49,404
– Investment contract liabilities for policyholders	41,808	41,808	45,880	45,880
– Policyholder dividends payable	3,970	3,970	5,205	5,205
– Other financial liabilities	49,081	49,081	47,211	47,211
Total financial liabilities	223,031	224,980	208,060	207,663

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

This note provides information on how the Group determines the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 26 to these consolidated financial statements.

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

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

Items	Fair value 31 December 2018	Fair value 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
At fair value through profit or loss debt securities	2,839	6,085	Level 1	Quoted bid prices in an active market.
At fair value through profit or loss debt securities	5,414	1,489	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale debt securities	18,358	11,314	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	161,606	171,896	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
At fair value through profit or loss equity securities and mutual funds	12,298	16,183	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	70,246	62,128	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities, mutual funds and trust schemes	12,988	14,374	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale equity securities and mutual funds	–	1,152	Level 3	Quoted bid prices adjusted by a liquidity discount determined by the Black-Scholes option pricing model. The key input is historical volatility of the share prices of the securities.
Available-for-sale equity securities and mutual funds	13,389	7,179	Level 3	The fair value is determined with reference to the latest private transaction price or net assets value.
Available-for-sale equity securities and mutual funds	3,790	3,481	Level 3	Relative value that are assessed based on average price-to-earnings ratio from comparative companies and earnings per share of target company.
Available-for-sale equity securities, mutual funds and trust schemes	3,871	10,409	Level 3	Fair value of the investments is based on the use of internal valuation models.

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

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

As at 31 December 2018, the Group transferred certain debt securities with a carrying amount of RMB2,349 million (2017: RMB3,575 million) from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. The Group transferred debt securities with a carrying amount of RMB4,651 million (2017: RMB3,095 million) from Level 2 to Level 1 as the Group is able to obtain quoted prices in active markets.

(b) Fair value of financial assets and liabilities not carried at fair value

Some of the Group's financial assets and financial liabilities are not carried at fair value at the end of each reporting period but their fair values are disclosed in the table set out at the beginning of this note. The levels of fair value in the fair value hierarchy in respect of these fair values disclosed are as follows:

	Fair value hierarchy at 31 December 2018		
	Level 1	**Level 2**	**Total**
Financial assets			
Held-to-maturity financial assets	**518**	**131,193**	**131,711**
Investments classified as loans and receivables	**–**	**170,623**	**170,623**
Financial liabilities			
Bonds payable	**–**	**59,681**	**59,681**

	Fair value hierarchy at 31 December 2017		
	Level 1	Level 2	Total
Financial assets			
Held-to-maturity financial assets	2,044	118,344	120,388
Investments classified as loans and receivables	–	159,799	159,799
Financial liabilities			
Bonds payable	–	49,404	49,404

The fair values of the debt instruments reported as financial assets and financial liabilities and included in the Level 2 categories above have been determined with generally accepted pricing models for such debt instruments based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties or the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

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

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

(c) Reconciliation of Level 3 fair value measurements

	2018	2017
Unlisted available-for-sale financial assets		
At beginning of the year	22,221	23,361
Unrealised gains recognised in other comprehensive income	2,603	862
Transfer from Level 3 to equity accounting	–	(3,554)
Transfer from Level 3 to Level 1	(1,152)	–
Transfer from Level 2 to Level 3	1,943	–
Additions	2,158	2,708
Disposals	(6,723)	(1,156)
At end of the year	21,050	22,221

During the year ended 31 December 2018, the lock-up period of shares of a listed equity investment has expired, and consequently the Group transferred the listed equity investment with a carrying amount of RMB1,152 million from Level 3 to Level 1.

During the year ended 31 December 2017, a financial asset of RMB3,554 million was transferred from equity investments to an investment in an associate when the Group was able to appoint a director to the associate.

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements is presented in note 26 to these consolidated financial statements.

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	2018			
	Securities sold under agreements to repurchase *(note 33)*	Bonds payable *(note 35)*	Interests payable *(note 39)*	Total
At 1 January 2018	41,226	49,801	708	91,735
Financing cash flows	13,663	8,000	(4,185)	17,478
Finance costs	–	(69)	4,822	4,753
At 31 December 2018	54,889	57,732	1,345	113,966

(Amounts in millions of Renminbi, unless otherwise stated)

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(continued)*

	2017			
	Securities sold under agreements to repurchase *(note 33)*	Bonds payable *(note 35)*	Interests payable *(note 39)*	Total
At 1 January 2017	33,066	46,084	632	79,782
Financing cash flows	8,160	3,500	(3,763)	7,897
Finance costs	–	217	3,839	4,056
At 31 December 2017	41,226	49,801	708	91,735

45. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

Due to the nature of the insurance business, the Group is subject to legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and the losses incurred will be partly indemnified by reinsurers or other recoveries including salvage and subrogation. The Group took into account potential losses arising from these legal proceedings when measuring insurance contract liabilities.

(b) Capital commitments and operating leases

(1) Capital commitments

	31 December 2018	31 December 2017
Property and equipment commitments:		
Contracted, but not provided for	**2,067**	2,228

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 26) under operating lease arrangements, with lease terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of 2018 and 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2018	31 December 2017
Within one year, inclusive	**590**	298
In the second to fifth year, inclusive	**884**	427
After five years	**–**	101
TOTAL	**1,474**	826

(Amounts in millions of Renminbi, unless otherwise stated)

45. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases (continued)

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Lease terms for properties range from one to ten years.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2018	31 December 2017
Within one year, inclusive	648	587
In the second to fifth year, inclusive	1,801	1,799
After five years	393	417
TOTAL	2,842	2,803

46. RELATED PARTY DISCLOSURES

(a) The Company is a state-owned enterprise and its controlling shareholder is the MOF.

(b) During the year, the Group had the following significant related party transactions:

	2018	2017
Transactions with associates:		
Industrial Bank		
Gross written premiums	567	660
Investment income	524	664
Other income	1	–
Claims and policyholders' benefits	584	607
Handling charges and commissions	43	13
Finance costs	88	134
Hua Xia Bank		
Gross written premiums	231	636
Investment income	367	447
Claims and policyholders' benefits	367	590
Handling charges and commissions	1	1
Finance costs	6	1
Other associates		
Gross written premiums	25	4
Premiums ceded to reinsurers	–	37
Investment income	114	157
Other income	4	–
Claims and policyholders' benefits	98	7
Other operating and administrative expense	6	–

(Amounts in millions of Renminbi, unless otherwise stated)

46. RELATED PARTY DISCLOSURES *(continued)*

(c) Balances with related parties

Receivables from associates	31 December 2018	31 December 2017
Industrial Bank		
Cash and cash equivalents	1,802	997
Debt securities	2,915	2,915
Equity securities, mutual funds and trust schemes	704	882
Term deposits	20,104	9,375
Restricted statutory deposits	1,779	1,186
Other assets	312	530
Hua Xia Bank		
Cash and cash equivalents	68	166
Debt securities	–	1,000
Term deposits	6,550	6,508
Restricted statutory deposits	100	100
Other assets	31	1,171
Other associates		
Debt securities	2,337	2,191
Equity securities, mutual funds and trust schemes	–	6,723
Other assets	96	86
TOTAL	36,798	33,830
Payables to associates		
Industrial Bank		
Bonds payable	618	2,422
Other liabilities	9	51
Hua Xia Bank		
Bonds payable	101	102
Other liabilities	2	2
Other associates		
Other liabilities	12	2
TOTAL	742	2,579

(Amounts in millions of Renminbi, unless otherwise stated)

46. RELATED PARTY DISCLOSURES *(continued)*

(d) Compensation of key management personnel

Key management personnel of the Company include certain Directors, Supervisors and Senior Management. The summary of compensation of key management personnel for 2018 and 2017 is as follows:

	2018 (in RMB'000)	2017 (in RMB'000) (Restated)
Short-term employee benefits	**12,093**	10,224
Other long-term benefits	**9,379**	12,581
Retirement benefits	**2,823**	2,590
Total compensation paid to key management personnel	**24,295**	25,395

Further details of directors' and supervisors' remunerations are included in note 13 to these consolidated financial statements.

(e) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment dominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks and postal offices for insurance policies distributed.

Management considers that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

47. STRUCTURED ENTITIES

The Group invested in a variety of structured entities including asset management products sponsored by asset management companies, securities companies or insurance asset management companies, mutual funds sponsored by mutual fund management companies, trusts sponsored by trust companies and wealth management products sponsored by banks. Certain subsidiaries of the Group are managers of these structured entities and therefore are considered sponsor of these entities. In addition, the Group may be exposed to variability of returns as a result of holding interests in the structured entities. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entities (including any carried interests and expected management fees) and the decision-making rights on the entity.

(a) As at 31 December 2018, management has determined that the Group has control of certain structured entities and consolidated the following principal structured entities:

Name	Attributable equity interest	Paid-in capital (in RMB million)	Principal activities
PICC AMC Anxin Gangtong No.1 Assets Management	70.53%	884	Asset management products
PICC AMC Anxin Shanjian No.2 Investment Product	99.23%	22	Asset management products
PICC AMC Anxin Shanjian No.3 Investment Product	100.00%	1	Asset management products
PICC AMC Anxin Shengshi No.11 Assets Management	100.00%	6	Asset management products
PICC AMC Anxin Shengshi No.12 Assets Management	100.00%	2	Asset management products
PICC AMC Anxin Shengshi No.13 Assets Management	100.00%	1	Asset management products
PICC AMC Anxin Shengshi No.15 Assets Management	100.00%	5	Asset management products
PICC AMC Anxin Shengshi No.16 Assets Management	100.00%	2	Asset management products
PICC AMC Anxin Shengshi No.17 Assets Management	100.00%	3	Asset management products
PICC AMC Anxin Shengshi No.18 Assets Management	100.00%	4	Asset management products
PICC AMC Anxin Shengshi No.19 Assets Management	100.00%	3	Asset management products
PICC AMC Anxin Shengshi No.20 Assets Management	100.00%	10	Asset management products
PICC AMC Anxin Shengshi No.29 Assets Management	100.00%	2,000	Asset management products
PICC AMC Anxin Shengshi No.32 Assets Management	100.00%	2	Asset management products
PICC AMC Anxin Shengshi No.35 Assets Management	100.00%	2	Asset management products
PICC AMC Anwen Investment I	100.00%	330	Asset management products
PICC AMC Puhui Assets Management	100.00%	169	Asset management products
PICC Capital Zhinong Assets Management	100.00%	2,740	Asset management products
PICC Capital Zhinong Debt investment schemes	100.00%	353	Debt investment schemes

(Amounts in millions of Renminbi, unless otherwise stated)

47. STRUCTURED ENTITIES *(continued)*

(b) Investments in unconsolidated structured entities are disclosed in respective notes of "Debt Securities", "Equity Securities, Mutual Funds and Trust Schemes" and "Investments Classified as Loans and Receivables". The corresponding investment income is recorded in profit or loss as changes in fair values, realised gains/losses, dividend or interest income, and impairment losses. Certain subsidiaries of the Group are managers of these structured entities and therefore are considered sponsor of these entities. Assets management income earned by the asset management segment is disclosed in note 7 to these consolidated financial statements.

The Group does not control any of these structured entities and therefore does not consolidate these structured entities. The following table shows the Groups' interests in unconsolidated structured entities. It also shows the Group's maximum exposure to these unconsolidated structured entities, representing the Group's maximum possible risk exposure that could occur. The Group does not provide any financial support for these unconsolidated structured entities:

	31 December 2018			
	Asset Size	Funding provided by the Group and carrying amount of the investment	The Group's maximum exposure	Interest held by the Group
Insurance asset management products managed by the Group	191,020	75,078	75,078	Investment income and management fee
Insurance asset management products managed by third parties	note	62,968	62,968	Investment income
Trust schemes managed by third parties	note	42,968	42,968	Investment income
Bank wealth management products managed by third parties	note	26,658	26,658	Investment income
Funds managed by third parties	note	61,944	61,944	Investment income
Total		269,616	269,616	

	31 December 2017			
	Asset Size	Funding provided by the Group and carrying amount of the investment	The Group's maximum exposure	Interest held by the Group
Insurance asset management products managed by the Group	183,447	65,307	65,307	Investment income and management fee
Insurance asset management products managed by third parties	note	68,993	68,993	Investment income
Trust schemes managed by third parties	note	42,462	42,462	Investment income
Bank wealth management products managed by third parties	note	38,900	38,900	Investment income
Funds managed by third parties	note	54,045	54,045	Investment income
Total		269,707	269,707	

Note: The structured entities are sponsored by third party financial institutions and the information related to the size of these structured entities were not publicly available.

(Amounts in millions of Renminbi, unless otherwise stated)

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2018	31 December 2017
ASSETS		
Cash and cash equivalents	2,294	2,833
Debt securities	6,174	2,386
Equity securities and mutual funds	6,935	7,138
Term deposits	3,963	131
Investments classified as loans and receivables	1,281	600
Investments in subsidiaries	84,217	84,274
Investments in associates	5,633	5,571
Investment properties	2,615	2,605
Property and equipment	3,099	3,090
Intangible assets	23	29
Prepaid land premiums	64	65
Other assets	1,042	227
TOTAL ASSETS	117,340	108,949
LIABILITIES		
Bonds payable	17,977	15,995
Pension benefit obligation	2,967	2,899
Other liabilities	1,801	1,693
TOTAL LIABILITIES	22,745	20,587
EQUITY		
Share capital	44,224	42,424
Reserves	50,371	45,938
TOTAL EQUITY	94,595	88,362
TOTAL EQUITY AND LIABILITIES	117,340	108,949

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

49. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	2018									
	Share capital	Share premium account	Available-for-sale investment revaluation reserve	Surplus reserve*	Share of other comprehensive income/ (expense) of associates	Properties transfer to investment properties	Other reserves	Actuarial losses on pension benefit obligation	Retained profits	Total
Balance at 1 January 2018	42,424	19,925	1,341	11,759	178	231	11,607	(884)	1,781	88,362
Profit for the year	–	–	–	–	–	–	–	–	2,825	2,825
Other comprehensive expense	–	–	(533)	–	(48)	–	–	(187)	–	(768)
Total comprehensive (expense)/income	–	–	(533)	–	(48)	–	–	(187)	2,825	2,057
Issue of new shares	1,800	4,048	–	–	–	–	–	–	–	5,848
Appropriations to surplus reserve fund	–	–	–	282	–	–	–	–	(282)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	(1,672)	(1,672)
Balance at 31 December 2018	44,224	23,973	808	12,041	130	231	11,607	(1,071)	2,652	94,595

	2017									
	Share capital	Share premium account	Available-for-sale investment revaluation reserve	Surplus reserve*	Share of other comprehensive income/ (expense) of associates	Properties transfer to investment properties	Other reserves	Actuarial losses on pension benefit obligation	Retained profits	Total
Balance at 1 January 2017	42,424	19,925	1,295	1,410	189	–	11,672	(652)	11,429	87,692
Profit for the year	–	–	–	–	–	–	–	–	3,484	3,484
Other comprehensive income/(expense)	–	–	46	–	(11)	231	–	(232)	–	34
Total comprehensive income/(expense)	–	–	46	–	(11)	231	–	(232)	3,484	3,518
Merger with a wholly-owned subsidiary	–	–	–	–	–	–	(65)	–	(1,350)	(1,415)
Appropriations to surplus reserve fund	–	–	–	349	–	–	–	–	(349)	–
Appropriations to discretionary surplus reserve fund	–	–	–	10,000	–	–	–	–	(10,000)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	(1,433)	(1,433)
Balance at 31 December 2017	42,424	19,925	1,341	11,759	178	231	11,607	(884)	1,781	88,362

* This reserve contains both statutory and discretionary surplus reserves.

50. EVENT AFTER THE REPORTING PERIOD

On 22 March 2019, the Board of Directors of the Company proposed a final dividend of RMB4.57 cent per ordinary share for the year ended 31 December 2018, amounting to a total of approximately RMB2,021 million. The above proposal is subject to the approval of shareholders' general meeting of the Company.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors of the Company on 22 March 2019.

Chinese name:	中國人民保險集團股份有限公司
Abbreviation of Chinese name:	中國人保集團
English name:	THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED
Abbreviation of English name:	PICC Group
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Securities affairs representative:	Zhang Yanhai
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Designated website for the Company's A Share announcement:	http://www.sse.com.cn
Place for listing of A Shares:	Shanghai Securities Exchange
Short form for A Share:	PICC
A Share stock code:	601319
Place for listing of H Shares:	The Stock Exchange of Hong Kong Limited
Short form for H Share:	PICC Group
H Share stock code:	01339

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PICC

中国人民保险集团股份有限公司

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