中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2328)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of PICC Property and Casualty Company Limited (the "**Company**") announces the audited results of the Company and its subsidiaries for the year ended 31 December 2018. This announcement sets out the full text of the 2018 Annual Report of the Company and fulfils the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

By Order of the Board
Miao Jianmin
Chairman

Beijing, the PRC, 22 March 2019

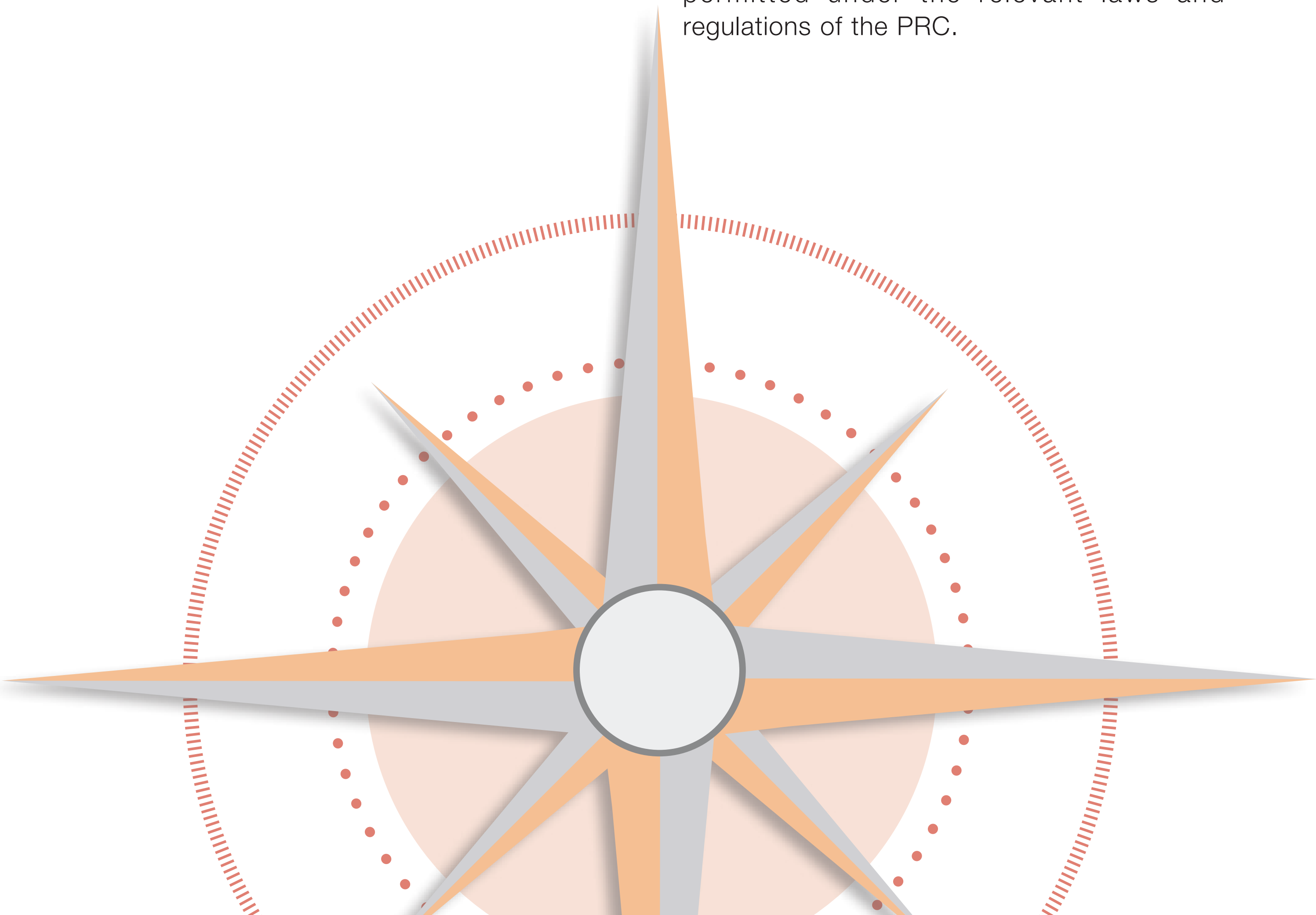
As at the date of this announcement, the Chairman of the Board is Mr. Miao Jianmin (executive director), the Vice Chairman is Mr. Xie Yiqun (executive director), the non-executive directors are Mr. Tang Zhigang and Mr. Li Tao, Ms. Xie Xiaoyu and Mr. Hua Shan are executive directors, and the independent non-executive directors are Mr. Lin Hanchuan, Mr. Lo Chung Hing, Mr. Na Guoyi, Mr. Ma Yusheng, Mr. Chu Bende and Ms. Qu Xiaohui.

Company Profile

The Company, the largest property and casualty insurance company in Mainland China, was established in July 2003 with PICC Group as its sole promoter. The Company became the first domestic financial enterprise listed overseas when the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 6 November 2003. The Company currently has a total share capital of 22,242,765,303 shares, of which 68.98% are held by PICC Group.

Principal Activities

Motor vehicle insurance, commercial property insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, agriculture insurance, credit insurance, surety insurance, homeowners insurance, marine hull insurance and other insurance business, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds application business permitted under the relevant laws and regulations of the PRC.



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* In case of any discrepancy between the Chinese version and the English version of this annual report, the Chinese version shall prevail.

Financial Summary

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

RESULTS

	Year ended 31 December				
	2014 *RMB million*	2015 *RMB million*	2016 *RMB million*	2017 *RMB million* (Restated)	**2018** ***RMB million***
Gross written premiums	253,037	281,698	311,160	350,314	**388,769**
Underwriting profit	7,291	8,604	5,024	8,705	**5,304**
Investment income	12,141	14,268	15,073	15,382	**16,635**
Net realised and unrealised gains/(losses) on investments	1,319	6,562	922	1,136	**(1,226)**
Share of profits of associates and joint venture	307	473	2,945	4,575	**4,482**
Profit before tax	19,441	28,203	22,451	27,161	**23,428**
Income tax expense	(4,326)	(6,356)	(4,430)	(7,353)	**(7,942)**
Profit for the year	15,115	21,847	18,021	19,808	**15,486**

In the current year, the Company and its subsidiaries amended its compositions of underwriting profit based on industry practice. The Company and its subsidiaries reclassified certain other income and other expenses which will no longer be eligible for inclusion in underwriting profit. Prior year comparative figures have been revised accordingly, resulting in a reduction in underwriting profit of RMB590 million for the year ended 31 December 2017. 2014-2016 figures have not been restated.

ASSETS AND LIABILITIES

	At 31 December				
	2014 *RMB million*	2015 *RMB million*	2016 *RMB million*	2017 *RMB million*	**2018** ***RMB million***
Total assets	366,130	420,420	475,949	524,566	**550,619**
Total liabilities	280,355	311,469	356,637	391,452	**409,116**
Net assets	85,775	108,951	119,312	133,114	**141,503**

Gross written premiums

388,769 *RMB million*

Market share

33.0%

Underwriting profit

5,304 *RMB million*

Combined ratio

98.5%

Total investment income

19,154 *RMB million*

Total investment yield

4.5%

Profit for the year

15,486 *RMB million*

Basic earnings per share attributable to owners of the Company

0.696 *RMB*

Return on equity

11.3%

Total assets

550,619 *RMB million*

Total equity

141,503 *RMB million*

Comprehensive solvency margin ratio

275%

Chairman's Statement

Miao Jianmin
Chairman

Dear Shareholders,

In 2018, by persistently working under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and seeking progress while maintaining stability, the Company implemented the new development vision and the "3411" project of PICC Group, accelerated the transformation towards high quality development, further served the overall economic and social development and continued to improve risk prevention and control. Under the spirit of "time and tide wait for no man and one has to seize the day", the Company made concerted efforts to confront and overcome various difficulties and made hard-earned achievements in reform and development against a complex and fast-changing external environment.

Adhering to seeking progress while maintaining stability and maintaining the trend of sound and stable growth in a complex development environment. Firstly, business development was stable with improvement. In 2018, the gross written premiums of the Company were RMB388,769 million, representing a year-on-year increase of 11.0%, with its incremental premiums maintaining the No.1 ranking in the market. The Company's market share was 33.0%, remaining generally stable. **Secondly, business structure continued to be optimised.** The non-motor vehicle insurance business had a relatively fast growth, recording gross written premiums of RMB129,865 million, representing a year-on-year increase of 28.5% and accounting for 33.4% of the Company's gross written premiums, with a year-on-year increase of 4.5 percentage points. The premium income from

Chairman's Statement

agriculture insurance and social security insurance both exceeded RMB26 billion. **Thirdly, business structure of the motor vehicle insurance business continued to improve.** The relatively more profitable household-owned vehicle insurance business achieved a premium income of RMB179.0 billion, accounting for 69.7% of the total, with a year-on-year increase of 0.7 percentage points. The percentage of motor vehicle insurance business achieved via direct sales channels and channels controlled by the Company increased, with improved capability to sell motor vehicle insurance based on its own resources. **Fourthly, underwriting profitability continued to outperform the average of the market.** The underwriting profit was RMB5,304 million and the combined ratio was 98.5%, which continued to outperform the average of the market. The above results were hard-earned as they were achieved against the backdrop of intense market competition and serious impact caused by catastrophes such as Typhoon Mangkhut.

Upholding the mission of "people's insurance serving the people" and further serving the overall economic and social development. Firstly, promoting rural rejuvenation. The market leading position of agriculture insurance was reinforced. Premium income of the agriculture insurance business had a market share of 46.2%, representing a year-on-year increase of 0.6 percentage points, provided risk coverage for close to 100 million farmers and paid RMB19.6 billion agriculture claim payment to farmers affected by natural disasters. **Secondly, supporting the development of real economy.** The Company made great efforts to develop insurance for the first set of major technical equipment, stepped up its work on "inclusive financing and supporting agriculture, the rural areas, farmers and small and micro enterprises", and facilitated cost reduction for agriculture, the rural areas, farmers, small and micro enterprises as well as private enterprises. **Thirdly, facilitating poverty alleviation.** The "poverty alleviation insurance for areas of extreme poverty" was implemented in 58 poverty-stricken counties across 11 provinces and the first "government aid poverty alleviation insurance" product in the industry was launched. **Fourthly, assisting with the fight for pollution prevention and control.** The Company actively took part in the pilot program for environmental pollution liability insurance, extending environmental pollution liability insurance coverage to 31 provinces/regions/municipalities. **Fifthly, serving the strategy of "Healthy China" and the building of the social security system.** Premium income from social security insurance recorded a year-on-year increase of 33.4%, with 592 million policies underwritten. **Sixthly, serving the construction of "the Belt and Road Initiatives".** The Company underwrote insurance for 467 projects in 52 countries along the route of "the Belt and Road Initiatives".

Continuing to strengthen risk prevention and control, and firmly upholding the bottom line of no systemic risks. Firstly, continuing to push forward the endeavour of operating in compliance. The Company actively implemented the requirements of the CBIRC on tackling the disorders in the insurance market, and took the lead in implementing the requirement of "consistency between the reported commission rates and the actual commission rates" for motor vehicle insurance. **Secondly, continuously improving the risk management system and mechanism.** The Company deepened the construction of the internal control system at the basic level, established a uniform risk and compliance control system at different levels and developed a contract-related legal risk control system covering the Company, improved the risk preference, risk tolerance and amount limit system, and improved the overall risk management system.

Chairman's Statement

At present, the Company's development is facing the complex situation of overlapping of the macroeconomic cycle, the cycle of technological change and the "new cycle" of the industry, but the Company is still in a period of important strategic opportunities. The Company will turn pressure into a positive force for unswerving transformation towards high quality development, and with its own subjective initiative, it will overcome the uncertainty of external environment and grasp the strategic opportunity period for the development of the insurance industry.

We will focus on promoting business model reform. Firstly, to view the optimisation of the business model as an important strategic task. In terms of the customer-centric management model, the professional technical advantages, the digital transformation initiatives and the expansion of boundaries of insurance services, we will benchmark with first-class enterprises, find the shortcomings in the business model and understand the direction of transformation. **Secondly, to use digital operations as the soul of optimising business models.** We will deeply implement digitalisation strategy, strengthen data management, data development and data utilisation, and give full play to the value of data. We will step up efforts to embrace digital technology, so as to achieve being supported, empowered and guided by technology, and let technology generate actual productivity. We will improve efficiency and optimise customer experience as the starting point and the foothold of digital operations. We will devote more financial and human resources to the efforts of safeguarding digitalisation strategy.

We will adhere to the principle of "reducing dependency on independent intermediaries, lowering sales cost, improving customer experience, and enhancing customer loyalty". Firstly, to step up the development of direct sales channels and channels controlled by the Company. We will strengthen the construction of direct sales team, online sales, PICC V League and other direct sales channels controlled by the Company, improve our own sales capabilities, consolidate customer database and reduce sales costs. We will cultivate marketing culture, build up marketing team, innovate marketing team construction model, and enhance the Company's marketing team's capabilities to develop disperse businesses. **Secondly, to promote refined management.** We will strengthen claims management and control, reduce the leakage of profit in claim settlement, optimise expense allocation structure, and maintain leadership in cost control. **Thirdly, to optimise customer experience.** We will improve customer responsiveness in underwriting, claims settlement and customer service, and continually optimise customer experience.

We will strive to win the battles for a market leading position in strategically significant cities and defend our competitive advantages in county-level markets. Firstly, in urban markets, a special emphasis will be placed upon the integration of technological reform and business model reform. We will use technology empowerment to create sustainable strengths which can confront future challenges. We will also make efforts to optimise organisational structures, motivate staff, promote efficiency, make supply-side

Chairman's Statement

innovations, build up synergy, and particularly, take the market-oriented approach to address the selection and appointment of personnel for leadership as well as incentives and constraints for employees in order to give full play to the initiative and creativity of our managers and employees. **Secondly, in county-level markets, a special emphasis will be placed upon the integration of policy-oriented business and commercial business.** While consolidating our advantages in developing policy-oriented business, we will capitalise on our customer resource of policy-oriented business, government relationships, rural insurance facilitators and other favoured conditions to accelerate the process of transferring policy-oriented insurance customers to commercial insurance customers and speed up the development of commercial insurance in rural areas.

We will effectively enhance our risk prevention and control capabilities. Firstly, the risk management system and the compliance and internal control system will be improved and optimised. We will improve the economic capital model, optimise the risk warning system, streamline systems and procedures, improve the special risk management mechanism for those risk-sensitive areas, reinforce the internal control and compliance system at the basic level and uphold the bottom line of risk management. **Secondly, efforts will be made to enhance the proactivity and foreseeability of risk management.** We will strengthen our forward-looking mindset, understand and study the macro landscape, and make a forward-thinking judgment on potential risks. **Thirdly, we will raise the awareness of operating in compliance.** We will make unremitting efforts in compliance training and compliance culture promotion so that everyone can embrace the concept of compliance and respect the value in compliance. We will also intensify the rigorous implementation of the compliance system and strengthen the assessment and accountability in relation to compliance to steer our organisations at all levels towards enhanced compliance management.

By persistently working under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will keep a stronger sense of crisis, maintain strategic firmness, confront various difficulties and challenges boldly and become adept at turning challenges to opportunities. By resolutely adhering to the new development vision, effectively implementing the "3411" project of PICC Group and steadily pushing forward the transformation towards high quality development, we will bring returns to shareholders, employees and society with our excellent results.

Miao Jianmin
Chairman

Beijing, the PRC
22 March 2019

Company Honours

2018 INSURANCE COMPANY WITH HIGH QUALITY DEVELOPMENT IN CHINESE INSURANCE INDUSTRY

In June 2018, the Company was awarded the "2018 Insurance Company with High Quality Development in Chinese Insurance Industry" in the "2018 China Insurance Ark Award" organised by *Securities Times*.

40TH ANNIVERSARY OF REFORM AND OPENING UP – OUTSTANDING PROPERTY INSURANCE COMPANY

In July 2018, the 2018 (Third) Innovation and Development Forum of Chinese Insurance Industry and the award ceremony of the "2018 China Insurance Rankings" was held in Beijing. The Company was awarded the "40th Anniversary of Reform and Opening up – Outstanding Property Insurance Company".

2018 PIONEER ENTERPRISE IN POVERTY ALLEVIATION

In November 2018, the Company was awarded the "2018 Pioneer Enterprise in Poverty Alleviation" at the "2018 Forum for Chinese Capital Market Pioneers in Poverty Alleviation" organised by *International Finance News*.

INSURANCE TECHNOLOGY AWARD OF THE YEAR

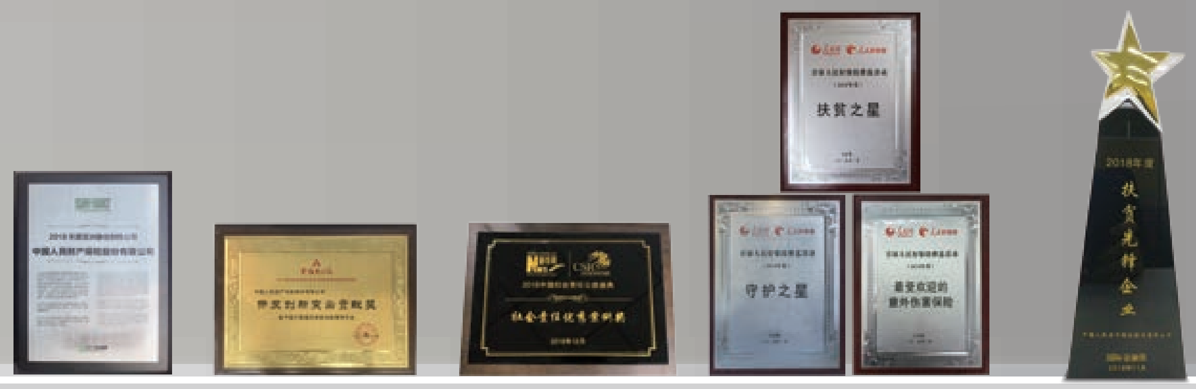
In December 2018, the election result of the "2018 CBN Financial Value Rankings" organised by *China Business News* was announced. The Company was awarded the 2018 "Insurance Technology Award of the Year".

EXCELLENT INSURANCE PROTECTION BRAND OF THE YEAR 2018

In December 2018, the Company was awarded the "Excellent Insurance Protection Brand of the Year 2018" in the ninth "Golden Wealth Management" organised by *Shanghai Securities Times*.

PROPERTY INSURANCE COMPANY OF THE YEAR 2018

In December 2018, the Company was awarded the "Property Insurance Company of the Year 2018" at the Huaxia Institutional Investors Annual Conference and award ceremony of the twelfth "Golden Cicada Award" held in Beijing.



OUTSTANDING PROPERTY INSURANCE COMPANY

In December 2018, the Company was awarded the “Outstanding Property Insurance Company” at the third International Forum of Fintech and the 2018 “Piloting China” annual award ceremony held in Beijing.

BEST PROPERTY INSURANCE COMPANY OF THE YEAR IN ASIA

In December 2018, in the “Competitiveness Rankings of Asian Insurance Companies” jointly organised by *21st Century Business Herald* and 21st Century Finance Research Institute, the Company was awarded the “Best Property Insurance Company of the Year in Asia” again and topped the list for the tenth consecutive year.

OUTSTANDING CONTRIBUTION FOR DEVELOPMENT AND INNOVATION

In December 2018, the election result of the ninth “Financial Technology and Service Excellence Award” was announced. The Company was awarded the “Outstanding Contribution for Development and Innovation” for the “Intelligent Insurance Recommendation Platform Based on Customer Personas”.

EXCELLENT CASE IN SOCIAL RESPONSIBILITY

In December 2018, the “11.8 Anti-Bank Card Fraud Day” launched by the Company was awarded “Excellent Case in Social Responsibility” in the eleventh “China Corporate Social Responsibility Summit” organised by *Xinhuanet*.

“PEOPLE’S INSURANCE” SERIES AWARDS

In January 2019, the election result of the first “People’s Insurance” election organised by People.cn was announced. The “Poverty Alleviation Insurance for Deep Poverty Area” model, the “Online Data Integration” for settlement of disputes related to traffic accidents adopted in Yuhang and the “Worry-free Plan for Drivers and Passengers” of the Company were respectively awarded “Star of Poverty Alleviation – Excellent Case in Poverty Alleviation through Insurance”, “Star of Protection – Excellent Case in Insurance Services” and “The Most Popular Accidental Injury Insurance Product”.

Discussion and Analysis of Operating Results and Financial Conditions

OVERVIEW

In 2018, China's economic transformation and upgrading continued, the supply-side structural reform was deeply promoted, the economic structure was continuously adjusted and optimised, the new development momentum continued to grow, and the vitality of development continued to increase so that the overall economy showed a situation of "making progress and undergoing changes while maintaining stability". In the property and casualty insurance sector, the market competition continued to intensify, the regulatory reforms have further progressed, the regulatory efforts were increasingly enhanced, the deregulation of premium rate of commercial motor vehicle insurance was continuously advanced, the adjustment of market structure was accelerated, the formation of new business model speeded up, presenting significant opportunities and challenges to the market players for their development.

Facing the opportunities and challenges, the Company accurately grasped the development trend, upheld the bottom line of no systemic risks, took the initiative to serve the overall economic and social development, promoted the integration of the policy-oriented business and commercial business, enhanced the integration of the business model reform and technology reform, implemented the innovation-driven development and digitalisation strategy, further implemented the integration strategy, steadily promoted the internationalisation strategy, fully implemented the regional development strategy, continuously innovated product supply and improved service quality, speeded up and promoted the transformation of the Company to high-quality development, and achieved steady and progressive operating results.

Market share remaining generally stable and business transformation starting to show effect. In 2018, the Company and its subsidiaries achieved gross written premiums of RMB388,769 million, representing a year-on-year increase of 11.0%, with incremental premiums ranking No. 1 in the market. The Company's market share was 33.0% *(Note)* in the property and casualty insurance market of the PRC. Gross written premiums of the motor vehicle insurance business amounted to RMB258,904 million, representing a year-on-year increase of 3.9%. The growth rate of the premiums from household cars is higher than the overall growth rate of the motor vehicle insurance business. The non-motor vehicle insurance business achieved gross written premiums of RMB129,865 million, representing a year-on-year increase of 28.5%. The gross written premiums generated from the non-motor vehicle insurance business reached 33.4% of the total, representing a year-on-year increase of 4.5 percentage points and achieving breakthroughs in development.

Note: Calculated based on the PRC insurance industry data for 2018 published on the website of the CBIRC.

Gross written premiums

388,769

RMB million

Market Share

33.0%

Profitability outperforming the industry average and comprehensive strengths being steadily enhanced. In 2018, the combined ratio of the Company and its subsidiaries was 98.5%, outperforming that of the industry; underwriting profit was RMB5,304 million, profit before tax was RMB23,428 million, profit for the year was RMB15,486 million, return on equity ratio was 11.3%, outperforming the industry average. As at the end of 2018, the total assets reached RMB550,619 million, representing an increase of 5.0% over that of the beginning of the year. The total equity was RMB141,503 million, representing an increase of 6.3% over that of the beginning of the year. The Company's core solvency margin ratio reached 229%, and the comprehensive solvency margin ratio was 275%. Due to the Company's outstanding industry position and continuously increasing comprehensive strengths, the rating granted by Moody's Investors Service to the Company in terms of insurance financial strength stays at A1, which is the highest rating in China Mainland.

Combined ratio
98.5%

Comprehensive solvency margin ratio
275%

Core solvency margin ratio
229%

Industry-leading service capabilities and continuous increase of brand influence. In 2018, the Company and its subsidiaries took the initiative to serve the construction of real economy and was the chief insurer of several important cases including the trial flight mission of "Kunlong" amphibious aircraft, construction and operation of Hong Kong-Zhuhai-Macau Bridge and the launch of GF-1 High-resolution Imaging Satellite. It dealt properly with severe catastrophes such as Typhoon Rumbia and Typhoon Mangkhut, vigorously carried out the rescue and disaster relief and claim settlement services, receiving high recognition from local governments and customers and maintaining the CBIRC's highest rating for service evaluation of insurance companies. The Company also won several awards such as "40th Anniversary of Reform and Opening up – Outstanding Property Insurance Company", "2018 Insurance Company with High Quality Development in Chinese Insurance Industry" and "Insurance Technology Award of the Year". The Company actively implemented the national plan for "poverty alleviation", increased the efforts on development and supply of poverty alleviation products, capital investment and cadre dispatch, and won the award of "2018 Pioneer Enterprise in Poverty Alleviation", enhancing its social influence and brand image.

(I) Optimising the business model and continuously enhancing development capabilities

In 2018, the Company strengthened top-tier design, fully supported innovation-driven development, achieved a new breakthrough in the business model, and steadily enhanced development capabilities. **Firstly**, the Company optimised the layout of distribution channels, strengthened the motor vehicle insurance marketing planning and sales process management, and improved the joint action mechanism for resource allocation, with the control, convening power and competitiveness over, or of, the distribution channels continuously increasing. **Secondly**, the Company speeded up the layout of financial insurance business over the industrial chain of automobiles, focused on the aftermarket of automobiles and aligned with automobile owners ecosystem, with the one-stop auto financing service model starting to be operated. **Thirdly**, the Company reinforced the interaction with PICC Life and PICC Health, deepened the joint establishment and sharing of outlets, team and resources, pushed forward the construction of an integrated and all-round comprehensive development team, with the integrated sales service system increasingly growing. **Fourthly**, the Company implemented regional differentiation development strategy, speeded up the improvement for weak operations in some regions, improved the market competitiveness of our businesses in strategically significant cities, accelerated the construction of rural networks, gave more authorisations and allocated more resources to the basic level, improved the sales capabilities in counties, and new progress has been achieved in balanced regional development.

(II) Serving the real economy and accelerating the upgrading of non-motor vehicle insurance transformation

In 2018, the Company actively aligned with the national strategy, provided in-depth services to fuel the development of the real economy and meet the people's longing for a better life, accelerated the upgrading of non-motor vehicle insurance transformation, and proactively pushed forward the insurance supply-side structural reform. **Firstly**, the Company dedicated to the agriculture insurance, rapidly expanded the development of new agriculture insurance such as featured agriculture insurance and income insurance, obtaining recognition from local governments and farmers and effectively reinforcing its dominant position in the agriculture insurance market. **Secondly**, the Company innovated the poverty alleviation insurance, and formulated the "Pilot Program for Industrial Poverty Alleviation Insurance in Deep Poverty Areas" jointly with the State Council Leading Group Office of Poverty Alleviation and Development, achieved full coverage in deep poverty areas and became a major force in poverty alleviation. **Thirdly**, the Company strengthened and expanded the coverage of critical illness insurance and vigorously expanded the coverage of non-critical illness insurance. The Company's overall premium of social medical insurance ranked No. 1 in the insurance industry. **Fourthly**, the Company served "the Belt and Road Initiatives", actively pushed forward the internationalisation strategy, accelerated the layout in overseas market, vigorously developed export credit insurance and customs bond insurance, resulting in a rapid growth in contribution ratio of overseas business. **Fifthly**, the Company relied on the network and industrial advantages, accelerated the business expansion of insurance for the first set of major technical equipment and new materials, vigorously developed the comprehensive security insurance, safety production liability insurance, catastrophe insurance and elevator insurance, followed and promoted the "insurance + service" model, and achieved major breakthroughs in new areas such as legal insurance and deposit insurance. **Sixthly**, the Company focused on personal consumption upgrades, innovated product supply, accelerated the construction of self-operated platforms, enhanced the capabilities to align with the platforms of third parties, accelerated the shore up of weak spots in business such as loan guarantee insurance and online non-motor vehicle insurance, and rapidly developed the individual business of commercial non-motor vehicle insurance.

(III) Deepening the technology reform and achieving new results from technological empowerment

In 2018, the Company thoroughly implemented the digitalisation strategy and deepened the integration of technology reform and business model reform by applying science and technology and technology innovation throughout the processes of underwriting, claim settlement and services to effectively enhance the value creation capability. **Firstly**, the Company promoted the digitalisation of the process of issuance of policies and the use of mobile integrated terminals in the underwriting business, fully promoted online services, upgraded mobile marketing system and launched innovative products such as insurance products about robotics. **Secondly**, the Company developed the industry-leading risk-based pricing model to achieve accurate pricing and risk identification. The Company developed actuarial pricing platform to improve the efficiency of data processing, modelling and application, expanded the width and depth of pricing factors and introduced dynamic IOV factor, with the risk factors of motor vehicle insurance covering both drivers and vehicles; developed a stratified pricing model at national + regional + branch level, systematically improved risk identification ability and achieved an accurate pricing. **Thirdly**, the Company expanded the online claim settlement service and fully implemented paperless claim settlement. It created "strategy pyramid of serving customers with heart", developed online claim assistance mechanism and launched "determining losses with technology" to optimise claim settlement model. **Fourthly**, the Company took the lead in the formulation of the first big data standard for the industry and deepened the application of Artificial Intelligence, big data and Internet of Things technology. It launched the customer profile-based insurance recommendation platform, upgraded the customer club and improved the informatisation and intellectualisation of risk identification, accurate marketing and customer service. **Fifthly**, the Company upgraded the PICC app, promoted the system transformation of core businesses, clearly defined the logic in the business structure transformation and formulated the overall plan on new generation of IT structure. **Sixthly**, the Company completed the design of the customer service platform and built an intelligent customer service platform to provide technical support to the building of an integrated customer service management platform.

(IV) Improving service quality and continuously enhancing customer experience

In 2018, the Company continued to adhere to "customer-centric" principle, continuously improved service quality and enhanced customer experience, increased customer loyalty and enhanced the brand effect. **Firstly**, the Company fully implemented the "traffic police and insurer joint action", claim settlement night market and main road inspection, being the first to create "vehicle + driver management" service, forming a new model of "prompt processing, prompt compensation" which was widely praised by the Ministry of Public Security, the CBIRC and the society. **Secondly**, the Company expanded the scope of air rescue service, covering most of the provinces across China, and the air rescue service was included in the government emergency system in some provinces. Such service was highly rated by the authorities. **Thirdly**, the Company was the first to create the "Yuhang Model" which allowed for integrated handling of traffic accident information online and enhanced the claim handling efficiency of personal injury. Such model was fully affirmed by the Supreme People's Court, the Ministry of Public Security, the Ministry of Justice and the CBRIC, and was promoted nationwide. **Fourthly**, the Company continued to build up the "serving customers with heart" brand and deepened the excellent claim settlement service. It fully implemented new measures of motor vehicle insurance claim settlement service for the convenience of customers, conducted feedback interviews on the satisfaction of underwriting and claim settlement as well as special actions tailored for complaints, promoted customer service dashboard and implemented supervision of claim settlement service throughout the process. The customer experience was enhanced and the customer satisfaction continued to increase. In 2018, the Company maintained the highest rating for service evaluation of insurance companies.

(V) Strengthening the risk management and control and effectively enhancing the risk prevention capabilities

In 2018, while fully carrying out principles and policies of the Communist Party of China and the state as well as the regulatory requirements of the CBIRC, the Company focused on the overall development strategy and upheld the bottom line of no systemic risks to fully review the internal control framework, improve the risk prevention and control system and effectively enhance the risk prevention capabilities. **Firstly**, the Company improved the Articles of Association and the respective procedural rules for the shareholders' general meetings, the Board and the Supervisory Committee to optimise the legal person governance structure. **Secondly**, the Company perfected the risk preference and tolerance and amount limit system to improve the comprehensive risk management system. **Thirdly**, the Company developed a strategic risk management system to improve the strategic risk management mechanism and guard against and defuse the strategic risk. **Fourthly**, the Company deepened the construction of internal control system at the basic level, strengthened the management of the personnel in key risk positions, established a uniform risk compliance control system at different levels and developed a contract-related legal risk control system to prevent operational risk.

UNDERWRITING RESULTS

The following table sets forth the selected financial indicators of the insurance business of the Company and its subsidiaries and their percentages to net earned premiums for the relevant periods:

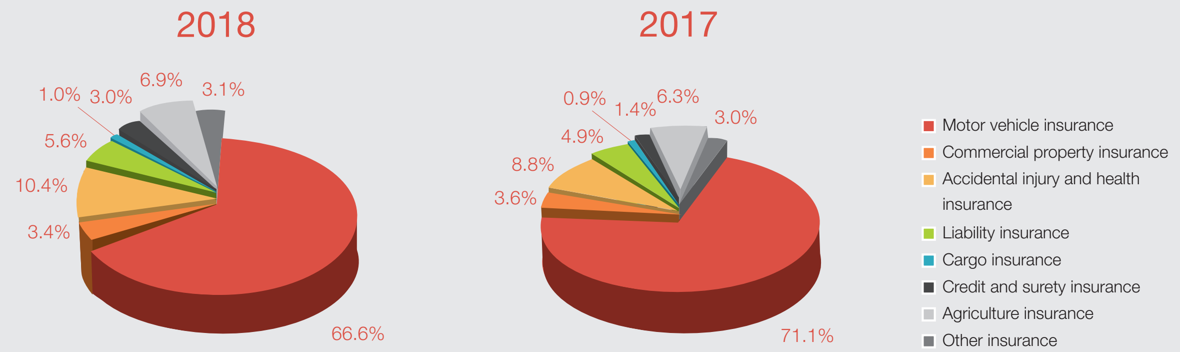
	Year ended 31 December			
	2018		2017(Restated)	
	RMB million	%	*RMB million*	%
Net earned premiums	344,124	100.0	309,076	100.0
Net claims incurred	(213,303)	(62.0)	(192,520)	(62.3)
Total expenses	(125,517)	(36.5)	(107,851)	(34.9)
Underwriting profit	5,304	1.5	8,705	2.8

GROSS WRITTEN PREMIUMS

The following table sets forth the gross written premiums of the Company and its subsidiaries by insurance segments for the relevant periods:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Motor vehicle insurance	258,904	249,232
Commercial property insurance	13,413	12,623
Accidental injury and health insurance	40,444	30,646
Liability insurance	21,706	16,975
Cargo insurance	3,864	3,232
Credit and surety insurance	11,575	4,942
Agriculture insurance	26,718	22,090
Other insurance	12,145	10,574
Total	388,769	350,314

Composition of gross written premiums



The following table sets forth the direct written premiums of the Company and its subsidiaries by distribution channels for the relevant periods:

	Year ended 31 December			
	2018		2017	
	Amount	**Percentage**	Amount	Percentage
	RMB million	**%**	*RMB million*	*%*
Insurance agents	**277,240**	**71.5**	246,610	70.6
Among which:				
Individual insurance agents	**130,214**	**33.6**	124,548	35.7
Ancillary insurance agents	**53,958**	**13.9**	57,705	16.5
Professional insurance agents	**93,068**	**24.0**	64,357	18.4
Direct sales	**80,080**	**20.6**	82,859	23.7
Insurance brokers	**30,700**	**7.9**	19,821	5.7
Total	**388,020**	**100.0**	349,290	100.0

The following table sets forth the direct written premiums of the Company and its subsidiaries by top ten regions for the relevant periods:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Guangdong Province	**37,993**	32,353
Jiangsu Province	**36,859**	34,535
Zhejiang Province	**30,300**	26,779
Shandong Province	**22,351**	21,719
Hebei Province	**21,762**	19,495
Sichuan Province	**17,678**	18,702
Hubei Province	**16,024**	13,499
Beijing City	**15,608**	14,805
Anhui Province	**15,179**	12,698
Fujian Province	**14,655**	13,630
Other regions	**159,611**	141,075
Total	**388,020**	349,290

Gross written premiums of the Company and its subsidiaries were RMB388,769 million in 2018, representing an increase of RMB38,455 million (or 11.0%) from RMB350,314 million in 2017. The business growth was mainly driven by the development of the motor vehicle insurance, accidental injury and health insurance, credit and surety insurance, liability insurance and agriculture insurance business.

Gross written premiums of the motor vehicle insurance segment were RMB258,904 million, representing an increase of RMB9,672 million (or 3.9%) from RMB249,232 million in 2017. In 2018, the Company and its subsidiaries proactively responded to the challenges brought by the slowdown in the sales of new automobiles as well as the decline of the premium rate of motor vehicle insurance resulting from the impacts of the continuous deregulation of premium rate of commercial motor vehicle insurance, further strengthened its market-oriented approach, and optimised the layout of distribution channels for the purpose of securing new insurance business, reinforcing renewal business and optimising transferred-in business. On one hand, the Company and its subsidiaries continued to reinforce resources control and channel collaboration, explored business potentials and improved the ability to acquire new automobile business; and on the other hand, the Company and its subsidiaries focused on the renewal and transferred-in business, enhanced process tracking and key point monitoring, developed and promoted renewal models, continued to strengthen team building, continuously improved service quality and strived to increase the renewal rate and transferred-in rate of quality business, thereby achieving a steady growth in the gross written premiums of the motor vehicle insurance business.

The gross written premiums of the commercial property insurance segment were RMB13,413 million, representing an increase of RMB790 million (or 6.3%) from RMB12,623 million in 2017. In 2018, the Company and its subsidiaries overcame the adverse effect of intensified market competition, fully stimulated the vitality of employees at the basic level, continued to strengthen the ability to secure renewal business, newly-acquired business and regained business, thereby ensuring the stable development of the commercial property insurance business.

Gross written premiums of the accidental injury and health insurance segment were RMB40,444 million, representing an increase of RMB9,798 million (or 32.0%) from RMB30,646 million in 2017. In 2018, the Company and its subsidiaries implemented the strategy of "Healthy China" and served the social governance, made great efforts in exploring new business areas such as insurance for poverty alleviation, medical aid, nursing and supplementary work-related injury in addition to continuously reinforcing the development of the critical illness insurance business, actively promoted commercial health insurance which mainly include individual and family health insurance, and continuously developed its traditional core businesses such as insurance for school students and young children, people's livelihood insurance, group insurance and accidental injury and health insurance for construction workers, which, combined with the development of the accidental injury insurance for drivers and passengers of motor vehicles and agricultural networks, promoted the fast development of the accidental injury and health insurance business as a whole.

Gross written premiums of the liability insurance segment were RMB21,706 million, representing an increase of RMB4,731 million (or 27.9%) from RMB16,975 million in 2017. In 2018, the Company and its subsidiaries precisely identified the trend of the economic and social development, actively served the development of the real economy and the national strategies of modernisation of national governance and targeted poverty alleviation, enhanced product development, improved service quality and professional level and fully drew on its network advantages, thereby achieving a fast growth in its traditional core business such as employer liability insurance and public liability insurance, while securing a relatively fast growth in new policy-oriented business such as insurance for the first set of major technical equipment and new materials, government (poverty alleviation) aid insurance, safe production liability insurance and construction quality insurance.

Gross written premiums of the cargo insurance segment were RMB3,864 million, representing an increase of RMB632 million (or 19.6%) from RMB3,232 million in 2017. In 2018, the Company and its subsidiaries seized the opportunities presented by the stabilised domestic economy and the rebound in global economy, optimised business development models and channels building, and vigorously promoted the individual disperse business and the internet business in addition to continuously developing the traditional insurance businesses relating to imports and exports, highway transport, railway transport and land and water transport and so on, which facilitated the fast growth of the cargo insurance business as a whole.

Gross written premiums of the credit and surety insurance segment were RMB11,575 million, representing an increase of RMB6,633 million (or 134.2%) from RMB4,942 million in 2017. In 2018, the Company and its subsidiaries firmly seized the opportunities presented by the increase in import and export trades and the development of online consumption finance, further reinforced its competitive edges in export credit insurance, performance surety insurance for construction projects and customs surety insurance, etc., and enhanced infrastructure building and business practices in online consumption finance business, which proved to be effective and drove the rapid development of the credit and surety insurance business as a whole.

Gross written premiums of the agriculture insurance segment were RMB26,718 million, representing an increase of RMB4,628 million (or 21.0%) from RMB22,090 million in 2017. In 2018, the Company and its subsidiaries responded to the national strategies of vitalisation of the rural areas and targeted poverty alleviation, strengthened the building of agriculture network platform, made great efforts to further explore the agriculture insurance market; in addition to reinforcing its advantages in the traditional agriculture insurance businesses by expanding the business scope, raising the protection standards and increasing product types, the Company and its subsidiaries developed a greater and stronger featured agriculture insurance business, speeded up their exploration of innovative agriculture insurance business such as income insurance and output/production value insurance, and actively developed agriculture insurance products featured by poverty alleviation, all of which effectively contributed to the fast development of the agriculture insurance business.

Gross written premiums of the other insurance segment were RMB12,145 million, representing an increase of RMB1,571 million (or 14.9%) from RMB10,574 million in 2017. In 2018, the Company and its subsidiaries proactively responded to the market conditions and sought to upgrade its business structure through resource allocation and internal assessment and review, achieving a balanced development of businesses including homeowners insurance, construction insurance, special risks insurance and marine hull insurance.

NET EARNED PREMIUMS

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

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Motor vehicle insurance	**249,111**	236,877
Commercial property insurance	**7,957**	7,148
Accidental injury and health insurance	**34,038**	25,622
Liability insurance	**15,086**	11,795
Cargo insurance	**2,801**	2,427
Credit and surety insurance	**5,969**	2,947
Agriculture insurance	**22,655**	16,489
Other insurance	**6,507**	5,771
Total	**344,124**	309,076

Net earned premiums of the Company and its subsidiaries were RMB344,124 million in 2018, representing an increase of RMB35,048 million (or 11.3%) from RMB309,076 million in 2017.

NET CLAIMS INCURRED

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

	Year ended 31 December			
	2018		2017	
	Net claims incurred	**Loss ratio**	Net claims incurred	Loss ratio
	RMB million	**%**	*RMB million*	*%*
Motor vehicle insurance	**(142,476)**	**(57.2)**	(139,407)	(58.9)
Commercial property insurance	**(5,475)**	**(68.8)**	(4,076)	(57.0)
Accidental injury and health insurance	**(30,348)**	**(89.2)**	(24,004)	(93.7)
Liability insurance	**(8,829)**	**(58.5)**	(6,929)	(58.7)
Cargo insurance	**(1,503)**	**(53.7)**	(1,227)	(50.6)
Credit and surety insurance	**(3,591)**	**(60.2)**	(1,987)	(67.4)
Agriculture insurance	**(16,534)**	**(73.0)**	(11,033)	(66.9)
Other insurance	**(4,547)**	**(69.9)**	(3,857)	(66.8)
Total	**(213,303)**	**(62.0)**	(192,520)	(62.3)

Net claims incurred of the Company and its subsidiaries in 2018 were RMB213,303 million, representing an increase of RMB20,783 million (or 10.8%) from RMB192,520 million in 2017. The loss ratio decreased by 0.3 percentage points from 62.3% in 2017 to 62.0% in 2018.

Net claims incurred of the motor vehicle insurance segment were RMB142,476 million, representing an increase of RMB3,069 million (or 2.2%) from RMB139,407 million in 2017. The loss ratio decreased by 1.7 percentage points from 58.9% in 2017 to 57.2% in 2018. In 2018, the Company and its subsidiaries proactively adjusted the business structure and continuously improved the underwriting quality through accurate risk identification and differentiated expense allocation. By steadily advancing the construction of public platforms for spare parts price, compensation, anti-fraud, services and resources of cooperative manufacturers, the Company and its subsidiaries improved the data standardisation of claim settlement in respect of spare parts, working hours and personal injury, strengthened the claim recovery and continuously deepened the lean management of claim settlement in terms of property damage, personal injury cost, audit and recovery, etc. By way of measures such as expanding the online claim settlement function and developing online claim settlement assistance system, the claim settlement efficiency continued to increase and the loss ratio of motor vehicle insurance segment decreased continuously.

Net claims incurred of the commercial property insurance segment were RMB5,475 million, representing an increase of RMB1,399 million (or 34.3%) from RMB4,076 million in 2017. The loss ratio increased by 11.8 percentage points from 57.0% in 2017 to 68.8% in 2018. In 2018, both of the number of large claims and the loss ratio of the commercial property insurance segment of the Company and its subsidiaries increased due to the impact by catastrophes such as typhoons Mangkhut and Rumbia.

Net claims incurred of the accidental injury and health insurance segment were RMB30,348 million, representing an increase of RMB6,344 million (or 26.4%) from RMB24,004 million in 2017. The loss ratio decreased by 4.5 percentage points from 93.7% in 2017 to 89.2% in 2018. In 2018, the Company and its subsidiaries further improved the conditions for underwriting of the accidental injury and health insurance, strengthened the underwriting management of high risk projects to improve the business quality, and strengthened the medical inspection by focusing on monitoring special high loss ratio cases to control claim risk, resulting in a decrease in loss ratio of accidental injury and health insurance on a year-on-year basis.

Net claims incurred of the liability insurance segment were RMB8,829 million, representing an increase of RMB1,900 million (or 27.4%) from RMB6,929 million in 2017. The loss ratio decreased by 0.2 percentage points from 58.7% in 2017 to 58.5% in 2018. In 2018, the Company and its subsidiaries continued to optimise the business structure from the source of underwriting, resulting in a faster growth of the emerging business which has a relatively low loss ratio, reinforced the management and control over the claim settlement process of business with high loss ratio such as employer liability insurance and medical liability insurance, resulting in a decrease in loss ratio of liability insurance on a year-on-year basis.

Net claims incurred of the cargo insurance segment were RMB1,503 million, representing an increase of RMB276 million (or 22.5%) from RMB1,227 million in 2017. The loss ratio increased by 3.1 percentage points from 50.6% in 2017 to 53.7% in 2018. In 2018, the cargo insurance market was highly competitive and the premium rate continued to decrease. Meanwhile, logistics cargo insurance business which has a high loss ratio achieved a faster growth, resulting in a slight increase in the loss ratio of cargo insurance.

Net claims incurred of the credit and surety insurance segment were RMB3,591 million, representing an increase of RMB1,604 million (or 80.7%) from RMB1,987 million in 2017. The loss ratio decreased by 7.2 percentage points from 67.4% in 2017 to 60.2% in 2018. In 2018, while expanding the scale of the business, the Company and its subsidiaries strictly controlled the business quality and deepened the precise management of claim settlement, resulting in an increase in claim cost which fell behind the business growth, and a decrease in loss ratio of credit and surety insurance on a year-on-year basis.

Net claims incurred of the agriculture insurance segment were RMB16,534 million, representing an increase of RMB5,501 million (or 49.9%) from RMB11,033 million in 2017. The loss ratio increased by 6.1 percentage points from 66.9% in 2017 to 73.0% in 2018. In 2018, due to the frequent occurrences of natural catastrophes such as snowstorm, heavy rain and flooding, typhoon and hailstorm across the nation, the impact on the agricultural production became more serious. There was a year-on-year increase in loss caused by catastrophes, leading to an increase in the loss ratio of agriculture insurance.

Net claims incurred of the other insurance segment were RMB4,547 million, representing an increase of RMB690 million (or 17.9%) from RMB3,857 million in 2017. The loss ratio increased by 3.1 percentage points from 66.8% in 2017 to 69.9% in 2018. In 2018, due to the impact of major catastrophes and accidents, the net claims incurred of the homeowners insurance, construction insurance and marine hull insurance by the Companies and its subsidiaries all increased on a year-on-year basis, resulting in an increase in the loss ratio of other insurance.

TOTAL EXPENSES

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

	Year ended 31 December			
	2018		2017(Restated)	
	Total expenses	**Expense ratio**	Total expenses	Expense ratio
	RMB million	**%**	*RMB million*	*%*
Motor vehicle insurance	**(102,741)**	**(41.2)**	(89,142)	(37.6)
Commercial property insurance	**(3,246)**	**(40.8)**	(3,297)	(46.1)
Accidental injury and health insurance	**(3,506)**	**(10.3)**	(2,936)	(11.5)
Liability insurance	**(5,345)**	**(35.4)**	(4,309)	(36.5)
Cargo insurance	**(1,036)**	**(37.0)**	(910)	(37.5)
Credit and surety insurance	**(2,193)**	**(36.7)**	(999)	(33.9)
Agriculture insurance	**(5,167)**	**(22.8)**	(4,240)	(25.7)
Other insurance	**(2,283)**	**(35.1)**	(2,018)	(35.0)
Total	**(125,517)**	**(36.5)**	(107,851)	(34.9)

Total expenses of the Company and its subsidiaries were RMB125,517 million in 2018, increased by RMB17,666 million (or 16.4%) from RMB107,851 million in 2017, with the expense ratio increasing by 1.6 percentage points from 34.9% in 2017 to 36.5% in 2018. In 2018, the Company and its subsidiaries implemented the comprehensive budget management, improved their lean management capabilities, strengthened cost-saving in headquarters and branches, further reduced cost and increased profit, and took scale advantage to reduce administrative expenses. Administrative expenses were RMB8,189 million, representing a year-on-year decrease of RMB375 million (or -4.4%). The administrative expense ratio was reduced by 0.4 percentage points on a year-on-year basis to 2.4%. At the same time, the Company strengthened market benchmarking and implemented a proactive marketing strategy, strengthened the building of its sales team, optimised the differentiated resource allocation, increased the strategic investments in high quality business, product R&D, customer service and technology application, resulting in an underwriting expense ratio of 34.1%, representing a year-on-year increase of 2.0 percentage points.

UNDERWRITING PROFIT/(LOSS)

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

	Year ended 31 December			
	2018		2017(Restated)	
	Underwriting profit/(loss) *RMB million*	Underwriting profit/(loss) ratio %	Underwriting profit/(loss) *RMB million*	Underwriting profit/(loss) ratio %
Motor vehicle insurance	3,894	1.6	8,328	3.5
Commercial property insurance	(764)	(9.6)	(225)	(3.1)
Accidental injury and health insurance	184	0.5	(1,318)	(5.2)
Liability insurance	912	6.1	557	4.8
Cargo insurance	262	9.3	290	11.9
Credit and surety insurance	185	3.1	(39)	(1.3)
Agriculture insurance	954	4.2	1,216	7.4
Other insurance	(323)	(5.0)	(104)	(1.8)
Total	5,304	1.5	8,705	2.8

The Company and its subsidiaries recorded an underwriting profit of RMB5,304 million in 2018, representing a decrease of RMB3,401 million (or -39.1%) from RMB8,705 million in 2017; the underwriting profit ratio was 1.5%, representing a decrease of 1.3 percentage points as compared with 2017.

INVESTMENT RESULTS

Composition of Investment Assets

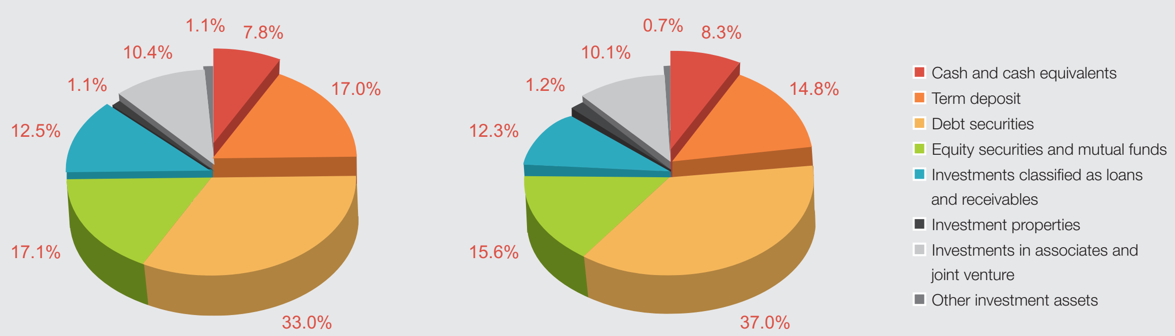
	31 December 2018		31 December 2017	
	Balance	Percentage	Balance	Percentage
	RMB million	*%*	*RMB million*	*%*
By category:				
Cash and cash equivalents	33,797	7.8	34,688	8.3
Term deposits	73,963	17.0	61,300	14.8
Debt securities	143,499	33.0	153,728	37.0
Equity securities and mutual funds	74,102	17.1	64,701	15.6
Investments classified as loans and receivables	54,097	12.5	51,180	12.3
Investment properties	4,881	1.1	4,976	1.2
Investments in associates and joint venture	45,301	10.4	41,832	10.1
Other investment assets *(Note)*	4,582	1.1	3,103	0.7
Total investment assets	434,222	100.0	415,508	100.0

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

Composition of investment assets

31 December 2018

31 December 2017



As at the end of 2018, the investment assets of the Company and its subsidiaries was RMB434,222 million, representing a year-on-year increase of RMB18,714 million (or 4.5%). While maintaining stable investment assets, the Company adhered to a long-term prudent investment philosophy at all time, took the initiative to carry out risk size management and control, timely adjusted its investment assets mix, improved the quality of its investment portfolio and achieved a balance between investment yield and risk based on the conditions of the money market and capital market.

Investment Income

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Operating lease income from investment properties	**247**	273
Interest income	**14,028**	13,278
Dividend income	**2,360**	1,831
Total of investment income	**16,635**	15,382

Investment income of the Company and its subsidiaries was RMB16,635 million in 2018, representing an increase of RMB1,253 million (or 8.1%) from RMB15,382 million in 2017. In 2018, the Company timely increased the investment in equity assets with dividend payout and fixed income assets, the dividend income increased by RMB529 million (or 28.9%) and the interest income increased by RMB750 million (or 5.6%) on a year-on-year basis.

Net Realised and Unrealised (Losses)/Gains on Investments

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Realised (losses)/gains on investments	**(760)**	1,532
Unrealised gains/(losses) on investments	**65**	(158)
Impairment losses	**(636)**	(297)
Fair value gains on investment properties	**105**	59
Total of net realised and unrealised (losses)/gains on investments	**(1,226)**	1,136

In 2018, as a result of the capital market fluctuations, the net realised and unrealised losses on investments of the Company and its subsidiaries amounted to RMB1,226 million, compared to the net realised and unrealised gains on investments of RMB1,136 million in 2017, for which the realised losses on investments amounted to RMB760 million, compared to the realised gains on investments of RMB1,532 million in 2017.

Share of profits of associates and joint venture and loss on deemed disposal of an associate

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Share of profits of associates and joint venture	**4,482**	4,575
Loss on deemed disposal of an associate	**(737)**	–

On 28 December 2018, Hua Xia Bank, an associate of the Company and its subsidiaries, completed its private offering. The Company did not subscribe for the shares proportionately, and therefore its total equity interest in Hua Xia Bank was diluted from 19.99% to 16.66%. The Company is of the view that it still has significant influence over Hua Xia Bank, as it has appointed two directors to the Board of Directors of Hua Xia Bank and the Company is the third largest shareholder of Hua Xia Bank. Therefore, the Company 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 for the year ended 31 December 2018.

Asset mortgage

The Company conducted repurchase transactions in the market due to the liquidity management requirements. The securities held by the Company were pledged as collateral during the period of repurchase transactions, details of which are set out in note 34 to the consolidated financial statements.

OVERALL RESULTS

The following table sets forth the overall results of the Company and its subsidiaries for the relevant periods or as at the relevant dates:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Profit before tax	**23,428**	27,161
Income tax expense	**(7,942)**	(7,353)
Profit for the year	**15,486**	19,808
Total assets *(Note)*	**550,619**	524,566

Note: Based on the data as at 31 December 2018 and 31 December 2017.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB23,428 million in 2018, representing a decrease of RMB3,733 million (or -13.7%) from RMB27,161 million in 2017.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB7,942 million in 2018, representing an increase of RMB589 million from RMB7,353 million in 2017. The increase in income tax expense was mainly attributable to the fact that the percentage of commission expenses in the direct written premiums of the Company and its subsidiaries has exceeded the deductible tax limit.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year was RMB15,486 million in 2018, representing a decrease of RMB4,322 million (or -21.8%) from RMB19,808 million in 2017. Basic earnings per share attributable to owners of the Company in 2018 was RMB0.696. In 2018, the percentage of commission expenses in the direct written premiums of the Company and its subsidiaries exceeded the deductible tax limit, leading to an increase in income tax expense and a decrease in net profit by RMB4,230 million accordingly.

CASH FLOW

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

	Year ended 31 December	
	2018	2017 (Restated)
	RMB million	*RMB million*
Net cash flows from operating activities	**9,879**	21,407
Net cash flows used in investing activities	**(8,732)**	(7,523)
Net cash flows used in financing activities	**(2,038)**	(4,340)
Net (decrease)/increase in cash and cash equivalents	**(891)**	9,544

In 2018, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB9,879 million, representing a decrease of RMB11,528 million from RMB21,407 million in 2017. In 2018, the Company and its subsidiaries speeded up the adjustments to the business structure, the growth in the business with high cash flow contribution slowed down and the settlement period for policy-oriented business was prolonged, resulting in a decrease in the contribution of premiums in cash to cash flows from operating activities; meanwhile, due to the rise in the quantity of claim cases for catastrophes, continuous improvement in the claim settlement efficiency and increasing marketing expenses under the fierce market competition, there was an increase in cash flows used in claim payments and expenses in cash, resulting in a decrease in the net cash flows from operating activities on a year-on-year basis.

In 2018, the net cash flows used in investing activities of the Company and its subsidiaries amounted to RMB8,732 million, representing an increase of RMB1,209 million from RMB7,523 million in 2017, due to an increase in the cash flows used in the term deposits.

In 2018, the net cash flows used in financing activities of the Company and its subsidiaries were RMB2,038 million, representing a decrease of RMB2,302 million from RMB4,340 million in 2017. This was mainly attributable to the fact that in 2018 the net cash flows from the transactions of securities sold under agreements to repurchase increased by RMB2,787 million on a year-on-year basis.

As at 31 December 2018, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB33,797 million.

LIQUIDITY

The cash flows of the Company and its subsidiaries are primarily derived from cash generated from operating activities, which are principally insurance premiums received. Additional liquidity sources include interest and dividend incomes, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and performance of other obligations under outstanding insurance policies, capital expenditure, operating expenses, tax payments, dividend payments and investment needs.

In November 2016, the Company issued fixed-rate capital supplementary bonds of RMB15 billion and in October 2014, the Company issued fixed-rate subordinated term debts of RMB8 billion, each with a term of 10 years, to institutional investors in the PRC for the primary purposes of increasing the solvency margin of the Company.

Save for the capital supplementary bonds and subordinated term debts mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can meet their working capital needs in the future with cash generated from operating activities. The Company and its subsidiaries have sufficient working capital.

CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries primarily includes expenditure for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditure of the Company and its subsidiaries was RMB4,177 million in 2018.

SOLVENCY MARGIN REQUIREMENT

As at 31 December 2018, the actual capital of the Company and its subsidiaries was RMB162,860 million, the core capital was RMB135,172 million, the minimum capital was RMB59,136 million, the comprehensive solvency margin ratio was 275%, and the core solvency margin ratio was 229%.

GEARING RATIO

As at 31 December 2018, the gearing ratio *(Note)* of the Company and its subsidiaries was 70.0%, representing a decrease of 0.2 percentage points from 70.2% as at 31 December 2017.

Note: Gearing ratio is represented by total liabilities (excluding bonds payable) divided by total assets under accounting principles generally accepted in Hong Kong.

CONTINGENT EVENT

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration proceedings. Most of such legal proceedings involve claims on the insurance policies of the Company and its subsidiaries, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Company and its subsidiaries believe that any liabilities resulted therefrom will not have a material adverse effect on the financial position or operating results of the Company and its subsidiaries.

As at 31 December 2018, there were certain pending legal proceedings for the Company and its subsidiaries. After taking into account professional opinions, the management of the Company believes that such legal proceedings will not cause significant losses to the Company and its subsidiaries.

EVENTS AFTER THE REPORTING PERIOD

On 22 March 2019, the Board of Directors of the Company proposed a final dividend of RMB0.272 per ordinary share for the year ended 31 December 2018 totaling RMB6,050 million, and an amount of RMB10,000 million to be appropriated to discretionary surplus reserve (including RMB5,902 million appropriated from net profit for the year and RMB4,098 million appropriated from retained profits), and approved an amount of RMB8,000 million 10-year capital supplementary bonds to be issued. The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

CREDIT RISK

Credit risk is the risk of unexpected loss incurred by the Company and its subsidiaries resulting from the inability of counterparties to perform or to perform within the specified time their contractual obligations or adverse changes in the credit status of the counterparties. The credit risks faced by the Company and its subsidiaries are primarily associated with the premiums receivable and prepaid claims of the insurance business, the receivables from reinsurers and the provisions for receivables from reinsurers of the reinsurance business, and debt securities and deposit investment products of the investment business.

The Company has established a mechanism for routine management and control of the premiums receivable and taken comprehensive measures such as credit management, credit rating of premiums receivable, control of aged accounts, assessment adjustment, performance appraisal, accountability and punishment system to strengthen the full process management of the premiums receivable. By strictly complying with the standards of the reinsurance business registration and management system, the Company strengthened the management of the reinsurance service recipients and the reinsurance brokers, continuously optimised the settlement process of reinsurance, proactively cleared up unsettled business, thereby achieving a strict management and control of the reinsurance credit risk. By comprehensive use of the internal and external credit rating results, the Company has established a databank of counterparties and formulated detailed credit risk exposure limits and a credit limit management system in order to identify and prevent the credit risk in the investment business in a timely manner. The Company regularly analysed the change in the credit risk of its investment positions, carried out the measuring, monitoring and control of the minimum capital for credit risk and carried out special inspection for credit risk occasionally.

The Company and its subsidiaries are only committed to credit sales to corporate customers, individual customers who purchase certain insurance policies through insurance intermediaries, etc. The ability to collect premiums in a timely manner remains one of the key performance indicators of the Company. As the Company's premiums receivable involves a large number of diversified customers, there are no major credit concentration risks in insurance receivables.

Other than from state-owned reinsurance companies, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A- rating by Standard & Poor's (or equivalent ratings given by other international rating agencies such as A.M. Best, Fitch and Moody's) or above. The management of the Company and its subsidiaries regularly review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies of, and determine reasonable impairment provision on reinsurance assets of, the Company and its subsidiaries.

The Company and its subsidiaries strenuously control the credit risk of debt securities investment mainly by analysing the creditworthiness of investee companies prior to making investments and by strictly conforming to the relevant regulations issued by the CBIRC on the investment ratings of corporate bonds. The majority of corporate bonds held by the Company and its subsidiaries have credit ratings of AA or above.

The Company and its subsidiaries manage and lower the credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned banks or state-controlled commercial banks.

EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in RMB, which is also their functional and financial reporting currency. Parts of the business of the Company and its subsidiaries (including parts of commercial property insurance, international cargo insurance and aviation insurance business) are conducted in foreign currencies, primarily in US dollars. The Company and its subsidiaries are also exposed to exchange rate risks for assets which are valued based on foreign currencies such as parts of their bank deposits and debt securities and certain insurance business liabilities which are denominated in foreign currencies, primarily in US dollars.

Foreign exchange transactions under the capital accounts of the Company and its subsidiaries are subject to foreign exchange control and the approval of the administration authority for foreign exchange. Exchange rate fluctuations may arise as a result of the foreign exchange policies of the PRC government.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Company and its subsidiaries' interest rate risk policy requires the Company and its subsidiaries to manage interest rate risk by maintaining an appropriate match of fixed and floating interest rate instruments. The policy also requires the Company and its subsidiaries to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage floating interest rate risk through interest rate swap and other instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

INTEREST RATE SWAPS

The Company's financial assets which bear interest at different rates would generate uncertain cash flows. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties.

DEVELOPMENT OF NEW PRODUCTS

In 2018, the Company focused on the hot spots of the market and the needs of customers in the development of insurance products, registered 611 insurance provisions on the registration platform for products requiring filing of the Insurance Association of China and 25 insurance provisions on the platform of Shanghai Institute of Marine Insurance, filed 1,034 agriculture insurance provisions and agriculture-related provisions with the CBIRC's Insurance Provisions Electronic Filing System and submitted 31 provisions to the CBIRC for approval, namely, 1,297 main insurance provisions and 404 rider provisions, or 470 national provisions and 1,231 regional provisions.

EMPLOYEES

As at the end of 2018, the Company had 186,774 employees. In 2018, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB33,309 million, mainly including basic salaries, performance-related bonus, and various insurance and welfare contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening employee training, implementing performance appraisal and other measures. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

LOOKING FORWARD

In 2019, the Company will resolutely implement the requirements of the Central Economic Work Meeting and the Central Rural Work Meeting and fully carry out the "3411" Project of PICC Group. We will stick to the general working principle of pursuing progress while ensuring stability, accelerate the expansion of new sectors, new patterns and new modes while maintaining the stability of growth rate, market share and profitability, improve the quality, enhance efficiency and change driving forces of the Company's development, and promote the Company's transformation towards high quality development. We will strive for a full achievement of the annual operation objectives of the Company. Being oriented to the future and with a view to providing services to meet the public needs for living a better life, we aim to build a technology-based risk management company and construct the Company to be the world-leading one with advanced business model.

1. **To make supply upgrading which is innovation-driven and develop new sectors, new business formats and new models in a strategic manner and push forward the transition of the Company from providing economic compensation to providing risk solution.** The Company will focus on serving the modernisation of national governance, the supply-side structural reform and the public needs for living a better life, reform its business models supported by science and technology, enhance the integration of the policy-oriented business and commercial business, and fully improve its capacity to serve the overall economic and social development, thereby exploring new development space.

2. **To improve the layout of channels, make innovation in sales model, cultivate marketing culture and push forward the transition of the Company from the channel-based relationship marketing to the scenario-based digital marketing.** The Company will keep in pace with the evolution of demand, upgrade the supply model and build an integrated online and offline sales and service network based on scenarios. Efforts will be made to strengthen the construction of direct sales channels and channels controlled by the Company, optimise the channel structure, enhance the channel coordination and build new marketing model by reducing dependency on independent agencies, lowering sales cost, improving customer experience and enhancing customer loyalty.

3. **To enhance technology empowerment, improve professional competence, innovate management model and push forward the transition of the Company's underwriting and claim settlement from offline experience-based model to online digital model.** The Company will deepen the application of big data, Artificial Intelligence and Internet of Things technology, build industry-leading risk assessment model and pricing model for underwriting; develop intelligent claim settlement, establish claim settlement rule engine and digital claim settlement model, improve the efficiency, reduce the leakage of profit, enhance the professional competence in underwriting and claim settlement and build new core competitiveness.

4. **To innovate operating model, conduct internet-oriented organisational renovation, improve operating efficiency and push forward the transition of the Company from level by level hierarchical operation to digitally intelligent operation.** Efforts will be made to take a customer-centric approach, pursue the objective of "improving operating efficiency and customer experience", optimise the operating process, deepen organisational reform, carry out the business restructuring and IT restructuring, advance the transition to digitised operation and take the advantage of digitisation to promote the upgrading of management and foster new development drivers.

5. **To implement the regional strategy to serve both urban and rural markets, and implement the internationalisation strategy to push forward the transition of the Company from a domestic insurer to a global one.** Efforts will be made to deepen the two integrations, foster new competitive edges, resolutely strive for market leading positions in strategically significant cities and defend our positions in the county-level markets; coordinate the domestic and international markets, optimise our global layout and expand the offshore markets to explore new business development space and forge a new pattern for regional development.

6. **To adhere to prudent investment, optimise assets allocation and improve investment return.** Efforts will be made to improve the assets and liabilities management mechanism and enhance the synergy between underwriting and investment to achieve sound interaction between our asset business and liability business as well as between our investment and underwriting; optimise investment portfolio and expand investment channels to improve net investment return.

7. **To adhere to compliance with laws and regulations, enhance comprehensive risk management and uphold the bottom line of no systemic risks.** Efforts will be made to improve strategic risk management and the comprehensive risk prevention and control system to guard against and defuse strategic risks; closely monitor the market risk, credit risk and liquidity risk; strengthen management of critical stages to guard against and defuse operating risks; implement the regulatory requirements and adhere to operation in compliance with laws and regulations to guard against and defuse non-compliance risks.

Biographical Details of Directors, Supervisors and Other Senior Management

DIRECTORS

Miao Jianmin, aged 53, an alternate member of the 19th Central Committee of the Communist Party of China, the Chairman of the Board of Directors and an Executive Director of the Company, a senior economist. Mr Miao is currently the Chairman of the Board of Directors and an Executive Director of The People's Insurance Company (Group) of China Limited*. Mr Miao was appointed as Chairman of PICC Assets Management Company Limited, PICC Health Insurance Company Limited and PICC Life Insurance Company Limited in March 2018. From July 1995 to December 2005, Mr Miao 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, an Executive Director, Assistant to General Manager and Deputy General Manager of China Insurance Co. Ltd. (China Insurance H.K. (Holdings) Company Limited). Mr Miao served as the President of China Insurance International Holdings Company Limited (now known as "China Taiping Insurance Holdings Company Limited"**) from August 2000 to December 2005, and he was concurrently an 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 the President of China Life Insurance (Group) Company from October 2013 to April 2017. During which time, he concurrently served as a Director of China Life Asset Management Company Limited from December 2005 to April 2017, Chairman from December 2005 to December 2013, a Non-executive Director of China Life Insurance Company Limited*** from October 2008 to April 2017, Chairman of China Insurance Plaza Company Limited from March 2013 to April 2015, a Director of China Shimao Investment Company Limited and a 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 the President of The People's Insurance Company (Group) of China Limited* in April 2017, and has served as Chairman (ceased to serve as Vice-chairman and the President) since January 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, Central University of Finance and Economics and other universities. 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 the Honorary Chairman of the council of the Insurance Association of China since May 2018. He was awarded special allowance by the State Council in 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 School of the 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.

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Xie Yiqun, aged 57, a senior economist, the Vice Chairman of the Board of Directors, an Executive Director and the President of the Company. Mr Xie joined The People's Insurance Company of China ("PICC") in April 1980 and was the Deputy General Manager of Wenzhou Branch, the General Manager of the International Business Department of Zhejiang Provincial Branch and the Manager of Insurance Claim Settlement Agency in Marseille, France until January 1995. From January 1995 to December 2001, he was the General Manager of China Insurance Company S.A. Luxembourg, 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 was the Chairman of Taiping Life Insurance Co., Ltd. from December 2001 to November 2004. From August 2004 to May 2009, Mr Xie was the 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 was Deputy General Manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he was the Managing Director from May 2009 to March 2012 and an Executive Director from June 2013 to March 2015. During which time, he was also an Executive Director and Deputy General Manager of China Taiping Insurance Holdings Company Limited*, 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, an Executive Director and the 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 People's Insurance Company (Group) of China Limited** since March 2015, and an Executive Director of The People's Insurance Company (Group) of China Limited** since October 2017. Mr Xie was appointed as the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited** from August 2018 to March 2019. Mr Xie has also been Chairman of The People's Insurance Company of China (Hong Kong), Ltd. since June 2015, Chairman of PICC Financial Services Company Limited since January 2017 and Chairman of PICC Investment Holding Company Limited since March 2018. Mr Xie has been a Vice Chairman of National Internet Finance Association of China since September 2016 and Vice Chairman of the Asian Financial Cooperation Association since July 2017. Mr Xie graduated from Nankai University in July 1988 and graduated from Middlesex University Business School, United Kingdom in June 2001 and obtained a master's degree of Arts.

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Tang Zhigang, aged 54, a senior economist, a Non-executive Director of the Company. Mr Tang is currently an Executive Director, a Vice President and Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited*. From July 1988 to July 1994, Mr Tang worked in the Agricultural Bank of China (now known as "Agricultural Bank of China Limited"*), and served as a Deputy Director Level Cadre of Restructuring Commission of Research Office. From July 1994 to September 2013, he worked in the Agricultural Development Bank of China, and served as a Deputy Director Level Cadre, Deputy Director, Director of Research Division of Administrative Department of the Head Office, Assistant to the General Manager of Jiangsu Branch, Deputy Director of Administrative Department and Manager of the Research Office of the Head Office, General Manager of Jiangsu Branch, head of the Preparation Committee of International Business Department, General Manager of the International Business Department and Director of the Administrative Department of the Head Office, the Assistant to the President of Agricultural Development Bank and Director of Administrative Department from February 2013. He has been appointed as a Vice President of The People's Insurance Company (Group) of China Limited* since September 2013, an Executive Director since November 2017 and Secretary of the Board of Directors since March 2019 and was previously appointed as Responsible Compliance Officer and Chief Risk Officer from December 2017 to August 2018. Mr Tang served as a head of Preparatory Leading Team for the PICC Pension Company Limited since January 2017 and Chairman of PICC Pension Company Limited since October 2017. Mr Tang graduated from Hunan Institute of Finance in July 1985 with a bachelor's degree in economics and obtained a master's degree in economics from the Graduate School of the Financial Research Institute of People's Bank of China in July 1988.

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Li Tao, aged 53, Ph.D, a senior economist, a Non-executive Director of the Company. Mr Li is currently the Deputy Secretary of the Party Committee and the Chairman of the Supervisory Committee of PICC Life Insurance Company Limited. Mr Li began his career in 1985 and previously taught at Beijing University of Aeronautics and Astronautics. He joined PICC in 1998 and was previously the Deputy General Manager of the Research and Development Center and the Planning and Statistics Department of PICC, Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company, and the General Manager of the Development and Reform Department, General Manager of the Policy Research Office, a Senior Specialist of The People's Insurance Company (Group) of China and the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited*. Mr Li graduated from Renmin University of China with a master's degree in philosophy in 1993 and graduated from the Party School of the Central Committee of the Communist Party of China with a doctorate degree in economics in 1998. He has 34 years of substantial experience in research and management.

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Xie Xiaoyu, aged 57, a bachelor of medicine, a postgraduate, a Master, a researcher, an Executive Director and an Executive Vice President of the Company. Ms Xie currently is also a Deputy Director of the Specialised Committee on Health Insurance of the Insurance Association of China, a Deputy Director of the Specialised Committee on Education and Training of the Insurance Association of China, a Deputy Director of the Health Insurance Working Committee of Chinese Health Information and Big Data Association, a Standing Member of the Specialised Committee on Medical Insurance of China Health Economics Association. Ms Xie was previously the Deputy Director of the News and Publication Division and Director of the Legal Affairs and Publicity Division of the Department of Human Resources, Labor, Policies and Regulations under the State Administration of Traditional Chinese Medicine of the PRC, Director of the Division of Essential Medicine System of the Department of Medicine Policy and Essential Medicine System under the Ministry of Health of the PRC, Director of the Secretariat Division of Administrative Department and Deputy Director-General of the Department of Drug Registration under the China Drug Administration, Deputy Director-General of the Department of Drug Registration, Deputy Director-General of the Department of Food Safety Supervision and Deputy Director-General of the Department of Food Licensing under the China Food and Drug Administration, the Chief Operation Officer of Health Management and a Vice President of PICC Health Insurance Company Limited from September 2010 to July 2013, and joined the Company as an Executive Vice President since July 2013. Ms Xie has 35 years of management experience in medical and insurance industry.

Hua Shan, aged 54, a doctoral postgraduate, a doctor of management, a senior economist, an Executive Director and an Executive Vice President of the Company. Mr Hua currently is also Director of the Specialised Committee on Auto Insurance of the Insurance Association of China, Chairman of PICC Motor Insurance Sales Services Company Limited and a Director of UCAR Inc. Mr Hua joined PICC in 1984 and was previously the Deputy General Manager of PICC Wuxi Branch, Assistant General Manager of PICC Jiangsu Provincial Branch, Assistant General Manager of Jiangsu Provincial Branch of the Company, Deputy General Manager of Jiangsu Provincial Branch and concurrently General Manager of Nanjing Branch of the Company, General Manager of Jiangsu Provincial Branch of the Company and an Assistant to the President of the Company. Mr Hua has 35 years of substantial operation and management experience in the PRC insurance industry.

Lin Hanchuan, aged 70, Ph.D, a professor, a doctoral supervisor, enjoying the special government allowance awarded by the State Council, an Independent Non-executive Director of the Company. Mr Lin is a member of the University Council, the Deputy Director of the University Academic Committee and the Deputy Director of the Academic Degree Committee of the University of International Business and Economics, the Chief Expert of Beijing Center for Enterprise Globalization and Management Research, and an Independent Non-executive Director of Shengang Securities Co., Ltd. Mr Lin was formerly the Dean of the School of Economics of Zhongnan University of Economics and Law, and an Independent Director of Hubei Kaile Science and Technology Co., Ltd.*. He has received over 20 awards at or above provincial and ministerial level such as the First Class Award for Outstanding Achievements in Humanities and Social Science Studies by National Institute of Higher Education. Mr Lin graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. Mr Lin has substantial experience in the areas of economic and management research.

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Lo Chung Hing (Silver Bauhinia Star), aged 67, an Independent Non-executive Director of the Company. Mr Lo is currently the Chairman of the Hospital Governing Committee of Hong Kong Kowloon Hospital and Eye Hospital. Mr Lo was a member of the Selection Committee of the 1st and the 2nd Government of Hong Kong, a member of the Election Meeting of the 9th to the 13th National People's Congress of Hong Kong, a member of the 9th National People's Congress of China and a member of the Executive Officer Election Committee of Hong Kong in 2007 and 2012. Mr Lo was previously an Independent Non-executive Director and the Vice Chairman of the Airport Authority of Hong Kong, an Independent Non-executive Director of Mass Transit Railway Corporation Limited (now known as "MTR Corporation Limited"*) and MTR Corporation Limited* (now known as "MTR Corporation Limited"*), a member of the Hospital Authority of Hong Kong, an Independent Non-executive Director of the Urban Renewal Authority of Hong Kong, a member of the Financial Services Advisory Committee of the Trade Development Council of Hong Kong and an Independent Non-executive Director of China Shanshui Cement Group Limited*. Mr Lo was also a Deputy General Manager of the Hong Kong Branch of Bank of China (now known as "Bank of China (Hong Kong) Limited"**) and he worked in Bank of China (Hong Kong) Limited** as the Chief Adviser of the Operation Committee and so on. During his employment in these two banks, he was a Rotating Alternate Chairman of the Hong Kong Association of Banks. Mr Lo graduated from The University of Hong Kong with an MBA degree and has substantial experience in public management and financial industry.

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** This company is the major operating subsidiary of and wholly owned by BOC Hong Kong (Holdings) Limited***.

*** This company is listed on the Hong Kong Stock Exchange and traded in the form of American depositary receipts in U.S.A.

Na Guoyi, aged 62, Ph.D, a professor, an Independent Non-executive Director of the Company. Mr Na is an independent scholar and concurrently International Adviser of Geju Business School Co., Ltd., Head of the Practice of Management Team of Peking University, a contracted professor of Tsinghua University and a tutor for the 12th session of the Cradle Program of Asia America Multi-technology Association (AAMA). Mr Na graduated from the Department of Foreign Languages of Hebei Normal University with a Bachelor of Arts degree in English Language and afterwards graduated from the Department of English of Northern Arizona University, U.S.A. with a Master of Arts degree and Southern California University for Professional Studies (now known as "California Southern University"), U.S.A. with a degree of Doctor of Business Administration. Mr Na has substantial experience in the area of management research.

Ma Yusheng, aged 58, an Independent Non-executive Director of the Company. Mr Ma is currently the Assistant President and the Chief Representative in Beijing of China Europe International Business School. Mr Ma previously worked in the National Organization Cadre Training Center of the Organization Department of the Central Committee of the Communist Party of China, and in the Secretariat of the Library and Information Committee of the National Colleges and Universities under the National Education Committee. Mr Ma was the Director of Human Resources of Philips (China) Investment Services Company Limited. Mr Ma graduated from the Department of Psychology of Peking University with a bachelor's degree in science and afterwards graduated from China Europe International Business School with an MBA degree. Mr Ma has substantial experience in public and business management.

Chu Bende, aged 65, a postgraduate of the Party School of the Central Committee of Communist Party of China, a senior economist, and an Independent Non-executive Director of the Company. Mr Chu is currently the Director of the Disciplinary Committee of the National Internet Finance Association of China, an Adjunct Professor of University of International Business and Economics and an external adjunct tutor of postgraduate students majored in finance of Zhejiang University, and was previously the Deputy Director of the Office of the State Administration of Foreign Exchange ("SAFE"), Director-General of the General Affairs Department and Director-General of the Supervision and Inspection Department of SAFE, Deputy Secretary of the Party Committee and Vice President of Shenyang Branch of the People's Bank of China and concurrently Deputy President of Liaoning Branch of SAFE, and Executive Deputy Director (department or bureau level) of Staff Union Work Committee of the People's Bank of China, the Chairman and the Secretary-General of the China Foundation for Development of Financial Education, and he has published, edited and compiled 8 books, and published dozens of byline articles on newspapers and periodicals such as *People's Daily*, *Financial News* and *China Finance Journal*. Mr Chu graduated from Chinese Academy of Social Sciences and afterwards graduated from the Party School of the Central Committee of Communist Party of China, respectively majoring in currency banking and history of the Communist Party of China. Mr Chu has substantial experience in public management and financial industry.

Qu Xiaohui, aged 64, Ph.D, an Independent Non-executive Director of the Company. Ms Qu is a member of the Department of Social Sciences, a retired professor and Doctoral Supervisor of Xiamen University, and is currently a professor, a Doctoral Supervisor and the leader of the Accounting Discipline of Harbin Institute of Technology, Shenzhen, enjoying the special government allowance awarded by the State Council. Ms Qu is the first female Ph.D of accounting and the first female doctoral supervisor in accounting in China, the promoter of demonstration of the set-up of national professional master's degree in accounting (MPAcc). Ms Qu was a Deputy Dean of the Graduate School of Xiamen University, Director of the Center for Accounting Development Studies of Xiamen University, Director of Financial Management and Accounting Research Institute of Xiamen University, a consultant to the Accounting Standards Committee of the Ministry of Finance of the PRC and an Independent Non-executive Director of ZTE Corporation*, Yunnan Baiyao Group Co., Ltd.** and Guangzhou Baiyun Electric Equipment Co., Ltd.***. Ms Qu is currently a consultant to the China National Steering Committee of Professional Accounting Degree Education, and a member of the Social Sciences Committee of the Ministry of Education, a Vice Chairman of China Cost Research Society, the Chairman of the Accounting Education Committee of the Chinese Accounting Association and an Independent Non-executive Director of SDIC Essence Co., Ltd.***, SKSHU Paint Co., Ltd.*** and Xiamen Meiya Pico Information Co., Ltd.**. Ms Qu graduated from Xiamen University with a doctorate degree in economics and has substantial experience in the areas of accounting research and financial management.

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** These companies are listed on the Shenzhen Stock Exchange.

*** These companies are listed on the Shanghai Stock Exchange.

SUPERVISORS

Jiang Caishi, aged 53, Ph.D, a senior economist, the Chairman of the Supervisory Committee of the Company since March 2019. Mr Jiang currently is also the President of the Shanghai Institute of Marine Insurance, Director of the Specialised Committee on Non-Auto Insurance of the Insurance Association of China, a Deputy Director of the Specialised Committee on Property Reinsurance of the Insurance Association of China, a Deputy Director of the Specialised Committee on Cultural Development and Promotion of the Insurance Association of China, and Vice President of the Second Council of China Association for Public Safety of Science and Technology. Mr Jiang joined PICC in 1988 and was seconded to New York, U.S.A. for 2 years. Mr Jiang was previously the General Manager of the International Insurance Department of PICC Tianjin Branch, Deputy General Manager of PICC Tianjin Branch, General Manager of the Property Insurance Department of PICC, General Manager of the Group Insurance Marketing and Management Department and General Manager of the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of Shenzhen Branch of the Company, General Manager of the Agriculture Insurance Department of the Company, a Senior Specialist and concurrently the General Manager of the Business Development Department of The People's Insurance Company (Group) of China and an Executive Vice President of the Company. Mr Jiang once served concurrently as the General Conference Chairman of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool and Chairman on Duty of China Agriculture Insurance and Reinsurance Community. Mr Jiang has 31 years of operation and management experience in the PRC insurance industry.

Wang Yadong, aged 48, a Master, an economist, a Supervisor of the Company since March 2019. Mr Wang is currently the General Manager of the Audit Department of The People's Insurance Company (Group) of China Limited*. He joined PICC in 1995, and was previously the Deputy Manager of the Property Insurance Division, General Manager of the Underwriting Management Department, General Manager of the Property Insurance Business Department, the Large-scale Commercial Risk Insurance Department, the Cargo & Shipping Insurance Business Department and the Reinsurance Department of PICC Hubei Branch, and the Senior Manager of the Business Coordination Division of Business Development Department, Senior Manager of the Infrastructure Office, Deputy General Manager of the Infrastructure Office of the South Information Centre (Phase II) and General Manager of the Infrastructure Office of The People's Insurance Company (Group) of China Limited*. Mr Wang graduated from Hunan Institute of Finance with a bachelor's degree in management and afterwards graduated from Huazhong University of Science and Technology with a master's degree in business management. Mr Wang has 23 years of substantial experience in operation and management in the PRC Insurance Industry.

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Lu Zhengfei, aged 55, Ph.D, a professor, a doctoral supervisor, an Independent Supervisor of the Company since January 2011. Mr Lu is currently a Professor of Accounting and Doctoral Supervisor of Guanghua School of Management of Peking University, the Director of the Research Center for Financial Analysis and Financial Investment of Peking University, an Executive Director and concurrently the Deputy Director of the Professional Committee for Financial Management of the Chinese Accounting Association. Mr Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sino Biopharmaceutical Limited*, Bank of China Limited**, China Nuclear Engineering & Construction Corporation Limited***, Lian Life Insurance Co., Ltd., Zhejiang Tailong Commercial Bank, Beijing Turen Urban Planning and Design Co., Ltd and Shenwan Hongyuan Securities Co., Ltd. Mr Lu was previously an Independent Non-executive Director of the Company. Mr Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005, the "Accountant Specialist Training Project" of the Ministry of Finance of the PRC in 2013, and as a Cheung Kong Chair Professor of the Ministry of Education of the PRC in 2014. Mr Lu graduated from Nanjing University with a doctorate degree in economics and completed the post-doctoral research on economics (accounting) at Renmin University of China.

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Charlie Yucheng SHI, aged 56, a Master, is the founder and managing partner of Omaha Capital Management Limited, an Independent Supervisor of the Company since March 2019. Mr Shi is currently the member of the Alternative Investment Advisory Committee of China Life Asset Management Company Limited, and an Independent Non-executive Director of Pico Far East Holdings Limited*, Franklin Templeton Sealand Fund Management Co., Ltd. and Mobius Investment Trust PLC. Mr Shi was previously an Independent Non-executive Director of China Life Asset Management Company Limited and China Life Franklin Asset Management Co., Limited. Mr Shi graduated from Fudan University with a bachelor's degree in economics and afterwards graduated from California Lutheran University with a master's degree in business management. He then graduated from the Advanced Management Program of Harvard Business School. Mr Shi has almost 20 years of experience in the field of equity investment.

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Li Fuhan, aged 59, a senior economist, an Employee Representative Supervisor of the Company since February 2017. Mr Li is currently the Deputy Secretary of the Commission for Discipline Inspection and General Manager of the Monitoring Department/ Auditing Department of the Company. Mr Li joined PICC in 1991 and was previously the Deputy Manager (in charge) and Manager of the Personnel Division of PICC Fujian Provincial Branch, General Manager of the Human Resources Department, member of the Party Committee, Deputy General Manager and concurrently Secretary of the Commission for Discipline Inspection of Fujian Provincial Branch of the Company, and Deputy Director (in charge) and Director of the Nanjing Monitoring and Auditing Center of the Company. Mr Li graduated from PLA Dalian Naval Academy. He has 28 years of operation and management experience in the PRC insurance industry.

Gao Hong, aged 52, a university graduate, an engineer, an Employee Representative Supervisor of the Company since February 2017. Ms Gao is currently the Deputy Director of the Staff Union Work Committee and General Manager of the Staff Union Work Department of the Company. Ms Gao joined The People's Insurance Company (Group) of China in 1996 and was previously the Deputy Manager of the Education and Training Division of the Human Resources Department of PICC, Manager of the Training Division of the Human Resources Department, Assistant General Manager, Deputy General Manager of the Education and Training Department, Deputy General Manager of the Education and Training Department and concurrently Director of the Exam Center (equivalent to departmental manager) and Deputy General Manager of the Trade Union Work Department (equivalent to departmental manager) of the Company. Ms Gao has 23 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Zhang Xiaoli, aged 54, a postgraduate, a Master, an Executive Vice President, the Responsible Compliance Officer and the Responsible Auditing Officer of the Company. Mr Zhang was a troop leader of the Chinese People's Liberation Army from 1980 to 2000. He joined PICC in 2000 and was previously the Manager of the Disciplinary and Supervisory Office of PICC, Deputy General Manager of the Monitoring Department of the Company, General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited, and Secretary of the Commission for Discipline Inspection, Secretary of the Board of Directors and General Manager of the Secretariat of the Board of Directors and Office of the Supervisory Committee of the Company. Mr Zhang graduated from China Europe International Business School with an MBA degree. Mr Zhang has 19 years of management experience in the PRC insurance industry.

Li Jun, aged 56, an undergraduate and a Master of Business Administration, Secretary of the Commission for Discipline Inspection. Mr Li began his career in 1984. Since 1995, he served as Deputy General Manager (Legal Representative) of Anhui Dafeng International Trading Company, Deputy Director of Anhui Research Institute of International Economics and Trade, Deputy Director of Anhui international Business and Economics Computing Centre, General Manager of Anhui Dafeng International Trading Company, Deputy Secretary of the Party Committee, Acting Mayor and Mayor of Jinjiazhuang, Maanshan Municipality, Anhui Province. Mr Li joined PICC in 1999 and was previously Director of the General Division of the Cargo Insurance Department, Deputy Director of the General Office and Deputy Director of the Office of the Party Committee; Deputy Director of the General Office and Deputy Director of the Office of the Party Committee of PICC Holding Company; Executive Deputy Director of the Infrastructure Office (equivalent to departmental manager) of PICC Holding Company; Head of the Publicity Department of the Party Committee, Director of the Office of the Party Committee, Director of the General Office and Director of the Infrastructure Office of PICC Holding Company; Head of the Publicity Department of the Party Committee, Director of the Office of the Party Committee, Director of the General Office and Director of the Infrastructure Office of The People's Insurance Company (Group) of China; Deputy Head of the Preparatory Team of PICC Pension Company Limited; member of the Party Committee and Vice President of PICC Investment Holding Company Limited. Mr Li graduated from Anhui University and Beijing Institute of Technology and obtained a bachelor's degree in engineering and a master's degree in business administration respectively. Mr Li has 24 years of experience in business operation and management experience.

Feng Xianguo, aged 56, a Master, a senior economist, an Executive Vice President of the Company. Mr Feng began his career in 1978 and joined PICC in 1984. He was previously the Chief Economist of PICC Xianning Regional Branch, Deputy General Manager of PICC Xianning Branch, Manager of the Vehicles Insurance Division and General Manager of the Vehicles Insurance Department of PICC Hubei Provincial Branch, Deputy General Manager of Hubei Provincial Branch and concurrently General Manager of Wuhan Branch of the Company, the Chief Responsible Officer and General Manager of Tianjin Branch of the Company, and General Manager of Beijing Branch of the Company. Mr Feng graduated from Central China Normal University with a master's degree in economics. Mr Feng has 34 years of operation and management experience in the PRC insurance industry.

Shen Dong, aged 50, a master postgraduate, a senior accountant, an Executive Vice President, the Responsible Financial Officer and the Chief Accountant of the Company. Mr Shen joined PICC in 1992 and was previously the Assistant Manager, Deputy Manager and Manager of the Finance and Accounting Division and the Reinsurance Division of PICC Guangxi Provincial Branch, Deputy General Manager of Guangxi Provincial Branch of the Company and Deputy General Manager and General Manager of the Finance and Accounting Department of the Company. Mr Shen graduated from Xiamen University with a bachelor's degree in economics and afterwards graduated from Beijing University of Aeronautics and Astronautics with a master's degree in software engineering. Mr Shen has 27 years of operation and management experience in the PRC insurance industry.

Wu Jianlin, aged 56, a university graduate, a senior economist, an Executive Vice President of the Company. Mr Wu is also a member of the 11th Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference and a Model Worker of the Inner Mongolia Autonomous Region in 2010. Mr Wu began his career in 1979 and joined PICC in 1984. He was previously the Deputy Director, Deputy Manager and Director of the General Office and the Business Publicity Division of PICC Hangzhou Branch, the Chief Responsible Officer and Manager of Hangzhou Xihu Sub-branch and Manager of the General Office of Zhejiang Provincial Branch of PICC Property Insurance Company, Assistant General Manager and Deputy General Manager of PICC Zhejiang Provincial Branch, Deputy General Manager of Zhejiang Provincial Branch and concurrently General Manager of Hangzhou Branch of the Company, the Chief Responsible Officer and General Manager of Inner Mongolia Branch of the Company, the Chief Responsible Officer and General Manager of Zhejiang Provincial Branch of the Company, and an Assistant to the President of the Company. Mr Wu graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management. Mr Wu has 34 years of operation and management experience in the PRC insurance industry.

Shao Liduo, aged 52, a doctoral postgraduate, a senior engineer, an Assistant to the President, the Chief Information Technology Officer of the Company. Mr Shao began his career in 1985 and joined PICC Property Insurance Company in 1998. He was previously the Deputy Manager and Manager of the Software Development Division of the Information & Technology Department of PICC, and Manager of the Software Development Division of the Information & Technology Department, Deputy General Manager of the Vehicles Insurance Department and Deputy General Manager (in charge) and General Manager of the Information & Technology Department of the Company. Mr Shao was awarded the special government allowance by the State Council in December 2016. Mr Shao graduated from the PLA Information Engineering College (now known as "PLA Information Engineering University") with a bachelor's degree in science, Beijing Institute of Technology with an MBA degree and Beijing Normal University with a doctorate degree in science. Mr Shao has 29 years of operation and management experience in the PRC insurance industry and the information and technology sector.

Zou Zhihong, aged 48, a full-time doctoral postgraduate, a senior economist, Secretary of the Board of Directors, General Manager of the Secretariat of the Board of Directors and Office of the Supervisory Committee of the Company. Mr Zou joined PICC Property Insurance Company in 1998. He was previously Manager of the Litigation Recovery Management Division of the Legal Department and Assistant General Manager of the Legal Department of PICC Property Insurance Company, and Deputy General Manager and General Manager of the Legal Department of the Company. Mr Zou graduated from Wuhan University with a doctorate degree in law. Mr Zou has 21 years of substantial experience in the field of legal compliance.

Report of the Board of Directors

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the Year.

BUSINESS REVIEW

PRINCIPAL ACTIVITIES

The Company is engaged in motor vehicle insurance, commercial property insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, agriculture insurance, credit insurance, surety insurance, homeowners insurance, marine hull insurance and other insurance businesses in Mainland China, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds application business permitted under the relevant laws and regulations of the PRC. The Company's subsidiaries are mainly engaged in providing insurance agency services and training services to the Company.

OPERATING RESULTS AND FINANCIAL POSITION

Discussion and analysis of operating results and financial conditions using key financial performance indicators by the Company are set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out in the "Financial Summary" section of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management plays an important role in the operation and management of the Company. The Company has adopted a prudent risk management strategy and the risk management serves and is guided by the overall business strategy of the Company to ensure that the Company's major risks are basically controlled and business develops in a continuous and healthy manner. During the Year, the Company fully implemented the C-ROSS regulatory requirements, upheld the bottom line of no systemic risk, adhered to the overall risk management target of "compliance operation, effective management and control, asset security, and capital adequacy", continued to improve the comprehensive risk management system, steadily pushed forward various work of comprehensive risk management, continuously strengthened the daily management and control of the seven major types of risks, namely insurance risk, market risk, credit risk, operational risk, strategic risk, reputational risk and liquidity risk, from various dimensions such as system design, system management and control, appraisal and assessment, accountability and punishment and methods and tools, and strengthened the monitoring and early warnings of risks in key areas and segments.

In terms of macro economy, China's economy is progressing from the stage of rapid growth to high quality development, which is and will be in an important stage of strategic opportunities for a long time. In terms of development of insurance industry, it is currently at a new cycle of transition and expedited diversification. Although the traditional external driving forces that have facilitated the growth of the insurance industry have shown signs of weakening, the overall trend of long-term stability with growth and progress of the insurance industry remains unchanged and presents opportunities as well as challenges to the development of the Company. **Firstly**, production and sales of passenger vehicles both slowed down in 2018, and the sales of automobiles exhibited negative annual growth for the first time since 1990. The deregulation of premium rate of commercial motor vehicle insurance continued to deepen and the policy of "consistency between the reported commission rates and the actual commission rates" was formally implemented. All these factors affected the growth rate of premium income of motor vehicle insurance. **Secondly**, insurance technologies have become widely used. Innovative applications of new technologies have sped up the reshaping of the insurance value chain. Artificial Intelligence, blockchain, genetic technology and the Internet of Things are working together to transform the insurance industry. Technological capability promotes the insurance supply to continuously explore new areas, new business types and new models. The Company faces the escalating competition among the insurance companies and intensified competition from cross-sector players. **Thirdly**, uncertainties brought by the China-US trade conflict and the risk spillover of US economy and finance will exacerbate the turmoil in global economic and financial market and may affect the Company's investment returns and overseas business. **Fourthly**, the Central Economic Work Conference specifically calls for greater efforts to rectify financial chaos. The tough trend of "tightened supervision" will continue to be strengthened. In the meantime, the internal restructuring "Three Determinations" of the CBIRC system has been finalised and the insurance regulation has become thorough, resulting in increasing compliance pressure on the Company and hence increasing compliance costs.

In 2019, the Company will firmly implement the general principle of steady growth while maintaining stability required by the central government and speed up the transformation to high-quality development. **Firstly**, we will deepen the integration of technological reform and business model reform, firmly promote the policy of "reducing dependency on independent intermediaries, lowering sales cost, improving customer experience and enhancing customer loyalty" and focus on the key tasks, including cultivating marketing culture, building strong marketing teams, stepping up the development of direct sales channels, reducing profit leakage from claim settlement and maintaining our leading position in cost control. We will consolidate the strength in motor vehicle insurance and policy-oriented businesses, strengthen the development of non-motor vehicle commercial insurance, strive for market leading positions in strategically significant cities and secure our positions in the county-level markets, and consolidate advantages and narrow the gap. **Secondly**, we will implement innovation-driven development and digital strategy. We will carry out in-depth research and application of insurance technologies such as mobile internet, cloud computing, big data, Artificial Intelligence and the Internet of Vehicles to innovate the technological capability. We will deepen the reform of operation management, promote management upgrade through digital application, optimise business processes and strengthen the management and control of key areas such as underwriting, claim settlement and finance. **Thirdly**, we will strengthen comprehensive risk management and enhance regulatory compliance, continue to fully implement the C-ROSS system, improve the "Three Tiers of Defence" work model for risk prevention, facilitate the application of risk preference, strengthen assets and liabilities management and enhance the application of risk management technologies and tools. We will firmly uphold the guidance of "compliance maximises efficiencies; compliance means the lifeline", consider forestalling and defusing systemic risks as the bottom line of the Company's operation, strengthen compliance in business activities at the basic levels, uphold the bottom line of no systematic risks and transform regulatory requirements into the driving force for the Company's development in compliance with laws.

PARTICULARS OF IMPORTANT EVENTS AFFECTING THE COMPANY THAT HAVE OCCURRED SINCE THE END OF THE YEAR

Particulars of the important events affecting the Company that have occurred since the end of the Year are set out in the subsection headed "Events after the Reporting Period" of the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

FUTURE DEVELOPMENT

Potential future development in the Company's business is set out in the "Chairman's Statement" and "Discussion and Analysis of Operating Results and Financial Conditions" sections of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company diligently carried out the fundamental state policy of environmental protection, upheld the idea of green development in its development strategy and the management of day-to-day business operations, developed green finance, reduced environmental costs, mitigated climate changes and contributed to the sustainable development goals.

The Company was devoted to green finance by developing green insurance and responsible green investment to promote sustainable development by way of providing financial support and guarantee.

The Company strictly complied with all relevant environmental laws and regulations of the State. In 2018, the Company had no environmental pollution accident, received no complaint and was neither fined nor punished for environmental pollution or violation of environmental regulations.

The Company practiced environmentally friendly and energy saving operation and management, and strived to reduce the consumption of water, electricity, natural gas and other resources. The Company promoted, among others, paperless office and electronic business operations, and continued to promote the level of office automation at all levels of the Company. The Company vigorously promoted the implementation of the energy saving and consumption reduction management in the workplace, improved its employees' energy-saving awareness, in order to reduce the cost of property operations and the consumption of related resources.

The Company's carbon-emissions mainly resulted from the consumption of electricity, gasoline, diesel, natural gas and other energy resources. The emission reduction management focused on energy consumption reduction, energy efficiency utilisation level improvement and greenhouse gas emission reduction through energy saving management. In 2018, the Company set up an energy-saving steering group to coordinate the resources and energy-saving management of the Company. Our headquarters building obtained the Energy Management System certification and established a carbon-emission management system. The Company also carried out clean production audit and took effective measures to reduce carbon emissions and energy consumption resulting from business activities.

All kinds of wastes produced by the Company were subject to specialised treatments following the principle of classified treatments and in strict compliance with the relevant national environmental protection standards.

The Company will publish 2018 corporate social responsibility report, which specifies the Company's performance of social responsibility.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT

The Company has been adhering to the philosophy of carrying out business in accordance with laws and regulations, and complied with the state laws, administrative regulations, and various rules and regulatory documents promulgated by the regulatory authorities.

In 2018, the Company actively adapted to the insurance industry development and reform trends, researched the impacts of various newly promulgated regulations and policies on the Company's business operation, and proactively took measures to ensure the effective implementation of various reform initiatives. The Company continuously strengthened the promotion and training regarding law and compliance culture, and by introducing innovative means and methods to the promotion and training, expanded the coverage of such promotion and training, promoted the philosophy of carrying out business in accordance with laws and regulations to be continuously and deeply rooted among employees throughout the Company. According to the requirements of rectifying market chaos issued by the CBIRC, the Company carried out self-reviews and self-corrections in 8 key areas of chaos to ensure that the risks of the Company were under control on the whole and promote the transformation of business to high-quality development. Through formulating and improving internal rules and systems, the Company implemented various legal and regulatory requirements, improved internal control and management of the Company and facilitated the establishment of a long-term mechanism of the Company for carrying out business in accordance with laws and regulations, with a view to providing solid support for the high-quality development of the Company.

In 2018, the overall compliance status of the operation and management activities of the Company was good and the compliance risk management system was in normal operation. Although no significant systematic compliance risk was found in the Company, there were still forms of underperformance in terms of compliance with laws and regulations in some branch organisations, bringing non-compliance risk to the operation of the Company.

RELATIONSHIP BETWEEN THE COMPANY AND EMPLOYEES

The relationship between the Company and employees is set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

RELATIONSHIP BETWEEN THE COMPANY AND CUSTOMERS

In 2018, the Company again received the rating of "AA" in service ratings of insurance companies, which demonstrated our outstanding achievements and excellent performance in business services. The Company kept in mind its original aspiration and mission of "people's insurance serving the people", adhered to the customer-oriented principle and implemented stringent measures on the management of service quality, thus continuously enhancing our service capabilities and brand reputation. **Firstly**, we continuously enhanced our services. Customer experience was greatly improved through increasing service indicators including customer call answer rate and claim success rate. A series of innovative service schemes, which won popularity and acclaim from the general public, were launched, including the "Yuhang model", the "traffic police and insurer Joint Action" and helicopter rescue. The "95518" customer service center and the club platform was upgraded to enhance customer loyalty. **Secondly**, we strengthened work on protecting consumers' rights and interest. We carried out special complaint management action, widely spread and popularise financial and insurance knowledge among the general public and stepped up the protection of the rights and interest of insurance customers. **Thirdly**, we actively took up responsibilities in providing services in disasters. With tough challenges of frequent outbreaks of disasters throughout the year, the Company spared no efforts in disaster relief services in natural disasters including typhoon Rumbia, typhoon Mangkhut and urban heavy rainstorm waterlogging, and fully demonstrated the fulfilment of our social responsibilities.

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTRATION FOR H SHARE MEMBERS

The Board proposed the distribution of a final dividend of RMB0.272 per share (inclusive of applicable tax) for the year ended 31 December 2018. The total amount of dividend was approximately RMB6,050 million. The above proposal is subject to the approval of the Company's shareholders at the annual general meeting. The specific arrangement regarding announcement and distribution of the final dividend, the closure of registration for H share members and etc. will be disclosed separately in the circular for the annual general meeting. If approved at the annual general meeting, the final dividend will be paid in two months after the conclusion of this annual general meeting. The Company will announce the expected specific date for dividend payment.

The Company had not paid any interim dividend during the Year.

WITHHOLDING AND PAYMENT OF DIVIDEND INCOME TAX

Pursuant to the regulations of relevant PRC laws and regulations and regulatory documents on taxation, the Company shall, as a withholding agent, withhold and pay income tax on the dividend, including withholding and payment of enterprise income tax on behalf of overseas non-resident enterprise shareholders, individual income tax on behalf of overseas individual shareholders and individual income tax on behalf of domestic individual shareholders investing through China-Hong Kong Stock Connect, in the distribution of the final dividend for the Year. Particulars of withholding and payment of income tax on dividend will be disclosed separately in the circular of the shareholders' annual general meeting by the Company.

SHARE CAPITAL

During the Year, the Company conducted a capitalisation issue on the basis of 5 capitalisation shares for every 10 existing shares, with a total of 5,114,490,490 domestic shares and 2,299,764,611 H shares issued. Upon completion of the capitalisation issue mentioned above, the Company has increased the total number of issued shares to 22,242,765,303 shares, comprising 15,343,471,470 domestic shares and 6,899,293,833 H shares. The Board believes that the capitalisation issue will allow the shareholders to participate in the growth of the Company by way of conversion of the capital reserve and will provide the Company with a wider capital base and therefore increase the marketability of the shares.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2018, according to the PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB43,187 million and the distributable reserves of the Company were RMB43,186 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB100.75 million, of which RMB65.47 million were donations for public benefits.

MAJOR CUSTOMERS

The gross written premiums of the Company and its subsidiaries attributable to their five largest customers did not exceed 1% of the gross written premiums of the Company and its subsidiaries for the Year.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors in office during the Year, and the changes in the members of the Board of Directors and the members of the Supervisory Committee as well as the reasons for resignation of Directors and Supervisors from 1 January 2018 to the date of this report are set out in the "Corporate Governance Report" section of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and other senior management of the Company are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with any Director or Supervisor.

Details of the remuneration of the Directors and Supervisors are set out in note 13 to the consolidated financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company are set out in note 14 to the consolidated financial statements.

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

None of the Directors and Supervisors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance which subsisted at any time during the Year or at the end of the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life and PICC Health (both being associates of the Company) and PICC Pension, subsidiaries of PICC Group, the controlling shareholder of the Company, are also engaged in accidental injury insurance and short-term health insurance business. Mr Miao Jianmin, the Chairman of the Company, is also the Chairman of PICC Life and PICC Health. Mr Tang Zhigang, a Non-executive Director of the Company, is also the Chairman of PICC Pension. Mr Li Tao, a Non-executive Director of the Company, is also the Chief Supervisor of PICC Life. Mr Yun Zhen, a former Executive Director of the Company, is also the Non-executive Director of PICC Life.

Save as disclosed above, none of the Directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2018 to the date of this report.

PERMITTED INDEMNITY PROVISION

At any time during the Year and up to the date of this report, there was or is no permitted indemnity provision being in force for the benefit of any of the Directors of the Company or its associates.

The Company purchased insurance for the Directors which provided appropriate cover for legal liabilities of Directors when performing their duties during the Year. The relevant insurance policies were governed by the PRC laws.

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

The Directors, Supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as at 31 December 2018 that were required to be recorded in the register as required to be kept under Section 352 of the SFO or required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code.

During the Year, the Company did not grant any rights to the Directors, Supervisors or President of the Company (including their spouses or children under the age of 18) to subscribe for shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO. As at the end of the Year, none of the abovementioned subscription right existed.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2018, the following persons held interests or short positions in the shares or underlying shares of the Company that were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO, or notified to the Company and the Hong Kong Stock Exchange by other means:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total number of domestic shares in issue *(Note 1)*	Percentage of total number of shares in issue *(Note 2)*
PICC Group	Beneficial owner	15,343,471,470	Long position	100%	68.98%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue *(Note 3)*	Percentage of total number of shares in issue *(Note 2)*
Citigroup Inc.	Person having a security interest in shares, interest of controlled corporations, approved lending agent	512,185,031 *(Note 4)*	Long position	7.42%	2.30%
	Approved lending agent	442,042,995	Lending pool	6.40%	1.99%
The Capital Group Companies, Inc.	Interest of controlled corporations	549,655,869	Long position	7.97%	2.47%
BlackRock, Inc.	Interest of controlled corporations	505,444,978	Long position	7.33%	2.27%
	Interest of controlled corporations	17,147,000 *(Note 5)*	Short position	0.25%	0.08%
Schroders Plc	Investment manager	345,131,000	Long position	5.00%	1.55%

Notes:

1. As of 31 December 2018, the Company has issued a total of 15,343,471,470 domestic shares.

2. As of 31 December 2018, the Company has issued a total of 22,242,765,303 shares.

3. As of 31 December 2018, the Company has issued a total of 6,899,293,833 H shares.

4. Among which, 187,000 H shares (Long position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

5. Among which, 5,072,000 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company that were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept under Section 336 of the SFO, or being substantial shareholders of the Company as at 31 December 2018.

PUBLIC FLOAT

As at the date of this report, 31.02% of the total number of issued shares of the Company is held by the public and therefore the Company continues to comply with the minimum public float requirement under the Listing Rules.

MANAGEMENT CONTRACT

Pursuant to the asset management agreement entered into between the Company and PICC AMC (a subsidiary of the Company's controlling shareholder, with Mr Miao Jianmin, the Chairman and an Executive Director of the Company, also being the Chairman of PICC AMC), PICC AMC provides investment management services in respect of certain assets of the Company. The Company pays PICC AMC service fees. The particulars of this agreement are set forth in the subsection headed "Continuing Connected Transactions" below.

SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF THE COMPANY WITH ITS CONTROLLING SHAREHOLDER (AND ITS SUBSIDIARIES)

The particulars of the significant transactions, arrangements and contracts entered into by the Company with its controlling shareholder (and its subsidiaries) during the Year are set out in the subsections headed "Connected Transaction" and "Continuing Connected Transactions" below.

CONNECTED TRANSACTION

The connected transactions of the Company in the Year that are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules include: (i) joint land bidding; and (ii) capital increase in PICC Re. As PICC Life, PICC Health and PICC Re are subsidiaries of PICC Group, the controlling shareholder of the Company, these companies are connected persons of the Company according to the Listing Rules.

(i) On 3 December 2018, the Company entered into a joint bidding agreement with PICC Life and PICC Health, pursuant to which, the Company, PICC Life and PICC Health agreed to form a consortium to jointly participate in the online bidding organised by Guangzhou Public Resources Trading Center for the state-owned land use right of land plot AT090948 in the initial zone of the Financial City in Tianhe District. After acquiring the state-owned land use right of the land plot, the Company, PICC Life and PICC Health will be entitled to 58%, 32% and 10% of the stated-owned land use right of the land plot, respectively, in accordance with their investment ratios. The parties to the agreement will have the rights to develop, construct, operate and benefit from the land plot and assume the corresponding obligations in proportion to their investment ratios. The initial bidding price of the land plot is RMB1,155.51 million. Based on the initial bidding price and the 58% investment ratio of the Company, the bidding premium for the land use right payable by the Company was RMB670,195,800. The land plot is located in the Financial City, which is in the core area of Guangzhou. It has a prominent geographical advantage, an obvious agglomeration effect in finance and a bright prospect of asset appreciation. In addition, under this transaction, the counterparty is reliable and the transaction risk is relatively low. The land plot is intended to be developed into office and commercial buildings, which will mainly be used for offices of the parties to the agreement and insurance outlets and other commercial service purposes.

On 18 December 2018, the Company, PICC Life and PICC Health entered into a bid confirmation letter with Guangzhou Public Resources Trading Center and a state-owned construction land use right transfer contract with the land plot transferor. The actual transaction amount for the land use right paid by the Company was RMB670,195,800.

(ii) On 28 December 2018, the Company entered into a capital increase agreement with PICC Group and PICC Re, pursuant to which all parties agreed on an increase of RMB1 billion in the registered capital of PICC Re, which shall be subscribed by PICC Group and the Company according to their current proportions of shareholdings. The Company shall increase the share capital of PICC Re with an amount of RMB490 million. Upon the completion of the capital increase in PICC Re, the proportion of shareholding held by the Company remains unchanged, representing 49% of the enlarged issued capital of PICC Re. PICC Re is the fourth Chinese-funded corporate reinsurance company in the PRC. The capital increase in PICC Re will help enhance its capital strength and elevate its market competition ability. Meanwhile, it is beneficial for the Company to promote business development through internal synergies.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions of the Company in the Year that are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules include: (i) the framework agreement on reinsurance business cooperation entered into between the Company and PICC HK; (ii) the framework agreement on reinsurance business cooperation entered into between the Company and PICC Re; (iii) the comprehensive strategic cooperation agreement entered into between the Company and ZSIB and the insurance business cooperation agreement entered into between the Company and ZSIB and CIB; (iv) the asset management agreement and the memorandum of understanding entered into between the Company and PICC AMC; (v) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively; and (vi) the internet insurance business cooperation agreement entered into between the Company and PICC Financial Services. As all of PICC HK, PICC Re, ZSIB, CIB, PICC AMC, PICC Life, PICC Health and PICC Financial Services are subsidiaries of PICC Group, the controlling shareholder of the Company, these companies are connected persons of the Company according to the Listing Rules.

(i) On 29 December 2017, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2018 and expiring on 31 December 2018. PICC HK is one of the reinsurers of the Company and the Company entered into the framework agreement on reinsurance business cooperation with PICC HK for the purposes of risk diversification and stabilisation of operation. Pursuant to the renewed agreement, the Company agreed to cede insurance premiums to PICC HK from time to time, and PICC HK agreed to cede insurance premiums to the Company from time to time. One party to the agreement who acts as reinsurer shall accept the risks of and pay commissions to the other party to the agreement in return for the agreed insurance premiums received from such other party. Under the framework provided in the renewed agreement, the parties to the agreement may enter into various types of reinsurance agreements in respect of particular reinsurance business. Under the renewed agreement, the annual caps for the insurance premiums expected to be ceded to PICC HK by the Company and the commissions expected to be received by the Company from PICC HK for the Year were RMB700 million and RMB315 million, respectively. The insurance premiums expected to be ceded to the Company by PICC HK and the commissions expected to be received by PICC HK from the Company for the Year would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules. The actual insurance premiums ceded to PICC HK by the Company and the commissions received by the Company from PICC HK were RMB505 million and RMB209 million, respectively, for the Year. The actual insurance premiums ceded to the Company by PICC HK and the commissions received by PICC HK from the Company were RMB6 million and RMB1 million, respectively, for the Year.

    On 18 February 2019, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2019 and expiring on 31 December 2019.

(ii) On 29 December 2017, the Company and PICC Re renewed the framework agreement on reinsurance business cooperation for a term commencing from 1 January 2018 and expiring on 31 December 2018. PICC Re is the fourth Chinese-funded corporate reinsurance company in the PRC. The Company renewed the framework agreement on reinsurance business cooperation with PICC Re in order to achieve risk diversification and stabilisation of operation. Pursuant to the renewed agreement, the Company agreed to cede insurance premiums to PICC Re from time to time, and PICC Re who acts as reinsurer shall accept the risks of and pay commissions to the Company in return for the agreed insurance premiums received. Under the framework agreement, the parties to the agreement may enter into various types of reinsurance agreements in respect of particular reinsurance business. Under the framework agreement, the annual caps for the insurance premiums expected to be ceded by the Company to PICC Re and the commissions expected to be received by the Company from PICC Re for the Year were RMB5,000 million and RMB2,250 million, respectively. The actual insurance premiums ceded by the Company to PICC Re and the commissions received by the Company from PICC Re for the Year were RMB4,058 million and RMB1,378 million, respectively.

On 18 February 2019, the Company and PICC Re renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2019 and expiring on 31 December 2019.

(iii) On 17 June 2016, the Company and ZSIB renewed the comprehensive strategic cooperation agreement for a term of three years commencing from 17 June 2016 and expiring on 16 June 2019. The comprehensive strategic cooperation agreement entered into by the Company with ZSIB is beneficial for resources integration and business cooperation between the Company and ZSIB, and also beneficial for the building up of the Company's distribution channels and the promotion of the Company's development capability in the broker business market. Pursuant to such agreement, the Company and ZSIB (and its subsidiaries) cooperate within the prescribed scope of insurance businesses, including businesses of insurance sales, insurance broker and insurance loss assessment. When entering into cooperation in particular business projects, the Company will enter into specific agreements with, and pay brokerage fees to, ZSIB and/or its subsidiaries. Pursuant to such agreement, the annual cap for the brokerage fees expected to be paid by the Company to ZSIB and its subsidiaries for the Year was RMB315 million. Based on the actual conditions of business cooperation among the Company and ZSIB and its subsidiary CIB, the Company entered into the insurance business cooperation agreement with ZSIB and CIB on 27 December 2018 with a term commencing from 27 December 2018 and expiring on 16 June 2019. The comprehensive strategic cooperation agreement renewed by the Company and ZSIB on 17 June 2016 was terminated automatically on the signing date of the agreement. The parties entered into the agreement to redefine the content and scope of cooperation and reset the annual caps of brokerage fees and service fees and etc. Pursuant to the agreement, the Company will cooperate with ZSIB and CIB mainly in the field of insurance brokerage. ZSIB and CIB will provide insurance intermediary services for insurance contracts entered into between insurance purchasers and the Company, and provide consultation services on disaster prevention, loss prevention, risk assessment and risk management to customers of the Company. Pursuant to the agreement, the Company, ZSIB and CIB shall, when carrying out actual cooperation in insurance broker business, enter into specific agreements and the Company shall pay brokerage fees or service fees for specific business cooperation projects. Under the agreement, the annual cap for the brokerage fees and service fees expected to be paid by the Company to ZSIB and CIB for the Year was RMB400 million. The actual brokerage fees and service fees paid by the Company to ZSIB and CIB for the Year were RMB316 million.

(iv) On 23 June 2016, the Company and PICC AMC renewed the asset management agreement for a term of three years commencing from 1 July 2016 and expiring on 30 June 2019. PICC AMC is principally engaged in the provision of asset management and asset management advisory services in the PRC, with the experience and expertise in asset management and with good investment management capability and its management fee rates at comparatively lower level in the asset management industry, and has established a good cooperation relationship with the Company. Pursuant to such renewed agreement, PICC AMC would provide investment and management services in respect of the assets entrusted by the Company from time to time to PICC AMC for its management, subject to compliance by PICC AMC of the relevant requirements set out in the investment guidelines and the agreement, each as prescribed by the Company. The Company would pay the service fee (including the management fee and a bonus/penalty) to PICC AMC for services provided by PICC AMC. Under the renewed agreement, the annual cap for the service fee expected to be paid by the Company to PICC AMC for the Year was RMB280 million. The actual service fee paid by the Company to PICC AMC for the Year were RMB205 million.

On 24 November 2016, the Company and PICC AMC further entered into a memorandum of understanding, commencing from 24 November 2016 and expiring on 30 June 2019 in relation to the renewed asset management agreement effective from 1 July 2016, in order to regulate the subscriptions by the Company of the financial products which are set up and managed by PICC AMC, PICC Capital and/or PICC Investment, either jointly or singly, and subscribed for by connected person(s). Under such memorandum, for subscriptions of the financial products that are set up and managed by PICC AMC, PICC Capital and/or PICC Investment, either jointly or singly, the Company and PICC AMC agreed that, for the financial products that are subscribed for by connected person(s), the annual aggregate subscription amount for subscriptions of such financial products by PICC AMC through application of the funds entrusted by the Company shall not exceed RMB8.0 billion. The aggregate amount of the actual subscriptions for the Year was RMB5,127 million.

(v) On 30 August 2016, the Company renewed the mutual agency agreements with PICC Life and PICC Health respectively for a term of three years commencing from 31 August 2016 and expiring on 30 August 2019. PICC Life and PICC Health have their own distribution channels and client bases, and the Company entered into the mutual agency agreements with PICC Life and with PICC Heath in order to expand the Company's distribution channels. Pursuant to these agreements, the Company and PICC Life or PICC Health mutually act as an agency for selling insurance products and receiving premiums on behalf of each other and, depending on the business development, provide other business or services authorised in writing. One party to the agreement would pay agency commissions to the other party for the insurance products sold by such other party as agency. Taking into account the development of the mutual agency businesses of the Company with PICC Life and PICC Health respectively, the Company made an announcement on 10 May 2017 in relation to the upward revision of the annual caps for the commissions to be paid by the Company to PICC Life and PICC Health as well as the commissions to be paid by PICC Life and PICC Health to the Company for the years ending 31 December 2017 and 2018 and for the period from 1 January 2019 to 30 August 2019. The revised annual cap (on an aggregate basis) for the commissions expected to be paid by the Company to PICC Life and PICC Health for the

Year was RMB1,273 million, and the revised annual cap (on an aggregate basis) for the commissions expected to be paid by PICC Life and PICC Health to the Company for the Year was RMB1,467 million. The actual commissions paid by the Company to PICC Life and PICC Health for the Year were RMB495 million. The actual commissions paid by PICC Life and PICC Health to the Company for the Year were RMB136 million.

(vi) On 27 November 2017, the Company and PICC Financial Services entered into an internet insurance business cooperation agreement to carry out the cooperation regarding the internet insurance business. The term of the agreement is one year from 27 November 2017 to 26 November 2018. If neither party terminates the cooperation under the agreement by notifying in writing within 30 days before the expiry date of the agreement, the agreement will be automatically extended for one year. The agreement has been automatically extended for one year. Pursuant to the agreement, The Company carries out internet insurance business cooperation with PICC Financial Services. PICC Financial Services provides the Company with services such as customer acquisition and promotion services, IT technical services and information technology platform services through its payment and financial service platform and other online and offline promotion channels, and the Company pays service fees to PICC Financial Services. The provincial branches of the Company, as the local service organisations for business cooperation, respectively negotiate and enter into the local service agreements with PICC Financial Services based on specific local demands. Under the agreement, the Company estimated the annual cap of service fees to be paid to PICC Financial Services for the Year to be RMB308 million. The actual service fees paid by the Company to PICC Financial Services for the Year were RMB287 million.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions mentioned above and confirmed that:

1. the transactions were entered into in the ordinary and usual course of business;

2. the transactions were on normal commercial terms or better terms; and

3. the transactions were carried out in accordance with the terms of the agreements governing the transactions, the terms were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditor to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors has received a confirmation letter issued by the auditor in relation to the continuing connected transactions mentioned above, confirming that for the Year:

1. nothing has come to its attention that causes it to believe that the continuing connected transactions mentioned above have not been approved by the Company's Board of Directors;

2. for transactions involving the provision of goods or services by the Company and its subsidiaries, nothing has come to its attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions mentioned above, nothing has come to its attention that causes it to believe that the transactions have exceeded the annual caps set by the Company.

The Company complied with the requirements under Chapter 14A of the Listing Rules in the Year.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the Year. The composition and the role of the Audit Committee and a summary of its work performance during the Year are set out in the "Corporate Governance Report" section of this annual report.

AUDITORS

The service terms of Deloitte Touche Tohmatsu, the international auditor of the Company, and Deloitte Touche Tohmatsu Certified Public Accountants LLP, the domestic auditor of the Company, will end upon the conclusion of the forthcoming annual general meeting. The proposal for re-appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditor and domestic auditor, respectively, of the Company will be submitted at the forthcoming 2019 annual general meeting.

By Order of the Board of Directors
Miao Jianmin
Chairman

Beijing, the PRC
22 March 2019

Report of the Supervisory Committee

In 2018, all members of the Supervisory Committee conducted in-depth studies on and acted thoroughly on the spirits of the 19th National Congress of the Communist Party of China, the Party Building Conference for State-owned Enterprises, the National Financial Work Conference and the Central Economic Work Conference. Under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, in accordance with the relevant laws and regulations of the PRC, regulatory requirements and the Articles of Association, with the leadership and support of the shareholders and the Party Committee and acting on the requirement of "transformation towards high quality development" and the requirement of PICC Group, the controlling shareholder of the Company, to return to A-share listing, the Supervisory Committee implemented the "facilitating supervision" philosophy, earnestly fulfilled its supervisory duties and firmly carried out self-building and various supervision work of the Supervisory Committee to promote the sustainable and healthy development of the Company and satisfactorily accomplished various tasks. The Supervisory Committee resolutely implemented the policies of the central government as well as the decisions and deployments made by the Party Committee of the Company, adhered firmly to the relevant provisions of the Company Law, the Articles of Association and other laws and regulations and regulatory requirements, exercised dedication and diligence, earnestly exercised their supervisory duties and functions, carried out their work in compliance with regulations, effectively upheld the highly efficient operation of the Company's corporate governance and protected the interests of the shareholders, the Company and its employees.

MEETINGS OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee convened six meetings to study, consider and hear 16 proposals, provided comments and suggestions in respect of certain proposals and provided feedbacks to the Board of Directors and the operational management team. Details are set out as follows:

Firstly, the thirteenth meeting of the fourth session of the Supervisory Committee was held on 16 January and two proposals, namely the Proposal for Amendments to the Articles of Association of PICC Property and Casualty Company Limited and the Proposal for Amendments to the Procedural Rules for the Supervisory Committee of PICC Property and Casualty Company Limited, were considered and approved.

Secondly, the fourteenth meeting of the fourth session of the Supervisory Committee was held on 21 March and nine proposals, namely the Proposal to Consider the Auditor's Report and the Audited Financial Statements for 2017, the Proposal to Consider the Profit Distribution Plan for 2017 and the Plan for Conversion of Capital Reserve to Issued Capital, the Proposal to Consider the Report of the Supervisory Committee for 2017, the Proposal to Consider the Corporate Governance Report for 2017 – the Supervisory Committee section, the Proposal to Consider the Internal Control Assessment Report for 2017, the Proposal to Consider the Compliance Assessment Report for 2017, the Proposal to Consider the Risk Assessment Report for 2017, the Proposal to Consider the Report on Related Party Transactions and Implementation of the Related Party Transactions Management System for 2017 and the Proposal to Consider the Evaluation Report on Implementation of the Development Plan for 2017, were considered and approved.

Thirdly, the fifteenth meeting of the fourth session of the Supervisory Committee was held on 24 April and the Proposal to Consider the Financial Statements for the First Quarter of 2018 was considered and approved.

Fourthly, the sixteenth meeting of the fourth session of the Supervisory Committee was held on 24 August and the Proposal for the Financial Statements for the Interim Period of 2018 was considered and approved. Separately, the Report of the Responsible Auditing Officer and the Auditing Department on Auditing Work Progress for the Interim Period of 2018 was considered.

Fifthly, the seventeenth meeting of the fourth session of the Supervisory Committee was held on 30 October and the Proposal for the Financial Statements for the Third Quarter of 2018 was considered and approved.

Sixthly, the eighteenth meeting of the fourth session of the Supervisory Committee was held on 27 December and the Proposal to Elect the Fifth Session of the Supervisory Committee was considered and approved.

WORK OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee attended the Company's 2017 annual general meeting and one extraordinary general meeting held in 2018. The Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2017 to the annual general meeting and submitted the Proposal for Amendments to the Procedural Rules for the Supervisory Committee of PICC Property and Casualty Company Limited to the first extraordinary general meeting held in 2018, which were both approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in writing, attended thirteen meetings of the Board of Directors and twelve meetings of the Audit Committee, earnestly reviewed and studied the resolutions of the shareholders' general meetings and meetings of the Board of Directors, fully expressed its opinions and suggestions, and strengthened the supervision over significant issues of the Company. At the same time, the Supervisory Committee performed supervision over the legality of the agendas and procedures of the meetings. The Supervisory Committee further regulated the corporate governance structure of the Company through its participation, and supervised and urged the Company to run its business according to laws and regulations. The Employee Representative Supervisors fully expressed employees' intentions and requests in the supervision process, and earnestly protected employees' legal rights and interests.

During the Year, the Supervisory Committee enhanced the supervision of the Company's finance, risks, internal control and compliance and strategic development plan and promoted the steady and sound operation of the Company. It communicated and coordinated with the external auditor, considered the auditor's report on the audit plan, the keynote of audit work and the audit of the Company's annual results, obtained an understanding of the audit status and paid special attention to the keynote of audit work and challenging issues. The Supervisory Committee made requirements in respect of the auditor's work and assessed the audit results. It deliberated on the Company's annual Internal Control Assessment Report, Compliance Assessment Report and Risk Assessment Report, kept abreast of the status of the establishment, improvement and operation of the Company's internal control and risk management mechanisms as well as the status of related party transactions and the implementation of the related party transactions management system, and gave its opinions and suggestions. The Supervisory Committee also supervised the implementation of the Company's strategic development plan.

During the Year, the Supervisory Committee carefully considered the reports of relevant departments including the Finance and Accounting Department, the Capital Operation Department, the Compliance Department/Risk Management Department, the Monitoring Department/Auditing Department, had a comprehensive understanding of the Company's business operation, finance, funds application, internal control and compliance and other aspects, timely obtained the information relating to the Company's business operation, conducted analysis and study on the Company's business development and financial conditions, and promoted the improvement of the Company's compliance, internal control and risk management work.

During the Year, the Supervisory Committee adopted the "concentrated and individual" method to conduct visits and inspections in various forms. The Supervisors, to perform their responsibilities, gave full play to their own strengths and took advantage of opportunities (such as business trips, meetings, tours and lectures) to go down to the branches of the Company to conduct a number of visits and inspections. Through the visits and inspections, the Supervisors obtained a comprehensive understanding of the Company's business operation and development, finance, internal control and risk management and control at the basic level, and more effectively performed their duties of knowing, supervision and inspection.

INDEPENDENT OPINIONS ISSUED BY THE SUPERVISORY COMMITTEE

The Supervisory Committee issues the following opinions in relation to the supervision and inspection work for the Year:

The compliant operation of the Company. The Directors and senior management of the Company performed their duties set forth in the Articles of Association in diligence and good faith, and diligently implemented all resolutions of the shareholders' general meetings and those of the Board. No Director or member of the senior management was found to have committed any breach of laws and regulations or the Articles of Association or to have infringed any rights or interests of the shareholders, the Company or its employees when performing their duties.

Authenticity of financial reports. The Company and its subsidiaries' reviewed financial statements for the interim period of 2018 and audited annual financial statements for the year of 2018 were prepared strictly in accordance with the relevant accounting standards. The financial statements have given a true and fair view of the financial position and operating results of the Company and its subsidiaries.

Related party transactions. The related party transactions of the Company were conducted on an arm's length basis, on normal commercial terms or better terms and in the interests of the Company's shareholders as a whole. There was no indication of any infringement of the interests of the independent minority shareholders or the Company.

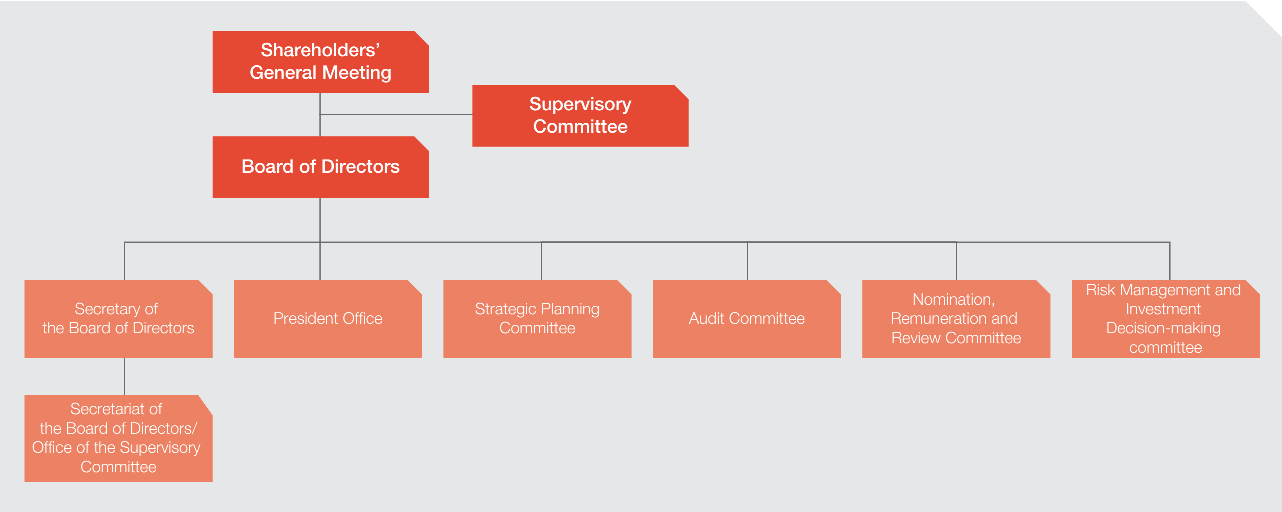
In 2019, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, uphold a highly efficient corporate governance operation and the sound development of the Company, proactively take the initiative in exploration and innovation, constantly improve its performance capabilities, strive to "achieve comprehensive supervision with focus on important areas, ensure legality and validity and perform effective supervision", earnestly safeguard the interests of the shareholders, the Company and employees and diligently perform all its duties.

Corporate Governance Report

OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. The Company has been continuously enhancing its corporate governance in accordance with the Company Law, the Listing Rules, the Guidelines and other relevant laws and regulations, and the Articles of Association.

In 2018, the Company continuously strengthened its internal control, supervision and risk management capabilities, refined its management system for related party transactions, and strengthened its compliance construction and management in accordance with the Insurance Law of the People's Republic of China, the Measures on the Administration of Information Disclosure of Insurance Companies, the Working Rules for the Internal Audit of Insurance Institutions and the Provisional Measures on the Administration of Related Party Transactions of Insurance Companies issued by the CBIRC and the requirements under the applicable provisions of the Corporate Governance Code and the SFO.



Save for the deviation from code provision A.4.2 of the Corporate Governance Code, the Company complied with all the code provisions of the Corporate Governance Code during the Year.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened two shareholders' general meetings and submitted seventeen proposals and reports to the shareholders' general meetings, held thirteen Board meetings, at which eighty-one proposals were considered and approved, formulated the Company's business development plan, financial plan, fixed assets investment plan, strategic allocations of and investment policies on entrusted assets, amended the Articles of Association, conducted annual performance appraisals of the senior management, considered and approved the distribution of the final dividend for 2017 and conversion of capital reserve to issued capital, considered the appointment of Directors, appointed Vice Presidents, selected and appointed the Company Secretary, considered and approved the internal organisational structure and considered the re-appointment of the auditors, etc., and enhanced the Company's internal control management, compliance management, and risk management and control, etc.

The Board holds regular meetings at least four times a year, and convenes extraordinary meetings when necessary. Notices and materials for regular Board meetings are given to the Directors at least fourteen days and three days prior to the meetings, respectively. All Directors are entitled to propose resolutions to be included as part of the agenda of the Board meetings. Detailed minutes of each Board meeting are kept. Four specialised committees are formed under the Board, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, and the Risk Management and Investment Decision-making Committee. The duties and responsibilities of and the operating procedures for each of the Board committees are clearly defined. The Board committees submit opinions and proposals to the Board on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the applicable principles and code provisions of the Corporate Governance Code, and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board continued to regulate its operations and enhance its corporate governance. Save for the deviation from code provision A.4.2 of the Corporate Governance Code, the Company complied with all the code provisions of the Corporate Governance Code and adopted recommended best practices where applicable to continuously perfect its corporate governance structure.

According to the code provision A.4.2 of the Corporate Governance Code, each Director should be subject to retirement by rotation at least once every three years. The term of office of the Directors of the fourth session of the Board expired on 25 June 2018. However, in accordance with the requirements of the Company Law, where a director has not yet been re-elected upon the expiry of his/her term of office or the number of directors is less than the required quorum as a result of resignation of directors, the existing director shall continue to serve as a director until the newly elected director commences his/her term of office. Accordingly, the Directors of the fourth session of the Board will continue to serve as Directors until the Directors of the fifth session of the Board commence their terms of office. In order to comply with the requirement of code provision A.4.2 of the Corporate Governance Code, the Company held an extraordinary general meeting on 7 March 2019 and elected the Directors of the fifth session of the Board, whose terms of office commence from the date of the formal appointment by the Company and end on the expiry of the term of office of the fifth session of the Board. As a result of the Directors of the fourth session of the Board not having retired by rotation upon the expiry of their terms of office, the Company failed to comply with the relevant requirement of the code provision A.4.2 of the Corporate Governance Code during the period from 26 June 2018 to 6 March 2019.

Composition

During the Year, the Board comprised the following Directors:

Name	Position	Date of commencement of directorship	Term *(Note 1)*
Mr Miao Jianmin	Chairman, Executive Director	12 March 2018	From 12 March 2018 to 25 June 2018
Mr Xie Yiqun *(Note 2)*	Non-executive Director	22 June 2018	From 22 June 2018 to 25 June 2018
Mr Lin Zhiyong (Resigned) *(Note 3)*	Vice Chairman, Executive Director	26 June 2015	From 26 June 2015 to 25 June 2018 (Resigned as the Vice Chairman on 25 February 2019 and resigned as an Executive Director on 7 March 2019)
Ms Yu Xiaoping (Resigned) *(Note 4)*	Non-executive Director	17 January 2011	From 26 June 2015 to 6 March 2018 (Resigned on 7 March 2018)
Mr Li Tao	Non-executive Director	18 October 2006	From 26 June 2015 to 25 June 2018
Mr Yun Zhen (Resigned) *(Note 5)*	Executive Director	31 October 2017	From 31 October 2017 to 25 June 2018 (Resigned on 26 October 2018)
Mr Wang Dedi (Resigned) *(Note 6)*	Executive Director	31 October 2017	From 31 October 2017 to 24 April 2018 (Resigned on 25 April 2018)
Mr Lin Hanchuan	Independent Non-executive Director	25 March 2013	From 26 June 2015 to 25 June 2018
Mr Lo Chung Hing	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018

Name	Position	Date of commencement of directorship	Term *(Note 1)*
Mr Na Guoyi* *(Note 7)*	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Ma Yusheng*	Independent Non-executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Mr Chu Bende*	Independent Non-executive Director	24 June 2016	From 24 June 2016 to 25 June 2018
Ms Qu Xiaohui	Independent Non-executive Director	31 October 2017	From 31 October 2017 to 25 June 2018

Notes:

1. The terms of office of the Directors of the fourth session of the Board expired on 25 June 2018. According to the requirements of the Company Law, where a director has not yet been re-elected upon the expiry of his/her term of office or the number of directors is less than the required quorum as a result of resignation of directors, the existing director shall continue to serve as a director until the newly elected director commences his/her term of office. Accordingly, the Directors of the fourth session of the Board will continue to serve as Directors until the directors of the fifth session of the Board commence their terms of office.

2. Mr Xie Yiqun was appointed as the Vice Chairman and the President and was re-designated from a Non-executive Director to an Executive Director on 7 March 2019.

3. Mr Lin Zhiyong resigned as the Vice Chairman and the President on 25 February 2019, and resigned as an Executive Director on 7 March 2019.

4. Ms Yu Xiaoping resigned as a Non-executive Director on 7 March 2018.

5. Mr Yun Zhen resigned as an Executive Director on 26 October 2018.

6. Mr Wang Dedi resigned as an Executive Director on 25 April 2018.

7. Mr Na Guoyi (那國毅)'s former name was Na Guoyi (那國義).

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

Changes in the Board members during the period from 1 January 2018 to the date of this report are as follows:

At the Extraordinary General Meeting of the Company on 12 March 2018, Mr Miao Jianmin was appointed as an Executive Director, whose term of office commenced on the same day and continued until the expiry of the term of the fourth session of the Board. Mr Miao Jianmin was elected as Chairman on the same day.

At the shareholders' annual general meeting of the Company on 22 June 2018, Mr Xie Yiqun was appointed as a Non-executive Director, whose term of office commenced on the same day and continued until the expiry of the term of the fourth session of the Board.

Ms Yu Xiaoping resigned as a Non-executive Director due to her retirement, with effect from 7 March 2018.

Mr Wang Dedi resigned as an Executive Director due to his retirement, with effect from 25 April 2018.

Mr Yun Zhen resigned as an Executive Director due to his retirement, with effect from 26 October 2018.

Mr Lin Zhiyong resigned as the Vice Chairman and the President due to other work arrangements, with effect from 25 February 2019.

At the Extraordinary General Meeting of the Company on 7 March 2019, Mr Miao Jianmin was re-elected as an Executive Director, Mr Xie Yiqun was re-elected as a Non-executive Director, Mr Tang Zhigang was appointed as a Non-executive Director, Mr Lin Zhiyong was re-elected as an Executive Director (Mr Lin Zhiyong resigned as an Executive Director due to other work arrangements, with effect from 7 March 2019), Mr Li Tao was re-elected as a Non-executive Director, Ms Xie Xiaoyu and Mr Hua Shan were appointed as Executive Directors, and Mr Lin Hanchuan, Mr Lo Chung Hing, Mr Na Guoyi, Mr Ma Yusheng, Mr Chu Bende and Ms Qu Xiaohui were re-elected as Independent Non-executive Directors. The terms of office of the aforesaid persons commence from the date of the formal appointment by the Company and end on the expiry of the term of the fifth session of the Board. On the same day, the Board re-elected Mr Miao Jianmin as the Chairman of the Board and Mr Xie Yiqun as the Vice Chairman of the Board.

Meanwhile, Mr Xie Yiqun was appointed as the President and was re-designated from a Non-executive director to an Executive Director.

Duties and Responsibilities

The Board is responsible for providing leadership and monitoring and controlling the operation of the Company, formulating the overall strategies, policies, financial budgets and final accounts, determining the annual operation plans and investment plans, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board is also responsible for convening shareholders' general meetings, reporting to shareholders' general meetings and implementing resolutions of the shareholders' general meetings; formulating plans for distribution of profits and recovery of losses, formulating proposals for the increase in or reduction of the registered capital, drawing up plans for the issuance of bonds or other securities as well as the listing, formulating plans for material acquisitions, purchase of shares of the Company, or for merger, division, dissolution, change of corporate form of the Company; considering and approving the outbound investments, asset acquisitions, asset disposals and write-offs, asset mortgages or other transactions of the Company, the annual transaction value of which is more than 10% but less than 30% of the Company's total asset value, as well as material related party transactions and other matters which are required to be submitted to the Board for consideration and approval in accordance with laws and regulations and regulatory provisions; appointing or removing the senior management of the Company and determining their remuneration, rewards and disciplinary matters; formulating proposals for any amendment to the Articles of Association; drawing up the procedural rules for the shareholders' general meetings and the Board; considering the working rules of the special committees under the Board; electing members of the special committees under the Board; proposing to the shareholders' general meeting on the appointment or removal of the accounting firm which carries out statutory audit on the financial reports of the Company on a regular basis; selecting the external auditor who conducts audit of the Directors and senior management personnel of the Company; receiving the work report of, and reviewing the work, of the president of the Company. The Board is ultimately responsible for the internal control, risk management and compliance management of the Company.

The Board delegates the management of the daily business operation of the Company to the management. However, the statutory functions and powers of the Board, in principle, shall not be delegated to the Chairman of the Board, any Director or any other individual or organisation. In the case where delegation is required, such authorisation shall be made by way of a resolution of the Board in accordance with law. Delegation shall be granted on a case by case basis, and in no event shall the functions and powers of the Board be generally or permanently delegated to any other organisation or individual of the Company.

Summary of Work Undertaken

During the Year, the Board convened two shareholders' general meetings and submitted seventeen proposals and reports to the shareholders' general meetings. Thirteen Board meetings were convened, at which eighty-one proposals were considered and approved. The attendance record of the Directors at the meetings is as follows:

	Board Meeting		Shareholders' General Meeting	
Name	Number of meetings attended/ Number of meetings that require attendance	Attendance rate	Number of meetings attended/ Number of meetings held	Attendance rate
Miao Jainmin	9/11	82%	0/1	0%
Xie Yiqun	7/7	100%	–	–
Lin Zhiyong	13/13	100%	2/2	100%
Yu Xiaoping	1/2	50%	–	–
Li Tao	11/13	85%	2/2	100%
Yun Zhen	9/10	90%	2/2	100%
Wang Dedi	3/4	75%	1/1	100%
Lin Hanchuan	11/13	85%	2/2	100%
Lo Chung Hing	13/13	100%	2/2	100%
Na Guoyi	12/13	92%	2/2	100%
Ma Yusheng	13/13	100%	2/2	100%
Chu Bende	11/13	85%	1/2	50%
Qu Xiaohui	12/13	92%	2/2	100%

Notes:

1. During the Year, the Board had appointed new Directors and certain Directors resigned. The table above lists the numbers of Board meetings and shareholders' general meetings held and attended by each Director during his/her term of office.

2. During the Year, Mr Miao Jianmin attended nine Board meetings in person and two Board meetings by appointing another Director as proxy to attend on his behalf; Ms Yu Xiaoping attended one Board meeting in person and one Board meeting by appointing another Director as proxy to attend on her behalf; Mr Li Tao, Mr Lin Hanchuan and Mr Chu Bende each attended eleven Board meetings in person and two Board meetings by appointing another Director as proxy to attend on their behalf; Mr Yun Zhen attended nine Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his behalf; Mr Wang Dedi attended three Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his behalf; Mr Na Guoyi and Ms Qu Xiaohui each attended twelve Board meetings in person and one Board meeting by appointing another Director as proxy to attend on their behalf.

The major work accomplished by the Board in the Year included:

- convened two shareholders' general meetings and submitted seventeen proposals and reports to the shareholders' general meetings, including the Report of the Board for 2017, the Report of the Supervisory Committee for 2017, the Auditor's Report and the audited financial statements for 2017, the profit distribution plan for 2017 and the plan for conversion of capital reserve to issued capital, amendment of the Articles of Association, the Rules of Procedures of the Shareholders' General Meeting and the Rules of Procedures of the Board, the appointment of Executive Directors and Non-executive Directors and the re-appointment of the auditors, etc., all of which were approved at the shareholders' general meetings;

- considered and approved the election of Mr Miao Jianmin as the Chairman;

- considered and approved the appointment of Mr Zhang Xiaoli and Mr Wu Jianlin as Vice Presidents, and Ms Ko Mei Ying as Company Secretary;

- considered and approved the business development plan, financial plan, fixed assets investment plan, and strategic allocations of and investment strategies on entrusted assets of the Company for the Year;

- considered and approved the total amount of remuneration payable by the Company for the Year, conducted annual performance appraisals of the senior management, including the President, Vice Presidents, Assistants to the President, etc.;

- considered and approved the internal audit plan, internal audit budget and human resources plans of the Company during the Year, the Internal Control Assessment Report for 2017 and the Compliance Assessment Report for 2017 of the Company, considered the Report on Progress of Improvement Based on the Management Recommendation Letter of the Previous Year, reviewed and continuously enhanced the effectiveness of the Company's internal control;

- considered and approved the Risk Assessment Report for 2017, the Solvency Reports for the Fourth Quarter in 2017 and the Second Quarter in 2018, the Solvency Margin Condition and Audit Report and the Solvency Stress Test Report for 2017 of the Company, considered and approved the Assets and Liabilities Management Measures and the Asset Allocation Management Measures of the Company; revised and improved the Risk Preference Statement and Risk Tolerance and Limit Indicator System of the Company, and reviewed and continuously improved the effectiveness of the Company's risk management;

- considered and approved the Information Disclosure Report for 2017, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2017, the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2017 and the Evaluation Report on Implementation of the Development Plan for 2017, the Capital Plan (2018-2020);

- revised and improved the Working Rules of the Risk Management and Investment Decision-making Committee and the Regulations on Information Disclosure Management of the Company to meet new regulatory requirements;

- considered and approved the 2018 interim results;

- considered and approved the re-participation of the Company in the capital increase in PICC Re;
- considered and approved the adjustments of relevant departments under the head office; and
- considered and approved the purchase of fixed assets by branches of the Company, the connected transactions between the Company and its subsidiaries, affiliated branches or related subsidiaries and affiliated branches of PICC Group.

DIRECTORS

Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants and through the consistent adoption of appropriate accounting policies and, subject to compliance with the Hong Kong Financial Reporting Standards, the implementation of the regulations on accounting treatment issued by the Ministry of Finance of the PRC and the CBIRC. The Directors are not aware of any event or condition which may cause material adverse impact on the Company's ability to continue as a going concern.

Securities Transactions

The Company has formulated the Guidelines on Transactions of the Company's Securities by the Employees (the "Securities Transactions Guidelines") that are applicable to Directors, Supervisors and all employees. The terms of the Securities Transactions Guidelines are no less exacting than those set out in the Model Code. The Company enquired with all the Directors and Supervisors and they all confirmed that they complied with the requirements under the Model Code and the Securities Transactions Guidelines during the Year.

Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors confirming their independence. As at the date of this report, the Company is of the view that all the Independent Non-executive Directors are independent.

Directors' Continuous Professional Development

Based on the experience and background of each of the newly appointed Directors, the Company arranges induction training sessions to help them to have a better understanding of the Company. The induction training sessions usually cover a brief introduction to the Company, the organisational structure, business operation and management and governance practices of the Company, etc. It also includes meetings and exchanges with the Company's senior management personnel, and visits and inspections of certain branches of the Company. Each newly appointed Director would receive, when joining the Board, a copy of the Directorship Guidelines which contains a brief introduction to the Company, its corporate governance, Directors' rights, obligations and duties, relevant laws, regulations and rules, internal rules of the Company, etc. The Directorship Guidelines is updated on a regular basis.

During the Year, the Directors regularly received documents, materials and information on the business and operating performance of the Company, relevant laws and regulations, and regulatory and governance matters. In addition, the Company encouraged all Directors to attend related trainings, the costs of which were borne by the Company.

During the Year, all Directors earnestly participated in continuous professional development. All Directors received trainings or conducted research or exchange in areas of corporate governance, corporate finance, information disclosure, related party transactions, directors' continuous responsibilities and obligations, economic and social situations, relevant laws and regulations, professional knowledge related to the business, professional norms, etc., which continuously enhanced their related knowledge and skills, and they proactively put forward various timely and appropriate advice and suggestions on the Company's management and development.

Directors' participations in trainings during the Year are set out in detail as below:

Miao Jianmin: attended various trainings and meetings organised by the Central Committee of Communist Party of China, the State Council, the Central Commission for Discipline Inspection and the CBIRC, conducted in-depth studies on national reform and development, macro economy and industrial regulation and gained a deeper understanding of domestic and foreign regulatory requirements in respect of corporate governance, capital operation, investment management, information disclosure, directors' continuous responsibilities and obligations, etc.

Xie Yiqun: attended various trainings and meetings organised by the Chinese Academy of Governance, the PLA National Defence University and PICC Group related to the performance of director's functions and duties and gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

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

Lin Hanchuan: paid continuous attention to and conducted research on the issues of enterprise transformation and upgrading, hosted and participated in several national significant and key projects relating to enterprise transformation and upgrading, and gave lessons relating to enterprise transformation to PhD students of business schools of universities and EMBA programs.

Lo Chung Hing: paid continuous attention to and conducted research on corporate finance and corporate governance, attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS, and attended the trainings organised by Deloitte Touche Tohmatsu, including trainings on research on the future development of Hong Kong's financial market, etc.

Na Guoyi: in 2018, paid continuous attention to the global trend of innovation development, held communications with persons engaged in technology innovation in Silicon Valley, consulted with famous Chinese economists the opportunities and challenges for China's macro-economic development, attended international professional forum on finance, discussed with peers on innovation of finance, attended various professional trainings organised by the Company, and advised the Company on innovation cases and relevant information in the global insurance industry.

Ma Yusheng: organised and attended the holding of financial forums and the implementation of management-related courses, paid continuous attention to areas relating to organisation efficiency and human resource development, and attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS.

Chu Bende: paid continuous attention to and conducted research on corporate finance and corporate governance, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., and attended the special topic trainings organised by the Company, including trainings on anti-money laundering and interpretation and impact of C-ROSS.

Qu Xiaohui: paid continuous attention to and conducted research on the changes in global accounting standards, especially the developments in the standards of financial instruments and insurance contracts, led the research on key national projects and ministerial-level major projects, attended American Accounting Association 2018 Annual Meeting and reported papers, attended the 2018 Annual Academic Conference of Accounting Society of China and the 7th Congress of China Cost Research Society and gave keynote speeches and participated in seminars respectively, and attended 22-hour training at the "2018 Training Program for Newly-appointed Directors, Supervisors and Senior Management Personnel of Insurance Companies (the 2nd Session)" organised by Training Center of CBIRC and received Certificate of Completion of Training (NO.000160).

CHAIRMAN/PRESIDENT

As at the date of this report, the Chairman of the Company is Mr Miao Jianmin, and the Vice Chairman and the President of the Company is Mr Xie Yiqun. The Chairman is responsible for leading the Board and ensuring that the Board operates effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, the annual operation plans and investment plans, formulating proposals for organisational structure for internal management and the basic management system, and making proposals to the Board for the appointment or removal of the Vice President(s), the Responsible Compliance Officer, the Responsible Finance Officer and the Assistant(s) to the President, etc.

Details of the duties and responsibilities of the Chairman are as follows:

- to preside over shareholders' general meetings, and convene and preside over board meetings;
- to supervise and examine the implementation of board resolutions;
- to sign securities issued by the Company; and
- any other functions and duties empowered by the Board.

Details of the duties and responsibilities of the President are as follows:

- to be in charge of the operation and management of the Company and shall organise the implementation of the Board resolutions;
- to organise the implementation of the Company's annual business plans and annual investment plans;
- to issue general administrative documents of the Company;
- to draft plans for the establishment of the Company's internal management structure and, in accordance with operating needs, decide general organisational restructuring plans;
- to formulate the Company's basic management system;
- to formulate basic rules and regulations for the Company;
- to propose to the Board for the appointment or removal of Vice Presidents, Responsible Compliance Officers, Responsible Financial Officers and Assistants to the President;
- to appoint or remove responsible management personnel other than those required to be appointed or removed by the Board;

- to formulate policies for the remuneration, welfare benefits, rewards and penalties of the employees of the Company other than the senior management personnel and to determine, or authorise subordinate department heads to determine, the employment and removal of the employees other than the senior management personnel and the responsible management personnel described above;
- to propose the holding of special meetings of the Board; and
- to exercise any other functions and duties empowered by laws and regulations, regulatory provisions, the Articles of Association and the Board.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee continued to fulfill earnestly its duties of supervising and providing guidance on internal and external audits, reviewing financial reports, supervising financial reporting procedures, strengthening internal control management and compliance management, etc., and put forward a number of opinions and suggestions to the Board and the management on financial affairs, internal control, compliance and business operation and management, thereby playing an active role in further improving the management of the Company and enhancing the level of the Company's corporate governance.

Composition

During the Year, the Audit Committee comprised:

Chairman:	Lin Hanchuan (Independent Non-executive Director)
Members:	Li Tao (Non-executive Director), Lo Chung Hing (Independent Non-executive Director), Chu Bende (Independent Non-executive Director), Qu Xiaohui (Independent Non-executive Director)

Note:

1. Ms Qu Xiaohui was appointed on 7 March 2019 as the Chairman of the Audit Committee.
2. Mr Lin Hanchuan was appointed on 7 March 2019 as a member of the Audit Committee.

Duties and Responsibilities

The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, supervising the design, implementation and monitoring of the internal control system by the management to ensure that the Company has the appropriate and effective internal control system in place, reviewing financial information of the Company, making recommendations in respect of the appointment or removal of the external accounting firm, reviewing the effectiveness of the internal audit function of the Company and supervising and providing guidance on internal and external audits. The specific duties and responsibilities have been set out on pages from 64 to 66 of the Company's 2017 Annual Report.

Remuneration of Auditors

In the Year, the Company paid RMB15.87 million for audit-related services, including the fees for the audit of the financial statements for 2018 and the review of the interim financial statements for 2018. In the Year, the Company paid RMB0.65 million to the auditors for non-audit services, including remunerations of RMB0.35 million and RMB0.30 million respectively for translation and review services relating to the 2018 annual and 2018 interim filing materials to Kanto Local Finance Bureau of Japan. Taking into account the respective functions and responsibilities of the Company and the auditors in the implementation and provision of such services, the Company is of the view that such non-audit services have not affected the independence and objectivity of the auditors.

Summary of Work Undertaken

During the Year, the Audit Committee held twelve meetings and considered fifty-three proposals. The attendance record of committee members at the meetings is as follows:

Name	Lin Hanchuan	Li Tao	Lo Chung Hing	Chu Bende	Qu Xiaohui
Number of meetings attended/ Number of meetings that require attendance	12/12	10/12	12/12	12/12	11/12
Attendance rate	100%	83%	100%	100%	92%

Notes:

1. The table above lists the numbers of meetings held and attended by each member during his/her term of office.

2. Mr Li Tao attended ten meetings in person and two meetings by appointing Mr Lin Hanchuan as proxy to attend on his behalf. Ms Qu Xiaohui attended eleven meetings in person and one meeting by appointing Mr Lin Hanchuan as proxy to attend on her behalf.

During the Year, the Audit Committee accomplished the following major work:

Engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit work for 2017 and on the interim review work for 2018, and suggested the auditors to compare and analyse the Company's operating performance with those of its industry peers; and

- considered the proposal for the engagement of auditors for 2018, and obtained approvals from the Board and the shareholders' general meeting for the engagement proposal.

Reviewing the financial reports, etc.:

- reviewed the financial statements and results announcement, the Information Disclosure Report, the Special Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance and the Solvency Reports of the Company for 2017, the Solvency Reports for the fourth quarter of 2017 and the second quarter of 2018, the financial statements and results announcement for the interim period of 2018, and the financial statements for the first and third quarters of 2018, discussed with the management on issues relating to, among others, the settlement and processing of pending payments or receivables related to historical ceded in/out business.

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

- considered and approved the Company's Internal Control Assessment Report and the Compliance Assessment Report for 2017;

- considered and approved the Report on Progress of Improvement Based on the Management Recommendation Letter for 2016, considered the Management Recommendation Letter for 2017;

- supervised and provided guidance on the internal audit and financial accounting work, considered the report of the Auditing Department and the Responsible Auditing Officer and the report of the Finance and Accounting Department of the Company on their work summaries for 2017 and the work plans for 2018, respectively;

- considered the report on the audit results of administration of related party transactions, considered and approved the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2017; and

- considered and approved twenty-three proposals for related party transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, the Nomination, Remuneration and Review Committee considered the structure and composition of the Board, recommended to the Board the candidates for Executive Directors, Non-executive Directors, Independent Non-executive Director and the Company Secretary, considered the proposals for the candidates of Vice Presidents nominated by the President, conducted annual appraisals of the President and other senior management, and made constructive suggestions to the Board on issues relating to remuneration of the Company.

Composition

During the Year, the Nomination, Remuneration and Review Committee comprised:

Chairman:	Ma Yusheng (Independent Non-executive Director)
Members:	Lin Hanchuan (Independent Non-executive Director), Chu Bende (Independent Non-executive Director), Yun Zhen (resigned)

Note:

1. Mr Yun Zhen resigned as an Executive Director on 26 October 2018 and ceased to act as a member of the Nomination, Remuneration and Review Committee simultaneously.

2. Mr Tang Zhigang was appointed on 7 March 2019 as a member of the Nomination, Remuneration and Review Committee.

Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for assessing the structure and composition of the Board on a regular basis, recommending candidates for directorships, formulating remuneration policies and structures for directors, the president and other senior management, formulating appraisal standards and conducting annual appraisals, making recommendations in respect of the remuneration packages for the directors and senior management to the Board, etc. Details of the duties and responsibilities have been set out on pages 56 and 57 of the Company's 2013 Annual Report.

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates for new directors, examine the qualifications of these candidates, and then recommend such candidates to the Board. The Board shall determine whether such candidates should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board include the candidates' education background, management and research experience in the financial industry, especially in the insurance sector, their extent of commitment to the Company and should also achieve diversity of the Board members. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates. To achieve diversity of the Board members and in accordance with the Company's policy concerning diversity of the Board, the Nomination, Remuneration and Review Committee will consider a candidate for directorship on a merit basis following objective standards, take into account factors such as gender, age, culture and education background and professional experience of the Board members, and select candidates for directorships in accordance with the business characteristics, specific requirements and future development of the Company. While performing its responsibilities, the committee may seek advice from independent professional advisers at the Company's expense, when necessary.

Remuneration of Directors and Other Senior Management

The fixed salaries of the executive directors and other senior management are determined in accordance with the market levels and their respective positions and duties. Their performance-related bonuses are subject to various considerations, including the operating results of the Company and the scores in their performance appraisals. Directors' fees and Supervisors' fees are determined with reference to the market levels and the actual circumstances of the Company.

Remuneration Policy of the Company

The remuneration policy of the Company follows the guiding principle of "distribution according to work accomplished, performance-linked, gross controlled, and market-oriented" and implements a job sequence-based, market-oriented and performance-based remuneration incentive system. Based on job sequence, the remuneration will be paid based on the value of the job as well as performance contribution to ensure a fair and reasonable distribution. Through market-orientation, emphasis is placed on determining remuneration according to the market labour price to ensure the external competitiveness of the remuneration package; and by basing on performance, bonuses are linked with and inter-related to business performance, highlighting contribution to business. The Company also implements a welfare plan in accordance with relevant laws and regulations and operating results to provide reasonable protection for the employees.

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held five meetings, at which eleven proposals were considered, and at two of these meetings, remuneration-related matters were discussed. The attendance record of committee members at the meetings is as follows:

Name	Ma Yusheng	Lin Hanchuan	Chu Bende	Yun Zhen
Number of meetings attended/ Number of meetings that require attendance	5/5	5/5	5/5	3/3
Attendance rate	100%	100%	100%	100%

Note: During the Year, a Director resigned and ceased to act as a member of the Nomination, Remuneration and Review Committee simultaneously. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Nomination, Remuneration and Review Committee in the Year included:

- considered the structure, number of members and composition of the Board;
- proposed Mr Miao Jianmin as the Chairman and an Executive Director and Mr Xie Yiqun as a Non-executive Director and proposed a list of nominated members of the fifth session of the Board according to the director nomination procedures and considerations above, which were approved by the Board;
- considered and approved the appointment of Mr Zhang Xiaoli and Mr Wu Jianlin as Vice Presidents, the selection and appointment of Ms Ko Mei Ying as the Company Secretary, which were approved by the Board;
- took into consideration the market salary levels of comparable companies of the same industry and the Company's actual circumstances, made recommendations to the Board in respect of the fees for the Directors and Supervisors for 2018, and such recommendations were approved by the Board and the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2017 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the President, Vice Presidents, Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the headquarters of the Company; and made recommendations for bonus coefficients for the President, Vice Presidents and Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the headquarters of the Company, which were approved by the Board;
- considered the Corporate Governance Report for 2017; and
- reviewed the Report on Performance of the Directors for 2017 and the Report on Performance of the Independent Directors for 2017.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee considered the annual business development plan, major investments, operating results and profit distributions of the Company, and continued to supervise the corporate governance of the Company.

Composition

During the Year, the Strategic Planning Committee comprised:

Chairman: Miao Jianmin (Executive Director, appointed as the Chairman on 12 March 2018)

Members: Lin Zhiyong (Executive Director, resigned), Li Tao (Non-executive Director), Na Guoyi (Independent Non-executive Director)

Note:

1. Mr Lin Zhiyong resigned as an Executive Director on 7 March 2019 and has ceased to act as a member of the Strategic Planning Committee since the election of a new session of the Board.

2. Mr Xie Yiqun and Mr Hua Shan were appointed as members of the Strategic Planning Committee on 7 March 2019.

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long-term development strategies, considering business plans, major investment plans, financing plans, annual financial budgets and final accounts, profit distribution plans and loss recovery plans, plans for the disposal of material assets, plans for the issuance of shares and bonds, plans for material modification to the organisational structure of the Company and proposals for amendments to the Articles of Association, and formulating and reviewing corporate governance policies and practices of the Company, etc. Details of the duties and responsibilities have been set out on pages 58 and 59 of the Company's 2012 Annual Report.

Summary of Work Undertaken

During the Year, the Strategic Planning Committee held ten meetings and considered nineteen proposals. The attendance record of committee members at the meetings is as follows:

Name	Miao Jianmin	Lin Zhiyong	Li Tao	Na Guoyi
Number of meetings attended/ Number of meetings that require attendance	7/7	10/10	10/10	10/10
Attendance rate	100%	100%	100%	100%

Note: During the Year, the new Chairman was appointed for the Strategic Planning Committee. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Strategic Planning Committee in the Year included:

- considered and approved the business development plan and fixed assets investment plan for the Year, the Evaluation Report on Implementation of the Development Plan for 2017 and the Corporate Governance Report for 2017;
- considered and approved the financial plan for the Year;
- considered and approved the profit distribution plans and the plan for conversion of capital reserve to issued capital for 2017;
- considered and approved the re-participation of the Company in the capital increase in PICC Re;
- considered and approved the proposed amendments to the Articles of Association, the Procedural Rules for Shareholders' General Meeting, the Procedural Rules for the Board of Directors, the Regulations on Information Disclosure Management, which were approved by the Board;
- considered and approved the adjustments of relevant departments under the head office;
- considered and approved the Capital Plan (2018-2020) of the Company;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and supervised the regular update of the Normative Manual on Rights and Duties by the Company; and
- considered the Company's compliance with the Corporate Governance Code and the disclosure set out in the Corporate Governance Report.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

Overview

During the Year, the Risk Management and Investment Decision-making Committee made amendments to the Working Rules of the Risk Management and Investment Decision-making Committee of the Company based on Rules for Insurance Asset and Liability Management (No. 1 to 5) and the notice on matters concerning trial implementation issued by the CBIRC, specifying that the Risk Management and Investment Decision-making Committee shall perform functions related to the assets and liabilities management of the Company. Such amendments had been considered and approved by the Board and the new regulatory requirements were followed in the work. During the Year, the Risk Management and Investment Decision-making Committee continued to supervise the operation of the risk management system of the Company, and considered the Risk Assessment Report, the Report on Special Rectification Campaign concerning Risk Check in Fund Utilisation, the Capital Plan (2018-2020), various risk management basic rules and investment plans of the Company.

Composition

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

Chairman:	Miao Jianmin (Executive Director, and appointed as the Chairman on 12 March 2018)
Members:	Xie Yiqun (Non-executive Director, appointed as a member of the committee on 22 June 2018), Lin Zhiyong (Executive Director, resigned), Yu Xiaoping (Non-executive Director, resigned), Wang Dedi (Executive Director, resigned)

Notes:

1. Mr Lin Zhiyong resigned as an Executive Director on 7 March 2019 and has ceased to act as a member of the Risk Management and Investment Decision-making Committee since the election of a new session of the Board.

2. Ms Yu Xiaoping resigned as a Non-executive Director on 7 March 2018 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

3. Mr Wang Dedi resigned as an Executive Director on 25 April 2018 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

4. Ms Xie Xiaoyu and Mr Hua Shan were appointed as members of the Risk Management and Investment Decision-making Committee on 7 March 2019.

Duties and Responsibilities

The Company made amendments to the Working Rules of the Risk Management and Investment Decision-making Committee of the Company based on Rules for Insurance Asset and Liability Management (No. 1 to 5) and the notice on matters concerning trial implementation issued by the CBIRC, and the details of the duties and responsibilities as amended are as follows:

- Evaluating and clearly determining the nature and extent of the risks the Company is willing to take in achieving the Company's business objectives; considering the overall goal, basic policies and working system of risk management of the Company;

- Considering the organisational structure and duties and responsibilities of risk management of the Company;

- Considering the report on risk assessment of major decisions and proposed solutions to major risks of the Company;

- Considering the annual risk assessment reports of the Company;

- Discussing the risk management system of the Company with the management to ensure that the management has performed its duties to establish an effective risk management system;

- Reviewing the risk management system of the Company, and ensuring that a review of the effectiveness of the risk management system of the Company and its subsidiaries is conducted at least annually;

- Considering major investigation findings on risk management matters and the management's response to these findings as delegated by the Board of Directors or on its own initiative;

- Considering the overall objective, risk preference, risk tolerance level and risk management policies in respect of the Company's risk management of solvency margin;

- Considering the organisational structure and duties and responsibilities of the Company's risk management of solvency margin;

- Evaluating the effectiveness of the operation of the Company's risk management system of solvency margin;

- Considering the proposed solutions to the major risk matters of the Company's solvency margin;

- Performing functions related to assets and liabilities management:

  (1) Considering the overall objective and strategy of assets and liabilities management and presenting consideration and approval opinions to the Board;

(2) Considering or, as authorised by the Board, considering and approving the organisational and decision-making systems of assets and liabilities management as well as asset allocation;

(3) Considering the risk management policies related to the assets and liabilities management as well as asset allocation and presenting consideration and approval opinions to the Board;

(4) Considering asset allocation policies and presenting consideration and approval suggestions to the Board; reviewing or, as authorised, considering and approving the adjustment plans for asset allocation policies;

(5) Evaluating the influence of business planning and comprehensive budget on assets and liabilities matching and presenting consideration and approval suggestions to the Board;

(6) Considering products that may cause significant impact on assets and liabilities matching of the Company and presenting consideration and approval suggestions to the Board;

(7) Considering the annual reports on assets and liabilities management and presenting consideration and approval suggestions to the Board.

- Considering the management model of the insurance fund utilisation and the plans for entrusting and custody of insurance funds of the Company, reviewing the effectiveness and adequacy of the investment management system of the Company;

- Considering the internal rules and regulations, decision-making process, delegation policies, plans for delegation by the Board to the management level in relation to the insurance fund utilisation of the Company;

- Formulating the Company's annual strategic allocation plans for and investment policies on assets;

- Formulating investment strategies and plans for new investment products;

- Reviewing any findings of the Company's inspection of risk control on the insurance fund utilisation and understanding the risks faced by the Company in relation to the insurance fund utilisation, on a regular basis;

- Examining the annual Reports on Assets and Liabilities Matching of the Company;

- Examining matters in relation to changes in accounting policies of the Company regarding the insurance fund utilisation;

- other matters authorised by the Board of the Company.

Summary of Work Undertaken

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

Name	Miao Jianmin	Xie Yiqun	Lin Zhiyong	Yu Xiaoping	Wang Dedi
Number of meetings attended/ Number of meetings that require attendance	6/6	3/3	6/6	–	2/2
Attendance rate	100%	100%	100%	–	100%

Note: During the Year, the Risk Management and Investment Decision-Making Committee appointed a new Chairman and had new members. Certain Directors resigned and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously. The table above lists the numbers of meetings held and attended by each member during his/her term of office.

During the Year, the Risk Management and Investment Decision-making Committee passed the amendments to the Working Rules of the Risk Management and Investment Decision-making Committee and the major work accomplished are as follows:

- considered and approved the Risk Assessment Report for 2017, and gave advice on further development of the comprehensive risk management system;
- considered and approved the Capital Plan (2018-2020), the Assets and Liabilities Management Measures and the Asset Allocation Management Measures, and revised and improved the Risk Preference Statement and Risk Tolerance and Limit Indicator System of the Company, and discussed with the management on ongoing improvement in risk management policies and procedures and ensuring the effectiveness of the risk management system of the Company;
- considered and approved the adjustments to authorisation and examination rules regarding agricultural commodity futures price insurance;
- inspected the risk management system of the Company and reviewed the effectiveness of the risk management system of the Company (including subsidiaries of the Company); and
- considered and approved the strategic allocations of and investment policies on entrusted assets, the guidance on offshore investment and the compliance issue list of the Company for the Year.

INTERNAL CONTROL

In accordance with the Basic Rules for Internal Control of Enterprises and their supporting guidelines and the Basic Standards for Internal Control of Insurance Companies and having regard to the Company's internal control system and assessment methods, the Company conducted an annual self-assessment of the effectiveness of the design and operation of its internal control as of 31 December 2018. The Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2018 to review and continuously improve the effectiveness of the internal control systems of the Company and its subsidiaries.

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

During the Year, the internal control assessment, in terms of the target entities, covered all departments of the head office, 37 provincial branches, Northeast Backup Service Center, Shipping Insurance Operation Center and Management Department of East China Center, and in terms of the target businesses, covered controls on tiers of the Company, business and information technology without major omissions.

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

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

The Company has the Responsible Auditing Officer and internal audit bodies in place. The audit bodies include the Company's Monitoring Department/Auditing Department, 9 Monitoring and Auditing Centers and the Audit Departments of 34 provincial branches, which form an internal audit organisational framework featuring "coordination between the head office and the branches and management at different levels".

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

RISK MANAGEMENT

The Company believes that sound risk management plays an important role in the Company's operation. By adhering to the basic risk management principles of "covering every aspect with focus on key areas, practising division of labour and cooperation, and adopting a closed-loop management system", the Company has established a sound and comprehensive risk management system, continued to improve its risk prevention and control ability, vigorously upheld the bottom line of abiding by laws and regulations and avoiding systemic risks, and managed to contain the operational risk within the scope of its risk preference, tolerance and limit. The Board is ultimately responsible for the completeness and effectiveness of the risk management system of the Company. The Board is committed to establishing a complete and effective risk management system, continuously paying close attention to and monitoring the effectiveness of the risk management, examining and approving the risk preference system, the organisational structure for risk management, the solutions to significant risks and the annual risk assessment reports of the Company, etc. The Risk Management and Investment Decision-making Committee under the Board is responsible for considering the risk management system, the annual risk assessment reports, risk assessment of major decisions and the solutions to significant risks as well as continuously reviewing, monitoring and assessing the effectiveness of the risk management system. The President Office and the Risk Management Committee under the President Office are responsible for guiding, coordinating and supervising the work of risk management, internal control and compliance. The President Office reviews the risk assessment reports on a quarterly basis, reports the Company's risk level and management situations to the Risk Management and Investment Decision-making Committee under the Board at least once a year and is subject to the Board's supervision. The functional departments of the Company bear primary responsibilities for the risk management, the risk management and internal control and compliance department is responsible for the coordination, planning and organising the implementation of risk management, internal control and compliance before and during implementation, and the monitoring and auditing department inspects and assesses the operation and operational effect of the risk management system at least once a year and monitors the implementation of risk management policies.

By implementing the working requirements on prevention and control of financial risks raised by the central committee of the Communist Party of China and the "3411" project of PICC Group, the Company implements steady marketing, underwriting, reinsurance and investment policies, upholds a prudent and rational approach in the significant risk management, maintains the underwriting ability and solvency compatible to the business scale and development speed, and promote transformation toward high quality development. The Company continues to establish and improve the

"Three Tiers of Defence" work model for risk prevention and control and a closed-loop risk management system comprising risk identification and assessment, risk monitoring and early warning, management and response, reporting and disclosure, and performance and appraisals. The Company makes efforts to improve the process and mechanism for effective management of all main risks, explores introduction of advanced methods and instruments, practically enhances the risk management and control ability, and strengthens the foundation of risk management. In 2018, the Company saw continuous and healthy business development, achieved adequate solvency, maintained the comprehensive risk rating at Level B and kept the overall risks under control and had not experienced any systematic financial risks affecting its operation.

In 2018, the Company continued to implement the regulatory requirements of C-ROSS of the CBIRC, steadily pushed forward various tasks in overall risk management. **Firstly, the Company improved the risk management mechanism and system.** The Company established independent risk assessment mechanism, strengthened its management of significant risks on solvency margin, standardised the risk preference management process, improved the top-level design. The Company also fully benchmarked the regulatory requirements of C-ROSS of the CBIRC, the SARMRA assessment and the comprehensive risk rating, rectified matters which had caused the gaps, improved the risk preference, risk tolerance and amount limit system, innovated risk management technologies, and improved the risk implementation information system. **Secondly, the Company carried out self-inspection of insurance chaos and risk checks in major areas throughout the year.** The Company fully implemented self-inspection and rectification of insurance chaos required by the CBIRC in order to promptly prevent and eliminate any significant risks which may affect the Company's operation, carried out compliance inspections in key areas, self-assessments of internal control throughout the Company and specialised internal control assessments of relevant segments; The Company carried out inspections to check various risks relating to counterparties, illegal fundraising, credit and surety insurance business, and internet finance platform related business, etc. **Thirdly, the Company enhanced innovation to serve the front-end business.** The Company regularly carried out its C-ROSS solvency measurement, stress test and cash flow stress test, promoted the internal credit rating of premiums receivable, carried out research on risks in key areas, strengthened the study and discussions on new businesses, new systems and new policies, and innovatively carried out risk compliance inspection. **Fourthly, the Company continuously enhanced the risk management and control capabilities.** The Company enhanced its asset and liability management as well as daily management and control of seven categories of risks, including insurance risk, market risk, credit risk, operational risk, strategic risk, reputation risk and liquidity risk, from the perspectives of regulation establishment, system management and control, appraisal and evaluation, accountability and punishment, methods and instruments, etc.

With a view to reviewing and continuously enhancing the effectiveness of the risk management system of the Company and its subsidiaries, the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2018, and are of the view that such system is effective and efficient.

SUPERVISORY COMMITTEE

Overview

During the Year, the Supervisory Committee discharged its supervisory duties strictly in accordance with the Company Law, the Articles of Association and relevant laws and regulations and in adherence to the principle of good faith, which effectively protected the interests of the shareholders, the Company and its employees.

Composition

During the Year, the Supervisory Committee comprised:

Chairman: Wang He (resigned on 25 January 2018)

Supervisors: Li Zhuyong (Supervisor), Ding Ningning (Independent Supervisor, resigned on 26 July 2018), Lu Zhengfei (Independent Supervisor), Li Fuhan* (Employee Representative Supervisor), Gao Hong* (Employee Representative Supervisor)

Note: Mr Jiang Caishi was appointed on 7 March 2019 as the Chairman of the fifth session of the Supervisory Committee.

Changes in the members of the Supervisory Committee during the period from 1 January 2018 to the date of this report are as follows:

Mr Wang He resigned as a Supervisor and the Chairman of the Supervisory Committee on 25 January 2018.

Mr Ding Ningning resigned as an Independent Supervisor of the Supervisory Committee on 26 July 2018.

At the Extraordinary General Meeting of the Company on 7 March 2019, Mr Jiang Caishi and Mr Wang Yadong were appointed as Supervisors of the fifth session of the Supervisory Committee. Mr Charlie Yucheng SHI was appointed as an Independent Supervisor of the fifth session of the Supervisory Committee. Mr Lu Zhengfei was re-elected as an Independent Supervisor of the fifth session of the Supervisory Committee. The terms of office of above-mentioned persons commence from the date of the formal appointment of the Company and end on the expiry of the term of the fifth session of the Supervisory Committee. The Employee Representative Supervisors, namely Mr Li Fuhan and Ms Gao Hong, will continue to serve as the Employee Representative Supervisors of the fifth Session of the Supervisory Committee until the expiry of their terms of office as Supervisors on 27 February 2020. Mr Jiang Caishi was elected as the Chairman of the fifth session of the Supervisory Committee on the same day, whose term of office is the same as his term of office as a Supervisor.

Mr Li Zhuyong retired as a Supervisor on 7 March 2019.

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

Duties and Responsibilities

In accordance with the Company Law and the Articles of Association, the Supervisory Committee is accountable to the shareholders' general meeting. It performs duties of supervision over the financial affairs, directors and senior management of the Company, convenes and presides over shareholders' general meetings when the Board fails to perform its duties to convene and preside over any shareholders' general meeting, etc. Details of the duties and responsibilities have been set out on page 63 of the Company's 2012 Annual Report.

Summary of Work Undertaken

During the Year, the Supervisory Committee carried out its work, performed its supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the Supervisory Committee held six meetings, at which sixteen proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

Name	Wang He	Li Zhuyong	Ding Ningning	Lu Zhengfei	Li Fuhan	Gao Hong
Number of meetings attended/ Number of meetings that require attendance	1/1	6/6	3/3	6/6	6/6	6/6
Attendance rate	100%	100%	100%	100%	100%	100%

Note: During the Year, certain Supervisors resigned from the Supervisory Committee. The table above lists the numbers of meetings held and attended by each Supervisor during his/her term of office.

Details of the work accomplished by the Supervisory Committee in the Year are set out in the "Report of the Supervisory Committee" section of this annual report.

Company Secretary

Ms Man Kam Ching resigned as the Company Secretary of the Company on 31 December 2018. Ms Man received no less than 15 hours of relevant professional training as of the year ended 31 December 2018. Ms Ko Mei Ying has been appointed as Company Secretary of the Company since 1 January 2019. She is a manager of SWCS Corporate Services Group (Hong Kong) Limited, an external service provider. Ms Ko is a member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom and a Certified Practising Accountant (Australia). She received no less than 15 hours of relevant professional training as of the year ended 31 December 2018. Mr Zou Zhihong, the Secretary of the Board of the Company, is the primary contact person of Ms Ko at the Company.

RIGHTS OF SHAREHOLDERS

Methods of Convening Extraordinary General Meetings

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

Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose new resolution(s) and submit such proposed resolution(s) in writing to the Board ten days prior to the Annual General Meeting. The Board shall notify other shareholders of such proposed resolution(s) within two days after receipt of such proposal(s) and submit the same to the Annual General Meeting for consideration. The proposed resolution(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved. The proposed resolution(s) submitted by a shareholder to the Board shall be delivered in person or by registered mail to the Secretariat of the Board according to the registered address listed in the inside back cover of this annual report.

INVESTORS RELATIONS

The Company focused on the maintenance of sound investors relations and maintained effective communication with investors through various means. The Company timely communicated its operating results and business development trends with investors after the announcements of the 2017 annual results and the 2018 interim results by way of results briefings and roadshows, among others, strengthening communication with investors and facilitating the understanding of the Company by investors. The Company also maintains sound communication with investors through accepting visits by investors, holding telephone conferences, attending major investment forums, by telephone and email, etc., and proactively providing information to investors on the Company's website, with a view to establishing and maintaining a good relationship with investors.

The Company carried out a capitalisation issue in the Year. Upon the completion of the capitalisation issue, the registered capital of the Company increased from RMB14,828,510,202 to RMB22,242,765,303, and its total number of shares increased from 14,828,510,202 shares to 22,242,765,303 shares. The change in the registered capital of the Company was approved by the CBIRC during the Year.

During the Year, there were two rounds of amendments to the Articles of Association. The first round of amendments was to reflect the latest provisions of applicable laws and regulations and the requirements of CBIRC and other relevant authorities, which was approved at the extraordinary general meeting of the Company held on 12 March 2018 and the second round of amendments was to reflect changes in the registered capital and equity structure of the Company following the above capitalisation issue. The Company has completed the relevant procedures for the amendments to the Articles of Association.

The Company appoints the Secretariat of the Board to act as the information inquiry department for investors, which can be contacted by telephone, fax, e-mail, mail, etc. For contact details, please see the telephone number, fax number, e-mail address and registered address of the Company listed in the inside back cover of this annual report. On the Company's website www.epicc.com.cn, there is a section titled "Investors Relations", in which the information is updated timely.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the Extraordinary General Meeting held at PICC Building, No. 88 Xichang'an Street, Xicheng District, Beijing, the PRC on 7 March 2019, at which members of the fifth session of the Board and Supervisory Committee were elected. Relevant resolutions were passed at the Extraordinary General Meeting by way of poll. The particulars of which are set out in the circular dated 21 January 2019 and the poll results announcement dated 7 March 2019 of the Company.

Independent Auditor's Report

TO THE SHAREHOLDERS OF

PICC PROPERTY AND CASUALTY COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of PICC Property and Casualty Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 97 to 221 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities	
We identified the valuation of insurance contract liabilities as a key audit matter as the estimation of insurance contract liabilities involves a significant degree of judgement. The Group recorded insurance contract liabilities of RMB275,781 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 amounts and settlement patterns of claims. Small changes in these assumptions could result in material changes to the account balance. Details of the insurance contract liabilities are set out in note 36 to the consolidated financial statements.	Our procedures in relation to the valuation of insurance contract liabilities included: • Testing the internal controls relevant to our audit of the estimation of 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; – 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 whether impairment indicator 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 held debt securities of RMB143,499 million, equity securities and mutual funds of RMB74,102 million, net insurance receivables of RMB42,421 million and investments classified as loans and receivables of RMB54,097 million. Impairment losses of RMB636 million were recorded for available-for-sale financial assets and reversal of impairment losses of RMB302 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 value measured based on unobservable input (Level 3) are disclosed in note 18, note 19, note 20, note 3, and note 40 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 indications of impairment, assessing the models and methodologies used by the management against industry practice and valuation guidelines, and comparing assumptions used in the valuation to comparable market data 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 indications of impairment, including financial difficulty 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

	Notes	2018 RMB million	2017 RMB million
GROSS WRITTEN PREMIUMS	5	**388,769**	350,314
Net earned premiums	5	**344,124**	309,076
Net claims incurred	6	**(213,303)**	(192,520)
Net policy acquisition costs	7	**(90,508)**	(74,348)
Other underwriting expenses		**(26,820)**	(24,939)
Administrative expenses		**(8,189)**	(8,564)
UNDERWRITING PROFIT		**5,304**	8,705
Investment income	8	**16,635**	15,382
Net realised and unrealised (losses)/gains on investments	9	**(1,226)**	1,136
Investment related expenses		**(319)**	(675)
Interest expenses credited to policyholders' deposits		**(1)**	(2)
Exchange gains/(losses), net		**213**	(451)
Other income, net		**1,151**	489
Finance costs	10	**(2,074)**	(1,998)
Share of profits of associates and joint venture		**4,482**	4,575
Loss on deemed disposal of an associate	25	**(737)**	–
PROFIT BEFORE TAX	11	**23,428**	27,161
Income tax expense	12	**(7,942)**	(7,353)
PROFIT FOR THE YEAR		**15,486**	19,808
Profit attributable to			
– owners of the Company		**15,485**	19,807
– non-controlling interests		**1**	1
		15,486	19,808
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (in RMB Yuan)	15	**0.696**	0.891

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB million	2017 RMB million
PROFIT FOR THE YEAR		**15,486**	19,808
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value losses		**(4,673)**	(89)
– Reclassification of losses/(gains) to profit or loss on disposals		**531**	(1,317)
– Impairment losses		**636**	297
Income tax effect	*30*	**877**	277
		(2,629)	(832)
Net losses on cash flow hedges		**–**	(3)
Income tax effect	*30*	**–**	1
		–	(2)
Share of other comprehensive income/(expense) of associates and joint venture		**359**	(728)
NET OTHER COMPREHENSIVE EXPENSE THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(2,270)**	(1,562)
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		**247**	184
Income tax effect	*30*	**(62)**	(46)
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**185**	138
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		**(2,085)**	(1,424)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,401**	18,384
Total comprehensive income attributable to			
– owners of the Company		**13,400**	18,383
– non-controlling interests		**1**	1
		13,401	18,384

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	**31 December 2018 *RMB million***	31 December 2017 *RMB million*
ASSETS			
Cash and cash equivalents	*17*	**33,797**	34,688
Debt securities	*18*	**143,499**	153,728
Equity securities and mutual funds	*19*	**74,102**	64,701
Insurance receivables, net	*20*	**42,421**	37,845
Reinsurance assets	*21*	**28,565**	29,410
Term deposits	*22*	**73,963**	61,300
Investments classified as loans and receivables	*23*	**54,097**	51,180
Prepayments and other assets	*24*	**23,134**	19,112
Investments in associates and joint venture	*25*	**45,301**	41,832
Investment properties	*27*	**4,881**	4,976
Property and equipment	*28*	**17,235**	15,531
Prepaid land premiums	*29*	**2,845**	3,023
Deferred tax assets	*30*	**6,779**	7,240
TOTAL ASSETS		**550,619**	524,566
LIABILITIES			
Payables to reinsurers	*32*	**15,706**	17,319
Accrued insurance security fund	*33*	**1,026**	958
Securities sold under agreements to repurchase	*34*	**27,999**	23,121
Income tax payable		**3,109**	4,396
Other liabilities and accruals	*35*	**60,119**	55,352
Insurance contract liabilities	*36*	**275,781**	264,748
Policyholders' deposits	*37*	**1,956**	2,296
Bonds payable	*38*	**23,420**	23,262
TOTAL LIABILITIES		**409,116**	391,452
EQUITY			
Issued capital	*39*	**22,242**	14,828
Reserves		**119,253**	118,279
Equity attributable to owners of the Company		**141,495**	133,107
Non-controlling interests		**8**	7
TOTAL EQUITY		**141,503**	133,114
TOTAL EQUITY AND LIABILITIES		**550,619**	524,566

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Issued capital RMB million	Share premium account RMB million	Asset revaluation reserve** RMB million	Available-for-sale investment revaluation reserve RMB million	Surplus reserve*** RMB million	General risk reserve RMB million	Agriculture catastrophic loss reserve RMB million	Share of other comprehensive income/(expense) of associates and joint venture RMB million	Retained profits RMB million	Total RMB million	RMB million	RMB million
Balance at 1 January 2018	14,828	18,986*	3,017*	6,191*	34,585*	11,308*	2,471*	(552)*	42,273*	133,107	7	133,114
Profit for the year	-	-	-	-	-	-	-	-	15,485	15,485	1	15,486
Other comprehensive income/(expense)	-	-	185	(2,629)	-	-	-	359	-	(2,085)	-	(2,085)
Total comprehensive income/(expense)	-	-	185	(2,629)	-	-	-	359	15,485	13,400	1	13,401
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	1,627	1,627	-	-	(3,254)	-	-	-
Appropriations to discretionary surplus reserve****	-	-	-	-	6,000	-	-	-	(6,000)	-	-	-
Appropriations to agriculture catastrophic loss reserve	-	-	-	-	-	-	279	-	(279)	-	-	-
Utilisation of agriculture catastrophic loss reserve	-	-	-	-	-	-	(279)	-	279	-	-	-
Conversion from share premium account to issued capital****	7,414	(7,414)	-	-	-	-	-	-	-	-	-	-
2017 final dividend****	-	-	-	-	-	-	-	-	(5,012)	(5,012)	-	(5,012)
Balance at 31 December 2018	22,242	11,572*	3,202*	3,562*	42,212*	12,935*	2,471*	(193)*	43,492*	141,495	8	141,503

* The consolidated reserves of RMB119,253 million (31 December 2017: RMB118,279 million) in the consolidated statement of financial position as at 31 December 2018 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 22 June 2018, the shareholders of the Company at a general meeting approved a final dividend of RMB0.338 per ordinary share totalling RMB5,012 million for the year ended 31 December 2017, an amount of RMB6,000 million to be appropriated to discretionary surplus reserve, and a conversion of RMB7,414 million from share premium account to issued capital on the basis of 5 shares for every 10 existing shares.

	Attributable to owners of the Company											Non-controlling interests	Total equity
	Issued capital	Share premium account	Asset revaluation reserve**	Available-for-sale investment revaluation reserve	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Agriculture catastrophic loss reserve	Share of other comprehensive income/(expense) of associates and joint venture	Retained profits	Total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2017	14,828	18,986*	2,879*	7,023*	2*	32,614*	9,337*	1,885*	176*	31,576*	119,306	6	119,312
Profit for the year	–	–	–	–	–	–	–	–	–	19,807	19,807	1	19,808
Other comprehensive income/(expense)	–	–	138	(832)	(2)	–	–	–	(728)	–	(1,424)	–	(1,424)
Total comprehensive income/(expense)	–	–	138	(832)	(2)	–	–	–	(728)	19,807	18,383	1	18,384
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	–	1,971	1,971	–	–	(3,942)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	–	586	–	(586)	–	–	–
2016 final dividend****	–	–	–	–	–	–	–	–	–	(4,582)	(4,582)	–	(4,582)
Balance at 31 December 2017	14,828	18,986*	3,017*	6,191*	–*	34,585*	11,308*	2,471*	(552)*	42,273*	133,107	7	133,114

* The consolidated reserves of RMB118,279 million (31 December 2016: RMB104,478 million) in the consolidated statement of financial position as at 31 December 2017 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 23 June 2017, the shareholders of the Company at a general meeting approved a final dividend of RMB0.309 per ordinary share totalling RMB4,582 million for the year ended 31 December 2016.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	**2018** **RMB million**	2017 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**23,428**	27,161
Adjustments for:			
Investment income	8	**(16,635)**	(15,382)
Net realised and unrealised losses/(gains) on investments	9	**1,226**	(1,136)
Interest expenses credited to policyholders' deposits		**1**	2
Exchange (gains)/losses, net		**(213)**	451
Share of profits of associates and joint venture		**(4,482)**	(4,575)
Loss on deemed disposal of an associate		**737**	–
Depreciation of property and equipment	11, 28	**1,678**	1,544
Amortisation of prepaid land premiums	11, 29	**170**	149
Net gains on disposal of items of property and equipment	11	**(71)**	(56)
Finance costs	10	**2,074**	1,998
Investment related expenses		**319**	675
(Reversal of)/provision for impairment losses on insurance receivables	11, 20	**(302)**	391
Reversal of impairment losses on prepayments and other assets	11, 24	**(87)**	(46)
Operating cash flows before working capital changes		**7,843**	11,176
Changes in working capital:			
Increase in insurance receivables		**(4,274)**	(7,757)
Decrease in policyholders' deposits		**(340)**	(34)
Increase in other assets		**(1,248)**	(4,497)
(Decrease)/increase in payables to reinsurers		**(1,613)**	876
Increase in accrued insurance security fund		**68**	124
Increase in other liabilities and accruals		**5,518**	6,335
Increase in insurance contract liabilities, net		**11,878**	23,952
Cash generated from operations		**17,832**	30,175
Income tax paid		**(7,953)**	(8,768)
Net cash flows from operating activities		**9,879**	21,407

	Notes	2018 RMB million	2017 RMB million
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**14,312**	13,232
Rental income received from investment properties		**247**	273
Dividend income received from equity securities and mutual funds		**2,343**	1,840
Payment for capital expenditure		**(4,177)**	(1,730)
Proceeds from disposal of items of property and equipment		**169**	156
Payment for acquisition of associates and joint venture		**(98)**	(1,077)
Payment for purchase of debt securities, equity securities and mutual funds		**(70,376)**	(80,091)
Payment for purchase of investments classified as loans and receivables		**(10,657)**	(45,820)
Dividend income received from associates		**734**	628
Proceeds from sale of debt securities, equity securities and mutual funds		**65,177**	64,555
Proceeds from sale of investments classified as loans and receivables		**7,740**	33,529
(Increase)/decrease in term deposits, net		**(12,663)**	6,982
Increase in capital security fund		**(1,483)**	–
Net cash flows used in investing activities		**(8,732)**	(7,523)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in securities sold under agreements to repurchase, net	44	**4,878**	2,091
Interest paid	44	**(1,904)**	(1,849)
Dividends paid		**(5,012)**	(4,582)
Net cash flows used in financing activities		**(2,038)**	(4,340)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(891)**	9,544
Cash and cash equivalents at beginning of the year		**34,688**	25,144
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	**33,797**	34,688

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at Tower 2, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, the PRC. The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in property and casualty insurance business. Details of the operating segments are set out in note 4 to the consolidated financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is The People's Insurance Company (Group) of China Limited (the "PICC Group"), which is incorporated in the PRC and also listed on the Stock Exchange of Hong Kong Limited.

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 Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

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

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

2.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

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

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

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

The Group has applied HKFRS 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 HKFRS 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 HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

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

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

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

HKFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The Standard introduces new requirements for classification and measurement, impairment, and hedge accounting. HKFRS 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 HKFRS 4.

In January 2017, HKFRS 4 was amended to address issues arising from the different effective dates of HKFRS 9 and HKFRS 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 HKFRS accounting and to defer the application of HKFRS 9 until the earlier of the application of the new insurance standard or periods beginning on or after 1 January 2021. The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment.

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

During the year ended 31 December 2016, the Group and the Company performed an assessment based on these amendments. The carrying amount of the Group's liabilities connected with insurance exceeded 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 and the Company 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 HKFRS 9 and HKFRS 17 Insurance Contracts when the impact analysis of HKFRS 9 was performed.

The Group has applied uniform accounting policies in accounting for it's subsidiaries, associates and joint venture in these consolidated financial statements.

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

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

The additional disclosures about the temporary exemption from HKFRS 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 HKFRS 9 as at 31 December 2018 and fair value changes for the year ended 31 December 2018:

	Fair value as at 31 December 2018 ***RMB million***	Fair value changes for the year ended 31 December 2018 *RMB million*
Held for trading financial assets (A)	**13,449**	38
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)	**169,065**	8,068
– Financial assets with contractual terms that do not meet SPPI terms (D)	**95,252**	(6,834)
Total	**277,766**	1,272

Note: The table above includes only debt securities, equity securities and mutual funds and investments classified as loans and receivables. As 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.

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

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

(ii) ***Credit risk exposure***

For the financial assets that meet SPPI criterion (included in C above), the credit rating of financial assets are assessed by qualified rating agencies in the PRC except for oversea 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)* *RMB million*
AAA	139,176
AA+	2,431
Not rated*	21,758
Total	163,365

* Included in the not rated category, there is an aggregate carrying amount of RMB19,556 million of government bonds and certain financial bonds issued by policy banks, with low credit risks and without any credit rating.

For the overseas bonds that meet SPPI criterion (included in C above), [Moody's] credit rating is used. The credit risk exposure is listed below:

Credit rating of overseas bonds that meet SPPI criterion

	Carrying amount as at 31 December 2018 *(Note 1)* *RMB million*
Aa1	131
Aa2	6
Aa3	17
A1	87
A2	34
A3	8
Baa1	54
Baa2	11
Total	348

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

Amendments to HKFRS 4 - Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts *(continued)*

(ii) Credit risk exposure (continued)

	As at 31 December 2018	
	Carrying amount *RMB million*	Fair value *RMB million*
Financial assets that do not have low credit risk *(Note 2)*	4,633	4,982

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 for those assets rated by qualified rating agencies in the PRC below AAA or Moody's credit rating below Baa3.

2.4 NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

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

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for annual periods beginning on or after 1 January 2019, or the annual period in which the Group first adopts HKFRS 9, whichever the later.

5 Effective for annual periods beginning on or after a date to be determined.

6 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

7 Effective for annual periods beginning on or after 1 January 2020.

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

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

HKFRS 9 – Financial Instruments

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

Key requirements of HKFRS 9:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 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, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 – Financial Instruments *(continued)*

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 HKFRS 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 HKFRS 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 HKFRS 9. On initial application of HKFRS 9, the difference between the fair value and the amortised cost will be adjusted to retained profits at the date of transition;

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in note 18: a significant portion of these financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the available-for-sale investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the debt instruments are derecognised (except in the case of reclassifications to the amortised cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date). 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 HKFRS 9. On initial application of HKFRS 9, available-for-sale 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 HKFRS 9, available-for-sale investment revaluation reserve relating to these financial assets will be transferred to retained profits on the date of transition.

- At fair value through profit or loss financial assets 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 HKAS 39 and HKFRS 9.

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

HKFRS 9 – Financial Instruments *(continued)*

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 HKAS 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.

HKFRS 16 – Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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 HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

HKFRS 16 – Leases *(continued)*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,620 million as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 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 RMB39 million and refundable rental deposits received of RMB0.6 million as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 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 HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 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 HKAS 17 and HK(IFRIC)-Int 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 HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating the comparative information.

HKFRS 17 – Insurance Contracts

In January 2018, the HKICPA issued HKFRS 17 Insurance Contracts, which replaces HKFRS 4. HKFRS 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 HKFRS 17 is substantially consistent with that of HKFRS 4.

HKFRS 17 provides the criteria to determine when a non-insurance component is distinct from the host insurance contract. Entities are required to first apply HKFRS 9 to separate any cash flows related to embedded derivatives and distinct investment components and then apply HKFRS 15 to separate from the host insurance contract any distinct promise to transfer goods or non-insurance services to a policyholder. Under HKFRS 17, there is no accounting policy choice to unbundling. It is either required or prohibited. This is different from HKFRS 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.

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

HKFRS 17 – Insurance Contracts *(continued)*

HKFRS 17 introduces a new requirement for entities to identify portfolios of insurance contracts, which comprise 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 it issues shall be divided into a minimum of:

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

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

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

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

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

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

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

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

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.

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

HKFRS 17 – Insurance Contracts *(continued)*

For contracts measured using GMM under HKFRS 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 HKFRS 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, HKFRS 4 allows insurers to continue using accounting policies that involve them measuring insurance contract liabilities on an undiscounted basis. HKFRS 17 requires insurers to apply discount rates to estimates of future cash flows that are consistent with observable current market prices.

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.

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 HKFRS 4 to avoid undue volatility in the statement of comprehensive income.

HKFRS 17 requires more granular and detailed disclosures compared to HKFRS 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 HKFRS 17; and

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

HKFRS 17 is effective for annual periods, beginning on or after 1 January 2021, with earlier application permitted if both HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have also been applied. An entity shall apply HKFRS 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

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;
- 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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 interest' 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 HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Investments in associates and joint venture

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 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 interests 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint venture *(continued)*

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.

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 HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control, 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 HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint venture *(continued)*

When the Group reduces its ownership interests 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 interests if that gain or loss would have been 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.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional and presentation currency. RMB is used by each entity in the Group as its functional and presentation currency in its financial statements. Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of the reporting period.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables include cash equivalents, term deposits, insurance receivables and investments classified as loans and receivables. After initial measurement, such assets are subsequently measured at amortised cost, using the effective interest 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 investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities 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 and the losses arising from impairment are both included and recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-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.

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 investment 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.

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)*

Financial assets *(continued)*

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an 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.

Financial assets carried at amortised cost

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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, 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.

Available-for-sale financial assets

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal 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. 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)*

Derecognition of financial assets

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

– the rights to receive cash flows from the asset have expired; or

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

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

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.

Financial liabilities

Initial recognition and measurement

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 HKAS 39. Separated embedded derivatives are always measured at fair value through profit or loss unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

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

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.

Financial guarantee contracts

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement (continued)

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

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

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit 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.

Fair value measurement

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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.

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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	2.77% to 19.40%
Motor vehicles	16.17% to 24.25%
Office equipment, furniture and fixtures	9.70% to 32.33%

Where parts of an item of property 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Insurance contracts

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as assessed by the Group is based on the additional amount that the Group needs to compensate policyholders upon the occurrence of the insurance events.

Some 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 HKFRS 4 and the unbundled deposit component is accounted for as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the entire contract 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 financial assets derecognition criteria have been met.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group uses a group of insurance contracts whose insurance risks are of a similar nature as a measurement unit. The Group's insurance contracts are classified into certain measurement units by type of insurance.

The Group's insurance contract liabilities comprise mainly unearned premium reserves and loss and loss adjustment expense reserves.

The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as commission expenses, underwriting personnel expenses, tax and other 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, the unearned premium reserves are released over the term of the contract and are primarily earned on a 365-day basis. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. If current estimates of the present value of the expected future claims and loss adjustment expenses in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty associated with the future net cash flows, exceed the unearned premium reserves, then the unearned premium reserves are deemed to be deficient. The resulting deficiency is recognised immediately through profit or loss. The risk margin for the tests described above is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark.

Loss and loss adjustment expense reserves include incurred and reported reserves, incurred but not reported ("IBNR") reserves and loss adjustment expense reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities (*continued*)

Loss and loss adjustment expense reserves are established for the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries, plus a risk margin. Delays can be experienced in notification and settlement of certain types of claims, and therefore the ultimate cost of these claims cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial projection techniques, based on empirical data and current assumptions. Risk margin is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. Adjustments to the liabilities at the end of each reporting period are recorded in profit or loss.

Derecognition of insurance contract liabilities

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

Reinsurance

The Group cedes insurance risk in the normal course of business for part of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance contract liabilities or settled claims associated with the reinsured policies and are in accordance with the related reinsurance contracts.

Commissions receivable on outward reinsurance contracts are recorded as income in the income statement. The reinsurers' share of unearned premium reserves is reduced by commissions receivable on outward reinsurance contracts at inception and subsequently the reduced balance is released over the term of the contract in the same manner as the related unearned premium reserves. Reinsurers' share of loss and loss adjustment expense reserves also includes its share of risk margin to the gross balance of loss and loss adjustment expense reserves.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the effect has a reliably measurable impact on the amounts that will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable to reinsurers are estimated in a manner consistent with the related reinsurance contracts. Receivables and payables arising from reinsurance contracts are measured at amortised costs and not offset for presentation purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reinsurance *(continued)*

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.

Revenue recognition

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

Gross premiums

Premium income and reinsurance premium income are recognised when the insurance contracts are issued, related insurance risk is undertaken by the Group, it is probable that the related economic benefits will flow to the Group and the related income can be reliably measured.

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.

Rental income

Rental income is recognised on a straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

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*)

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 realised, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are 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)*

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;

(b) the party is an entity where any of the following conditions applies:

   (i) the entity and the Group are members of the same group;

   (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

   (iii) the entity and the Group are joint ventures of the same third party;

   (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

   (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

   (vi) the entity is controlled or jointly controlled by a person identified in (a); and

   (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Provisions

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

– an entity has a present obligation as a result of a past event;

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

– a reliable estimate can be made of the amount of the obligation.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Retirement benefit costs 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' wages.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

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

Share-based payments

Employees working in the Group are granted share appreciation rights ("SARs"), which can be settled only in cash ("cash-settled transactions"). The cost of cash-settled share-based payment transactions is measured initially at fair value using the Black-Scholes model at the grant date taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at the end of each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessee

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire 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 lease 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.

Profit appropriation

In accordance with the PRC Company Law and the Company and each of its subsidiary' articles of association, the Company and each of its subsidiary are required to make appropriations to the statutory surplus reserve based on their respective annual profit (after offsetting any prior years' losses) as determined in accordance with PRC generally accepted accounting principles ("PRC GAAP"). When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Company and each of its subsidiary may also make appropriations to the discretionary surplus reserve provided that the appropriation is approved by a resolution of the shareholders. Subject to resolutions passed in general meetings, the statutory and discretionary surplus reserves can be transferred to the capital. The balance of the statutory surplus reserve fund after transfers to the capital should not be less than 25% of capital.

According to the relevant regulations of the PRC, the Company has to set aside 10% of its net profit determined in accordance with PRC GAAP to the general risk reserve for catastrophic losses. This general risk reserve cannot be used for dividend distribution or conversion to capital.

According to the relevant regulations of the PRC, the Company is required to make appropriations to the agriculture catastrophic loss reserve when the agriculture insurance business achieves annual or accumulated excessive underwriting profits determined in accordance with PRC GAAP. This agriculture catastrophic loss reserve cannot be used for dividend distribution or conversion to capital.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

Product classification

The Group makes significant judgements on classification of insurance contracts by assessing whether significant insurance risk exists. Contracts that do not transfer significant insurance risk are classified as investment contracts and accounted for in accordance with HKAS 39.

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 HKAS 39.

The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 25 to these consolidated financial statements.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policies *(continued)*

Consolidations of structured entities

The Group has interest in a range of structured entities in its daily operations for investment purposes. These entities vary in legal forms and investors' rights on removals of the managers, changing underlying assets and liquidations. Certain fellow subsidiaries of the Company are also engaged in launching and managing these structured entities. The Group has to assess whether it has control over these entities. The decision mainly depends on whether the Group is the investment manager, whether or not the Group has powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers. Details of these structured entities are disclosed in note 49.

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 investments in associates 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 a suitable discount rate in order to calculate the present value of those cash flows.

Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract liabilities, the Group needs to make reasonable estimates in payments that the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

The main assumptions made in measuring these liabilities are as follows:

- For insurance contracts under which the future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of yield curve of China's treasury bonds published by China Central Depository and Clearing Co., Ltd, with consideration of tax effect and illiquidity premiums. In consideration of the different duration of each line of business, the Group used premiums of 84 - 104 basis points as at 31 December 2018 (31 December 2017: 89 - 98 basis points). The discount rates of the different duration used as at 31 December 2018 were 3.7% - 4.1% (31 December 2017: 3.6% - 3.9%).

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key source of estimation uncertainty *(continued)*

Valuation of insurance contract liabilities (continued)

- The Group determines the risk margin assumptions for unearned premium reserves based on the currently available information at the end of the reporting period, details are described below:

Type	**2018**	2017
Agriculture insurance	**33.8%**	33.8%
Motor vehicle insurance	**3%**	3%
Others insurance	**6%**	6%

- The Group determines the risk margin assumptions for loss and loss adjustment expense reserves based on the currently available information at the end of the reporting period, details are described below:

Type	**2018**	2017
Agriculture insurance	**33.3%**	33.3%
Motor vehicle insurance	**2.5%**	2.5%
Others insurance	**5.5%**	5.5%

The major assumptions needed in measuring loss and loss adjustment expense reserves include claim development factors and expected loss ratios, which can be used to forecast trends of future claims so as to estimate the ultimate claim expenses. The claim development factors and the expected loss ratios for various measurement units are based on the Group's past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, expenses and claims handling processes, and changing trends in external environment such as economic conditions, regulations and legislation.

Management is of the opinion that as at the end of the reporting period, loss and loss adjustment expense reserves are sufficient to cover all incurred events to date but cannot guarantee there is no under-provision or over-provision of the reserve, which is an estimate of the ultimate losses. The term and assumptions of insurance contract liabilities and development of claims are set out in note 43(a).

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key source of estimation uncertainty *(continued)*

Impairment of financial assets

Financial assets measured at amortised cost

When there is an objective evidence that indicates 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, 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 blow its carrying amount, the Group determines whether impairment exists by: for equity instruments, judging whether this decline below cost is “significant” or “prolonged” as explained in note 2.5; 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.

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.

4. OPERATING SEGMENT INFORMATION

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

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

(a) the motor vehicle segment provides insurance products covering motor vehicles;

(b) the commercial property segment provides insurance products covering commercial properties;

(c) the cargo segment provides insurance products covering vessels, crafts or conveyances;

(d) the liability segment provides insurance products covering policyholders' liabilities;

(e) the accidental injury and health segment provides insurance products covering accidental injuries and medical expenses;

(f) the agriculture segment provides insurance products covering agriculture business;

(g) the credit and surety segment provides insurance products covering credit and surety business;

(h) the others segment mainly represents insurance products related to homeowners, special risks, marine hull and construction; and

(i) the corporate segment includes the income and expenses from investment activities, share of results of associates and joint venture, other net income, unallocated income and expense of the Group.

Due to the rapid growth of the credit and surety business, management decided to disclose credit and surety segment separately.

Management monitors the results of the Group's operating segments separately for the purpose of performance assessment. Segment performance is evaluated based on reportable segment result, in which insurance business income and expense (for segments (a) to (h)) is a measure of underwriting profit/loss and corporate business income and expense (for segment (i)), primarily investment related income and expense, is a measure of profit for the year excluding underwriting profit/loss. Income tax expense is not further allocated but assigned to corporate business segment.

Insurance business assets and liabilities directly attributable to operating segments of insurance business will be allocated to each segment. Investment assets and liabilities managed on a group basis will be allocated to the corporate business segment together with property and equipment, investment properties, prepaid land premiums, other assets, bonds payable, income tax payable, deferred tax assets and other payables, which are not allocated further.

Geographical information is not presented as all of the Group's customers, assets and liabilities are located and operations are mainly carried out in the PRC for relevant entities. No inter-segment transactions occurred in 2018 and 2017.

In 2018 and 2017, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment income statements for the years ended 31 December 2018 and 2017 are as follows:

2018	Insurance								Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Credit and surety	Others		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Gross written premiums	258,904	13,413	3,864	21,706	40,444	26,718	11,575	12,145	–	388,769
Net earned premiums	249,111	7,957	2,801	15,086	34,038	22,655	5,969	6,507	–	344,124
Net claims incurred	(142,476)	(5,475)	(1,503)	(8,829)	(30,348)	(16,534)	(3,591)	(4,547)	–	(213,303)
Net policy acquisition costs	(78,019)	(2,054)	(684)	(3,575)	(2,116)	(1,251)	(1,657)	(1,152)	–	(90,508)
Other underwriting expenses	(18,970)	(840)	(211)	(1,268)	(1,069)	(3,242)	(273)	(947)	–	(26,820)
Administrative expenses	(5,752)	(352)	(141)	(502)	(321)	(674)	(263)	(184)	–	(8,189)
Underwriting profit/(loss)	3,894	(764)	262	912	184	954	185	(323)	–	5,304
Investment income	–	–	–	–	–	–	–	–	16,635	16,635
Net realised and unrealised losses on investments	–	–	–	–	–	–	–	–	(1,226)	(1,226)
Investment related expenses	–	–	–	–	–	–	–	–	(319)	(319)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	–	–	(1)	–	(1)
Exchange gains, net	–	–	–	–	–	–	–	–	213	213
Other income, net	–	–	–	–	–	–	–	–	1,151	1,151
Finance costs	–	–	–	–	–	–	–	–	(2,074)	(2,074)
Share of profits of associates and joint venture	–	–	–	–	–	–	–	–	4,482	4,482
Loss on deemed disposal of an associate	–	–	–	–	–	–	–	–	(737)	(737)
Profit/(loss) before tax	3,894	(764)	262	912	184	954	185	(324)	18,125	23,428
Income tax expense	–	–	–	–	–	–	–	–	(7,942)	(7,942)
Profit/(loss) for the year – segment results	3,894	(764)	262	912	184	954	185	(324)	10,183	15,486

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment income statements for the years ended 31 December 2018 and 2017 are as follows: *(continued)*

	Insurance								Corporate	Total
2017	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Credit and surety *RMB million*	Others *RMB million*	*RMB million*	*RMB million*
Gross written premiums	249,232	12,623	3,232	16,975	30,646	22,090	4,942	10,574	–	350,314
Net earned premiums	236,877	7,148	2,427	11,795	25,622	16,489	2,947	5,771	–	309,076
Net claims incurred	(139,407)	(4,076)	(1,227)	(6,929)	(24,004)	(11,033)	(1,987)	(3,857)	–	(192,520)
Net policy acquisition costs	(65,614)	(1,812)	(571)	(2,715)	(1,680)	(509)	(650)	(797)	–	(74,348)
Other underwriting expenses	(17,800)	(1,107)	(219)	(1,093)	(790)	(2,829)	(234)	(867)	–	(24,939)
Administrative expenses	(5,728)	(378)	(120)	(501)	(466)	(902)	(115)	(354)	–	(8,564)
Underwriting profit/(loss)	8,328	(225)	290	557	(1,318)	1,216	(39)	(104)	–	8,705
Investment income	–	–	–	–	–	–	–	–	15,382	15,382
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	–	1,136	1,136
Investment related expenses	–	–	–	–	–	–	–	–	(675)	(675)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	–	–	(2)	–	(2)
Exchange losses, net	–	–	–	–	–	–	–	–	(451)	(451)
Other income, net	–	–	–	–	–	–	–	–	489	489
Finance costs	–	–	–	–	–	–	–	–	(1,998)	(1,998)
Share of profits of associates and joint venture	–	–	–	–	–	–	–	–	4,575	4,575
Profit/(loss) before tax	8,328	(225)	290	557	(1,318)	1,216	(39)	(106)	18,458	27,161
Income tax expense	–	–	–	–	–	–	–	–	(7,353)	(7,353)
Profit/(loss) for the year – segment results	8,328	(225)	290	557	(1,318)	1,216	(39)	(106)	11,105	19,808

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets and liabilities of the Group as at 31 December 2018 and 2017 and other segment information for the years then ended are as follows:

	Insurance								Corporate	Total
31 December 2018	**Motor vehicle**	**Commercial property**	**Cargo**	**Liability**	**Accidental injury and health**	**Agriculture**	**Credit and surety**	**Others**		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment assets	**9,758**	**8,891**	**1,421**	**9,536**	**10,319**	**7,272**	**11,385**	**16,213**	**475,824**	**550,619**
Segment liabilities	**208,558**	**17,195**	**3,269**	**23,763**	**24,341**	**14,569**	**11,732**	**22,658**	**83,031**	**409,116**
Other segment information:										
Depreciation and amortisation	**1,470**	**76**	**22**	**123**	**230**	**152**	**66**	**68**	**–**	**2,207**
Impairment losses on insurance receivables, prepayments and other assets	**1**	**14**	**(4)**	**45**	**(146)**	**(185)**	**99**	**(213)**	**–**	**(389)**
Interest income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,028**	**14,028**

	Insurance								Corporate	Total
31 December 2017	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Credit and surety	Others		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment assets	13,299	12,055	1,490	8,082	6,814	7,502	5,833	16,249	453,242	524,566
Segment liabilities	209,267	19,171	3,276	21,044	19,231	12,801	6,136	21,244	79,282	391,452
Other segment information:										
Depreciation and amortisation	1,381	67	18	94	170	121	27	58	–	1,936
Impairment losses on insurance receivables, prepayments and other assets	27	14	1	27	56	186	30	4	–	345
Interest income	–	–	–	–	–	–	–	–	13,278	13,278

5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	2018	2017
	RMB million	*RMB million*
Gross written premiums		
Direct written premiums	**388,020**	349,290
Reinsurance premiums assumed	**749**	1,024
	388,769	350,314
Net earned premiums		
Gross written premiums	**388,769**	350,314
Less: Reinsurance premiums ceded	**(31,410)**	(28,996)
Net written premiums	**357,359**	321,318
Gross change in unearned premium reserves	**(14,242)**	(11,835)
Less: Reinsurer's share of change in unearned premium reserves	**1,007**	(407)
Net change in unearned premium reserves	**(13,235)**	(12,242)
Net earned premiums	**344,124**	309,076

6. NET CLAIMS INCURRED

	2018	2017
	RMB million	*RMB million*
Gross claims paid	**232,759**	199,777
Less: Paid losses recoverable from reinsurers	**(18,099)**	(18,967)
Net claims paid	**214,660**	180,810
Gross change in loss and loss adjustment expense reserves	**(3,209)**	10,820
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	**1,852**	890
Net change in loss and loss adjustment expense reserves	**(1,357)**	11,710
Net claims incurred	**213,303**	192,520

7. NET POLICY ACQUISITION COSTS

	2018	2017
	RMB million	*RMB million*
Commission expenses	**74,036**	59,725
Less: Reinsurance commission income	**(9,859)**	(8,817)
Underwriting personnel expenses	**21,049**	18,184
Taxes and other surcharges	**1,379**	1,513
Contributions to insurance security fund *(note 33)*	**2,964**	2,683
Others	**939**	1,060
	90,508	74,348

8. INVESTMENT INCOME

	2018 *RMB million*	2017 *RMB million*
Operating lease income from investment properties	247	273
Interest income from:		
Current and term deposits	4,161	4,262
Debt securities		
– Held-to-maturity	2,103	2,103
– Available-for-sale	4,721	3,777
– At fair value through profit or loss	70	53
Investments classified as loans and receivables	2,973	3,083
	14,028	13,278
Dividend income from equity securities and mutual funds:		
– Available-for-sale	2,257	1,748
– At fair value through profit or loss	103	83
	2,360	1,831
	16,635	15,382

9. NET REALISED AND UNREALISED (LOSSES)/GAINS ON INVESTMENTS

	2018 **RMB million**	2017 RMB million
Realised (losses)/gains from:		
Debt securities		
– Available-for-sale	**277**	90
– At fair value through profit or loss	**26**	-
Equity securities and mutual funds		
– Available-for-sale	**(808)**	1,227
– At fair value through profit or loss	**(255)**	215
	(760)	1,532
Unrealised gains/(losses) from:		
Debt securities classified as fair value through profit or loss	**61**	(55)
Equity securities and mutual funds classified as fair value through profit or loss	**4**	(59)
Derivative financial instruments	**–**	(44)
	65	(158)
Impairment losses on equity securities and mutual funds classified as available-for-sale *(note 19)*	**(636)**	(297)
Fair value gains on investment properties *(note 27)*	**105**	59
	(1,226)	1,136

10. FINANCE COSTS

	2018	2017
	RMB million	*RMB million*
Interest on bonds payable	**1,165**	1,157
Interest on securities sold under agreements to repurchase	**855**	801
Other finance costs	**54**	40
	2,074	1,998

11. PROFIT BEFORE TAX

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

		2018	2017
	Notes	***RMB million***	*RMB million*
Depreciation of property and equipment	*28*	**1,678**	1,544
Amortisation of prepaid land premiums	*29*	**170**	149
Employee expenses (including directors', supervisors' and senior management's remunerations)			
– Salaries, allowances and performance related bonuses		**35,300**	28,800
– Pension scheme contributions		**2,739**	3,232
(Reversal of)/provision for impairment losses on insurance receivables	*20*	**(302)**	391
Reversal of impairment losses on prepayments and other assets		**(87)**	(46)
Minimum lease payments under operating leases in respect of land and buildings		**1,155**	985
Net gains on disposal of items of property and equipment		**(71)**	(56)
Auditors' remuneration		**17**	16

In the current year, the Group amended its compositions of underwriting profit based on industry practice. The Group reclassified certain other income and other expenses which will no longer be eligible for inclusion in underwriting profit, from administrative expenses to other income, net. Prior year comparative figures have been revised accordingly, resulting in a reduction in underwriting profit of RMB590 million for the year ended 31 December 2017.

12. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2017: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2018 *RMB million*	2017 *RMB million*
Current tax	6,658	10,444
Adjustments in respect of prior years	8	39
Deferred tax *(note 30)*	1,276	(3,130)
Total tax charge for the year	7,942	7,353

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate is as follows:

	2018 *RMB million*	2017 *RMB million*
Profit before tax	23,428	27,161
Tax at the statutory tax rate of 25% (2017: 25%)	5,857	6,790
Income not subject to tax	(2,271)	(1,787)
Expenses not deductible for tax *(note)*	4,348	2,311
Adjustments in respect of prior years	8	39
Tax charge at the Group's effective tax rate	7,942	7,353

Note:

It mainly includes commission expenses which are not deductible for tax purposes when they exceed certain percentages of premiums income.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors and supervisors

Directors' and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

2018	Fees *RMB'000*	Salaries and allowances *RMB'000*	Retirement benefits *RMB'000*	Housing fund and other benefits *RMB'000*	Total remuneration before tax *RMB'000*
Executive directors:					
Mr. Miao Jianmin (Chairman of the Board) (appointed on 12 March 2018)	–	–	–	–	–
Mr. Xie Yiqun (Vice Chairman/President) (appointed as non-executive director on 22 June 2018 *(i)*, appointed as vice chairman/president on 7 March 2019)	–	–	–	–	–
Mr. Lin Zhiyong (resigned as vice chairman/president on 25 February 2019, resigned as executive director on 7 March 2019)	–	1,339	232	51	1,622
Mr. Yun Zhen (resigned on 26 October 2018)	–	992	187	45	1,224
Mr. Wang Dedi (resigned on 25 April 2018)	–	352	68	22	442
Ms. Xie Xiaoyu (appointed on 7 March 2019)	–	–	–	–	–
Mr. Hua Shan (appointed on 7 March 2019)	–	–	–	–	–
Non-executive directors:					
Mr. Tang Zhigang *(i)* (appointed on 7 March 2019)	–	–	–	–	–
Mr. Li Tao *(i)*	–	–	–	–	–
Ms. Yu Xiaoping *(i)* (resigned on 7 March 2018)	–	–	–	–	–
Independent non-executive directors:					
Mr. Lin Hanchuan	233	–	–	–	233
Mr. Lo Chung Hing	233	–	–	–	233
Mr. Na Guoyi	233	–	–	–	233
Mr. Ma Yusheng	233	–	–	–	233
Mr. Chu Bende	233	–	–	–	233
Ms. Qu Xiaohui	233	–	–	–	233
Supervisors:					
Mr. Jiang Caishi (Chairman of the Supervisory Committee) (appointed on 7 March 2019)	–	–	–	–	–
Mr. Wang He (Chairman of the Supervisory Committee) (resigned on 25 January 2018)	–	99	18	14	131
Mr. Li Zhuyong *(i)* (retired on 7 March 2019)	–	–	–	–	–
Mr. Wang yadong *(i)* (appointed on 7 March 2019)	–	–	–	–	–
Mr. Li Fuhan	–	713	132	47	892
Ms. Gao Hong	–	713	166	56	935
Independent supervisors:					
Mr. Lu Zhengfei	233	–	–	–	233
Mr. Ding Ningning (resigned on 26 July 2018)	131	–	–	–	131
Mr. Charlie Yucheng SHI (appointed on 7 March 2019)	–	–	–	–	–
	1,762	4,208	803	235	7,008

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors and supervisors *(continued)*

The executive and non-executive directors' remunerations shown above were mainly for their services in connection with the management of the affairs of the Company.

In accordance with the policies of the relevant authorities in the PRC, the Company did not pay any compensation to Mr. Miao Jianmin for his services as the Chairman of the Board.

The independent non-executive directors' remunerations shown above were mainly for their services as directors of the Company.

The independent supervisors' remunerations shown above were mainly for their services as supervisors of the Company. Other supervisors are employee supervisors and their remunerations shown above were mainly for their services as employees of the Company.

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

Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for certain executive directors and supervisors are deferred for a minimum of 3 years contingent upon the future performance.

In respect of the Share Appreciation Rights ("SARs") granted to senior executives, in compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the China Banking Insurance Regulatory Commission (the "CBIRC", previously the China Insurance Regulatory Commission), the Company decided to suspend the scheme in 2008 except for SAR granted to a person who is not a Chinese Mainland resident (please refer to note 42).

The total compensation packages for executive directors and supervisors for the year ended 31 December 2018 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors and supervisors *(continued)*

2017 (Restated)	Fees *RMB'000*	Salaries and allowances *RMB'000*	Retirement benefits *RMB'000*	Housing fund and other benefits *RMB'000*	Total remuneration before tax *RMB'000*
Executive directors:					
Mr. Miao Jianmin (Chairman of the Board) (appointed on 12 March 2018)	–	–	–	–	–
Mr. Wu Yan (Chairman of the Board) (resigned on 8 December 2017)	–	–	–	–	–
Mr. Lin Zhiyong (resigned as vice chairman/president on 25 February 2019, resigned as executive director on 7 March 2019)	–	1,861	214	46	2,121
Mr. Yun Zhen (appointed on 31 October 2017, resigned on 26 October 2018)	–	1,761	196	67	2,024
Mr. Wang Dedi (appointed on 31 October 2017, resigned on 25 April 2018)	–	1,686	192	67	1,945
Mr. Wang He (resigned on 24 March 2017)	–	–	–	–	–
Non-executive directors:					
Mr. Li Tao *(i)*	–	–	–	–	–
Ms. Yu Xiaoping *(i)* (resigned on 7 March 2018)	–	–	–	–	–
Mr. Wang Yincheng *(i)* (resigned on 6 March 2017)	–	–	–	–	–
Independent non-executive directors:					
Mr. Lin Hanchuan	247	–	–	–	247
Mr. Lo Chung Hing	247	–	–	–	247
Mr. Na Guoyi	247	–	–	–	247
Mr. Ma Yusheng	247	–	–	–	247
Mr. Chu Bende	247	–	–	–	247
Ms. Qu Xiaohui (appointed on 31 October 2017)	36	–	–	–	36
Supervisors:					
Mr. Wang He (Chairman of the Supervisory Committee) (appointed on 24 March 2017 and resigned on 25 January 2018)	–	1,764	196	67	2,027
Mr. Li Zhuyong *(i)* (retired on 7 March 2019)	–	–	–	–	–
Mr. Li Fuhan (appointed on 28 February 2017)	–	1,882	111	50	2,043
Ms. Gao Hong (appointed on 28 February 2017)	–	1,798	154	58	2,010
Mr. Wang Yueshu (retired on 24 March 2017)	–	794	147	55	996
Ms. Qu Yonghuan (retired on 28 February 2017)	–	–	–	29	29
Mr. Shen Ruiguo (retired on 28 February 2017)	–	–	–	26	26
Independent supervisors:					
Mr. Lu Zhengfei	247	–	–	–	247
Mr. Ding Ningning (resigned on 26 July 2018)	247	–	–	–	247
	1,765	11,546	1,210	465	14,986

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors and supervisors *(continued)*

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

The compensation amounts for certain executive directors and supervisors for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2017 amounting to approximately RMB5 million for executive directors and supervisors had been deferred contingent upon the future performance.

(b) Senior management

Remuneration of senior management other than directors and supervisors is as follows:

	2018	2017
		(Restated)
	RMB'000	*RMB'000*
Salaries and allowances	**8,279**	13,374
Retirement benefits	**1,973**	1,602
Housing fund and other benefits	**416**	499
	10,668	15,475

Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for certain members of senior management are deferred for a minimum of 3 years contingent upon the future performance.

The total compensation packages for senior management for the year ended 31 December 2018 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Senior management *(continued)*

The number of senior management other than directors and supervisors whose remuneration fell within the following bands is as follows:

	2018	2017 (Restated)
Nil to HKD1,000,000	**1**	–
HKD1,000,001 to HKD1,500,000	**3**	–
HKD1,500,001 to HKD2,000,000	**5**	8
	9	8

The compensation amounts for certain members of senior management for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2017 amounting to approximately RMB10 million for senior management had been deferred contingent upon the future performance.

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included one director (2017: three directors/supervisors), details of whose remunerations are set out in note 13 above. Details of the remuneration for the year of the remaining four (2017: two) highest paid individuals are set out below:

	2018 *RMB'000*	2017 (Restated) *RMB'000*
Salaries and allowances	**4,148**	3,553
Retirement benefits	**1,072**	547
Housing fund and other benefits	**214**	128
	5,434	4,228

14. FIVE HIGHEST PAID INDIVIDUALS *(continued)*

The number of the highest paid individuals who are not directors/supervisors of the Company whose remunerations fell within the following band is as follows:

	2018	2017 (Restated)
HKD1,500,001 to HKD2,000,000	**4**	–
HKD2,000,001 to HKD2,500,000	**–**	2
	4	2

The compensation amounts for highest paid individuals for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018.

15. EARNINGS PER SHARE

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

	2018	2017 (Restated)
Earnings:		
Profit attributable to owners of the Company (RMB million)	**15,485**	19,807
Shares:		
Weighted average number of ordinary shares in issue (in million shares) *(note 39)*	**22,242**	22,242
Basic earnings per share (RMB Yuan)	**0.696**	0.891

Basic earnings per share was calculated as the profit attributable to owners of the Company divided by the weighted average number of ordinary shares in issue.

The weighted average number of ordinary shares in issue during the year and prior year were adjusted to reflect the effect of the conversion from the share premium account to issued capital.

Diluted earnings per share amounts for the years ended 31 December 2018 and 2017 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDENDS

	2018 *RMB million*	2017 *RMB million*
Dividends recognised as distribution during the year:		
2017 final dividend – RMB0.338 per ordinary share	**5,012**	-
2016 final dividend – RMB0.309 per ordinary share	**–**	4,582

No interim dividend was proposed by the Board of Directors in 2018 and 2017.

Pursuant to the shareholders' approval at the general meeting on 22 June 2018, a final dividend of RMB0.338 per ordinary share totalling RMB5,012 million in respect of the year ended 31 December 2017 was declared.

Pursuant to the shareholders' approval at the general meeting on 23 June 2017, a final dividend of RMB0.309 per ordinary share totalling RMB4,582 million in respect of the year ended 31 December 2016 was declared.

17. CASH AND CASH EQUIVALENTS

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Demand deposits	**15,376**	13,665
Securities purchased under resale agreements with original maturity of no more than three months	**17,289**	20,082
Deposits with banks with original maturity of no more than three months	**1,132**	941
	33,797	34,688
Classification of cash and cash equivalents:		
Loans and receivables	**33,797**	34,688

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals. The securities purchased are not recognised on the consolidated statement of financial position. The carrying amounts disclosed above reasonably approximate to the fair values of those collaterals as at 31 December 2018 and 2017.

18. DEBT SECURITIES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Classification of debt securities:		
At fair value through profit or loss		
– Government bonds	**1,943**	989
– Financial bonds	**232**	70
– Corporate bonds	**3,468**	788
	5,643	1,847
Available-for-sale, at fair value		
– Government bonds	**7,949**	7,880
– Financial bonds	**8,200**	11,742
– Corporate bonds	**60,718**	64,551
– Wealth management products and others	**19,200**	25,800
	96,067	109,973
Held-to-maturity, at amortised cost		
– Government bonds	**3,224**	3,224
– Financial bonds	**25,982**	26,780
– Corporate bonds	**12,583**	11,904
	41,789	41,908
	143,499	153,728

19. EQUITY SECURITIES AND MUTUAL FUNDS

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Investments, at fair value:		
Mutual funds	**29,417**	16,527
Shares	**27,358**	32,988
Preferred shares	**7,973**	7,921
Perpetual bonds	**243**	243
Equity schemes	**9,111**	7,022
	74,102	64,701

Equity schemes are structured entities which are set up for investing in one or more equity investments. The underlying equity investments of these equity schemes are usually determined at inception of these schemes and any changes to, or additional investments in, the underlying equity investments of any particular scheme requires support from two-thirds of the beneficiary interests in that scheme.

The Group did not guarantee or provide any financing support for these equity schemes, and considers that the carrying amount of these equity schemes represents the Group's maximum risk exposure.

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Classification of equity securities and mutual funds:		
At fair value through profit or loss	**7,806**	5,792
Available-for-sale, at fair value	**66,296**	58,909
	74,102	64,701

During the year, an impairment loss of RMB636 million was provided by the Group on equity securities and mutual funds (2017: RMB297 million).

20. INSURANCE RECEIVABLES, NET

	31 December 2018 RMB million	31 December 2017 RMB million
Premiums receivable and agents' balances	**30,543**	20,400
Receivables from reinsurers	**15,030**	21,011
	45,573	41,411
Less: Impairment provisions on		
– Premiums receivable and agents' balances	**(2,958)**	(3,308)
– Receivables from reinsurers	**(194)**	(258)
	42,421	37,845

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

	31 December 2018 RMB million	31 December 2017 RMB million
Not yet due	**29,822**	20,900
Within 1 month	**3,959**	2,737
1 to 3 months	**3,385**	4,507
3 to 6 months	**2,348**	3,640
6 to 12 months	**2,410**	4,985
1 to 2 years	**409**	920
Over 2 years	**88**	156
	42,421	37,845

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

	2018 RMB million	2017 RMB million
At 1 January	**3,566**	3,218
Impairment losses (reversed)/recognised *(note 11)*	**(302)**	391
Amount written off as uncollectible	**(112)**	(43)
At 31 December	**3,152**	3,566

Included in the Group's insurance receivables are amounts due from a fellow subsidiary of RMB233 million (31 December 2017: RMB349 million) and an associate of RMB931 million (31 December 2017: RMB588 million), respectively. Please refer to note 48(d) for details.

21. REINSURANCE ASSETS

	31 December 2018 RMB million	31 December 2017 RMB million
Reinsurers' share of:		
Unearned premium reserves *(note 36)*	**10,754**	9,747
Loss and loss adjustment expense reserves *(note 36)*	**17,811**	19,663
	28,565	29,410

22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2018 RMB million	31 December 2017 RMB million
More than 3 months to 1 year	**577**	166
More than 1 year to 2 years	**–**	100
More than 2 years to 3 years	**1,021**	689
More than 3 years	**72,365**	60,345
	73,963	61,300

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2018 RMB million	31 December 2017 RMB million
Long-term debt investment schemes	**33,575**	33,188
Trust plans	**11,580**	11,100
Asset management products	**5,168**	5,220
Subordinated debts held	**500**	500
Others	**3,274**	1,172
	54,097	51,180

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

Long-term debt investment schemes ("Debt Schemes") are structured entities and offer either fixed or variable interests to their investors. The Group has invested in a number of Debt Schemes over time. These Debt Schemes were created to raise funds from investors for lending onto various borrowers. The Group's investments in Debt Schemes are entirely lending transactions in nature and the Group's proportion of funds lent to these Debt Schemes ranges from 2% to 100% as at 31 December 2018 (31 December 2017: 2% to 100%) of the total funds raised. The interest rates of these Debt Schemes range from 4.20% to 7.00% (31 December 2017: 3.50% to 7.00%) per annum as at 31 December 2018.

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

Trust Schemes invest in predominantly debt instruments and it offers the Company an expected return ranging from 4.75% – 6.50% (31 December 2017: ranging from 4.75% – 6.40%) per annum. The actual returns and eventual repayment of initial investments, however, depend on the performance of the underlying investments, which are predominantly debts in nature. The Group's maximum loss is limited to its investments and has no contractual obligations or intention to provide any financial support for these trust schemes.

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 asset management companies. The interest rates of these products range from 3.50% to 6.30% (31 December 2017: 3.48% to 6.30%) per annum as at 31 December 2018.

The original term of subordinated debt held is 10 years with a redemption right exercisable by the issuer at the end of the fifth year after its issue. If the issuer doesn't exercise the redemption right, the interest rate will increase from 5.60% to 7.60%. The interest rate of the debt is 7.60% (31 December 2017: 5.60%) per annum as at 31 December 2018.

24. PREPAYMENTS AND OTHER ASSETS

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Interest receivables	**5,277**	5,427
Capital security fund *(i)*	**4,449**	2,966
Co-insurance receivables	**1,822**	2,008
Prepayments and deposits	**1,240**	855
Other receivables	**1,801**	1,598
Amounts due from PICC Group *(note 48(d))*	**57**	53
Amounts due from fellow subsidiaries *(note 48(d))*	**30**	57
Other assets	**8,883**	6,660
	23,559	19,624
Less: Impairment provision on		
– Co-insurance receivables	**(268)**	(355)
– Other receivables	**(157)**	(157)
	23,134	19,112

(i) In accordance with the PRC Insurance Law, the Company is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by CBIRC as a security fund. The use of the security fund is subject to the approval of the CBIRC.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	31 December 2018 RMB million	31 December 2017 RMB million
Associates		
Cost of investments in associates *(note)*	**36,883**	37,620
Share of post-acquisition profit and other comprehensive income, net of dividend received	**8,320**	4,212
Subtotal	**45,203**	41,832
Joint ventures		
Cost of investment in joint venture	**98**	–
Total	**45,301**	41,832

Note: A deemed disposal loss of an associate amounting to RMB737 million was included in this item for the year ended 31 December 2018.

Particulars of a material associate

Particulars of a material associate as at 31 December 2018 and 2017 are as follows:

Name	Place of registration and operations	Paid up/ registered share capital *RMB million*	Proportion of ownership interest and voting right as at 31 December 2018	2017	Principal activities
Hua Xia Bank	Beijing, PRC	15,387	**16.660%**	19.990%	Commercial banking

Management has assessed the level of influence that the Group has on Hua Xia Bank, and determined that it has significant influence even though the respective shareholding is below 20% because of the board representation or other arrangements made. Consequently, this investment has been classified as an associate. It is accounted for using equity method.

Except for Hua Xia Bank, all the associates and joint venture are private companies or structured entities, and there are no quoted market prices available for these shares. Hua Xia Bank is listed on the Shanghai Stock Exchange and the fair value of the Group's interests in Hua Xia Bank as at 31 December 2018 was RMB18,942 million (31 December 2017: RMB23,069 million).

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE *(continued)*

Particulars of a material associate *(continued)*

On 28 December 2018, Hua Xia Bank completed its private offering. The Group did not subscribe for the shares proportionately, and 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, as it has appointed two directors to the Board of Directors of Hua Xia Bank and the Group is the third largest shareholder of Hua Xia Bank. 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 for the year ended 31 December 2018.

Summarised financial information of a material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with the relevant accounting policies and financial regulations applicable to entities established in the PRC, and adjusted for any material differences from HKFRS.

Hua Xia Bank

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Total assets	**2,680,580**	2,508,927
Net assets attributable to equity holders of Hua Xia Bank	**217,141**	168,055

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE *(continued)*

Summarised financial information of a material associate *(continued)*

Hua Xia Bank (continued)

	2018 *RMB million*	2017 *RMB million*
Revenue	**72,227**	66,350
Profit attributable to Equity holders of Hua Xia Bank	**20,854**	19,819
Dividends received from the associate during the year	**387**	387

Reconciliation of the carrying amount of the interest in Hua Xia Bank recognised in the consolidated financial statements:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
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 interest in Hua Xia Bank	**16.660%**	19.990%
The Group's ownership 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

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE *(continued)*

Aggregate information of associates that are not individually material:

As at 31 December 2018, apart from an associate disclosed above, the Group has in aggregate 8 (31 December 2017: 7) immaterial associates and joint venture and their aggregate information is presented as below:

	2018 *RMB million*	2017 *RMB million*
The Group's share of profit	**402**	180
The Group's share of other comprehensive expense	**3**	(24)
The Group's share of total comprehensive income	**405**	156
Aggregate carrying amount of the Group's interests in these associates and joint venture	**12,378**	12,221

26. INVESTMENTS IN SUBSIDIARIES

	Company	
	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Unlisted shares, at cost	**96**	96

Particulars of the subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Share capital registered/ paid-up capital *RMB million*	Equity interest and voting right held by the Group as at 31 December 2018	2017	Principal activities
PICC Community Sales Service Company Limited*	Shenzhen, PRC	50	**100%**	100%	Provision of insurance agency services
PICC Motor Insurance Sales Services Company Limited*	Shandong, PRC	50	**90%**	90%	Provision of insurance agency services
PICC Haikou Training Center Company Limited*	Hainan, PRC	0.1	**100%**	100%	Provision of training services

* Registered as limited companies under the PRC Company Law

26. INVESTMENTS IN SUBSIDIARIES *(continued)*

None of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the directors, there is no subsidiary with material non-controlling interests within the Group. Accordingly, no further information on non-wholly owned subsidiary has been presented.

27. INVESTMENT PROPERTIES

	2018 ***RMB million***	2017 *RMB million*
At 1 January	**4,976**	4,902
Transfers from property and equipment and prepaid land premiums *(notes 28 and 29)*	**79**	208
Fair value gain on revaluation of investment properties transferred from property and equipment and prepaid land premiums	**247**	184
Increase in fair value of investment properties during the year *(note 9)*	**105**	59
Transfer to property and equipment *(note 28)*	**(526)**	(377)
At 31 December	**4,881**	4,976
Hierarchy of fair value:		
Level 3	**4,881**	4,976

The Group is still in the process of applying for the title certificates of certain investment properties with a total carrying value of RMB220 million as at 31 December 2018 (31 December 2017: RMB203 million). The directors of the Company do not expect this to have any impacts on the operation of the Group.

At 31 December 2018 and 2017, the fair values were determined based on the valuation carried out by an external independent valuer, JLL (Beijing) Real Estate Appraisal & Consultancy Co., Ltd. Valuations were carried out by the following two approaches:

(i) 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

(ii) The direct comparison approach comparing the target properties with the recent similar transaction cases, adjusting the difference of status, date, region and other specific factors between the target properties and the recent similar transaction cases, based on the recent similar transaction price.

The independent valuer usually determines the fair value of the investment properties by one of these approaches according to his professional judgement. Therefore, these fair values are categorised as Level 3.

27. INVESTMENT PROPERTIES *(continued)*

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 2% to 6% as at 31 December 2018 (31 December 2017: 2% to 6%). A slight increase in the capitalisation rate used would result in significant decrease in fair value measurement of investment properties, and vice versa.

There was no transfer in or out of Level 3 during the year.

For investment properties measured at fair value categorised as Level 3, their valuations are performed by the independent valuer at 30 June and 31 December of each year, as well as on the dates of transfers in and out of investment properties to property and equipment or prepaid land premiums. The finance department reviews the overall reasonableness of these valuations and reports the results of valuations to management.

Rental income generated from these investment properties amounting to RMB247 million (2017: RMB273 million) was recognised in the income statement for the year.

28. PROPERTY AND EQUIPMENT

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
COST					
At 1 January 2018	16,630	1,935	7,056	2,223	27,844
Additions	90	311	1,433	1,099	2,933
Transfers	499	–	1	(500)	–
Transfers from investment properties *(note 27)*	526	–	–	–	526
Transfers to investment properties *(note 27)*	(94)	–	–	–	(94)
Disposals	(69)	(182)	(460)	(3)	(714)
At 31 December 2018	17,582	2,064	8,030	2,819	30,495
ACCUMULATED DEPRECIATION					
At 1 January 2018	(5,444)	(1,007)	(5,862)	–	(12,313)
Provided for the year *(note 11)*	(652)	(266)	(760)	–	(1,678)
Transfers to investment properties *(note 27)*	49	–	–	–	49
Disposals	45	178	459	–	682
At 31 December 2018	(6,002)	(1,095)	(6,163)	–	(13,260)
NET BOOK VALUE					
At 31 December 2018	11,580	969	1,867	2,819	17,235

28. PROPERTY AND EQUIPMENT *(continued)*

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
COST					
At 1 January 2017	16,005	1,728	6,743	1,974	26,450
Additions	210	482	652	625	1,969
Transfers	350	–	2	(352)	–
Transfers from investment properties *(note 27)*	377	–	–	–	377
Transfers to investment properties *(note 27)*	(272)	–	–	–	(272)
Disposals	(40)	(275)	(341)	(24)	(680)
At 31 December 2017	16,630	1,935	7,056	2,223	27,844
ACCUMULATED DEPRECIATION					
At 1 January 2017	(4,922)	(1,038)	(5,513)	–	(11,473)
Provided for the year *(note 11)*	(638)	(227)	(679)	–	(1,544)
Transfers to investment properties *(note 27)*	94	–	–	–	94
Disposals	22	258	330	–	610
At 31 December 2017	(5,444)	(1,007)	(5,862)	–	(12,313)
NET BOOK VALUE					
At 31 December 2017	11,186	928	1,194	2,223	15,531

As at 31 December 2018, certain acquired buildings of the Group with a net book value of RMB492 million (31 December 2017: RMB443 million) were still in the process of title registration. The directors of the Company do not expect this to have any impacts on the operation of the Group.

29. PREPAID LAND PREMIUMS

	2018 ***RMB million***	2017 *RMB million*
At 1 January	**3,023**	3,185
Additions	**51**	27
Amortisation recognised during the year *(note 11)*	**(170)**	(149)
Transfers to investment properties *(note 27)*	**(34)**	(30)
Disposal	**(25)**	(10)
At 31 December	**2,845**	3,023

30. DEFERRED TAX

The movements in deferred tax assets and liabilities are as follows:

	Impairment losses on financial assets *RMB million*	Fair value changes of available-for-sale financial assets *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets							
At 1 January 2018	1,142	–	8,017	731	–	911	10,801
Deferred tax (charged)/credited to income statement during the year *(note 12)*	(5)	–	(847)	(463)	–	73	(1,242)
Gross deferred tax assets at 31 December 2018	1,137	–	7,170	268	–	984	9,559
Deferred tax liabilities							
At 1 January 2018	–	(2,066)	–	–	(1,377)	(118)	(3,561)
Deferred tax charged to income statement during the year *(note 12)*	–	–	–	–	(26)	(8)	(34)
Deferred tax credited/(charged) to other comprehensive income during the year	–	877	–	–	(62)	–	815
Gross deferred tax liabilities at 31 December 2018	–	(1,189)	–	–	(1,465)	(126)	(2,780)
Net deferred tax assets at 31 December 2018							6,779

30. DEFERRED TAX *(continued)*

	Impairment losses on financial assets *RMB million*	Fair value changes of available-for-sale financial assets *RMB million*	Cash flow hedging *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets								
At 1 January 2017	1,024	–	–	4,967	971	–	723	7,685
Deferred tax credited/(charged) to income statement during the year *(note 12)*	118	–	–	3,050	(240)	–	188	3,116
Gross deferred tax assets at 31 December 2017	1,142	–	–	8,017	731	–	911	10,801
Deferred tax liabilities								
At 1 January 2017	–	(2,343)	(1)	–	–	(1,316)	(147)	(3,807)
Deferred tax (charged)/credited to income statement during the year *(note 12)*	–	–	–	–	–	(15)	29	14
Deferred tax credited/(charged) to other comprehensive income during the year	–	277	1	–	–	(46)	–	232
Gross deferred tax liabilities at 31 December 2017	–	(2,066)	–	–	–	(1,377)	(118)	(3,561)
Net deferred tax assets at 31 December 2017								7,240

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities as they relate to the same tax authority.

31. RESTRICTED DEPOSITS

As at 31 December 2018, term deposits contained an amount of RMB1,382 million (31 December 2017: RMB1,483 million) that were subject to various restrictions. These deposits are managed in specific bank accounts according to requirements of certain local governments and can only be used to settle for catastrophic losses from agriculture insurance business.

32. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Reinsurance payables	**15,706**	17,319

The reinsurance payables are non-interest-bearing and are due within three months from the settlement dates or are repayable on demand.

Included in the Group's reinsurance payables are amounts due to a fellow subsidiary of RMB237 million (31 December 2017: RMB303 million) and an associate of RMB846 million (31 December 2017: RMB1,081 million), respectively. Please refer to note 48(d) for details.

33. ACCRUED INSURANCE SECURITY FUND

	2018 *RMB million*	2017 *RMB million*
At 1 January	**958**	834
Accrued during the year *(note 7)*	**2,964**	2,683
Paid during the year	**(2,896)**	(2,559)
At 31 December	**1,026**	958

The Group is required to make regular contributions to China Insurance Security Fund ("CISF") according to the types and premiums of products sold during the year. No further contribution is required once the accumulated balance has reached 6% (2017: 6%) of the Group's total assets as determined in accordance with relevant regulations. CISF was established to provide protection for policyholders when an insurance company in China is in financial troubles.

Insurance companies are required to deposit their insurance security fund in bank accounts designated by the CBIRC.

34. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2018	31 December 2017
	RMB million	*RMB million*
Transactions by market places:		
Stock exchange	**15,141**	11,953
Inter-bank market	**12,858**	11,168
	27,999	23,121

For debt repurchase transactions through stock exchange, the Group is required to deposit certain exchange-traded bonds into a collateral pool and the fair value converted at a standard rate pursuant to the stock exchange's regulation which should be no less than the balance of related repurchase transaction. As at 31 December 2018, the carrying amount and fair value of securities deposited in the collateral pool were RMB30,356 million and RMB30,459 million (31 December 2017: RMB26,205 million and RMB26,166 million) respectively. The collateral is restricted from trading during the period of the repurchase transaction. The Group can withdraw the exchange-traded bonds from the collateral pool provided that the value of the remaining exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

As at 31 December 2018, bonds with carrying amount and fair value of RMB13,638 million and RMB14,602 million (31 December 2017: RMB11,555 million and RMB11,528 million) respectively were pledged as collateral for securities sold under agreements to repurchase resulted from repurchase transactions entered into by the Group in the inter-bank market. The collateral is restricted from trading during the period of the repurchase transactions.

35. OTHER LIABILITIES AND ACCRUALS

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Premiums received in advance *(note)*	**23,589**	18,135
Salaries and staff welfare payables	**9,598**	9,711
Other taxes payable	**7,413**	6,482
Commission payable	**6,744**	7,342
Premium payable	**3,593**	3,005
Claims payable	**3,099**	3,066
Accrued capital expenditure	**643**	772
Payables to interest holders of consolidated structured entities	**353**	829
Interest payable	**177**	164
Amounts due to fellow subsidiaries *(note 48(d))*	**109**	102
Others	**4,801**	5,744
	60,119	55,352

Note:

Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2018 and 2017, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

36. INSURANCE CONTRACT LIABILITIES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Unearned premium reserves	**140,352**	126,110
Loss and loss adjustment expense reserves	**135,429**	138,638
	275,781	264,748

36. INSURANCE CONTRACT LIABILITIES *(continued)*

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

	2018			2017		
	Gross amount	**Reinsurers' share**	**Net amount**	Gross amount	Reinsurers' share	Net amount
	RMB million	***RMB million*** ***(note 21)***	***RMB million***	*RMB million*	*RMB million* *(note 21)*	*RMB million*
Unearned premium reserves						
At 1 January	**126,110**	**(9,747)**	**116,363**	114,275	(10,154)	104,121
Increase during the year	**288,085**	**(42,061)**	**246,024**	266,011	(19,151)	246,860
Release during the year	**(273,843)**	**41,054**	**(232,789)**	(254,176)	19,558	(234,618)
At 31 December	**140,352**	**(10,754)**	**129,598**	126,110	(9,747)	116,363
Loss and loss adjustment expense reserves						
At 1 January	**138,638**	**(19,663)**	**118,975**	127,818	(20,553)	107,265
Increase during the year	**229,524**	**(16,246)**	**213,278**	210,573	(18,077)	192,496
Release during the year	**(232,733)**	**18,098**	**(214,635)**	(199,753)	18,967	(180,786)
At 31 December	**135,429**	**(17,811)**	**117,618**	138,638	(19,663)	118,975
Total insurance contract liabilities at 31 December	**275,781**	**(28,565)**	**247,216**	264,748	(29,410)	235,338

37. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Interest-bearing deposits	**267**	598
Non-interest-bearing deposits	**1,689**	1,698
	1,956	2,296

For the years ended 31 December 2018 and 2017, the Group has underwritten policies in homeowners' and accidental insurance products containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy, and the policyholders receive a fixed rate of interest or bear no interest. Penalties on early termination are charged according to the terms stated in the policy.

38. BONDS PAYABLE

Bonds payable comprised subordinated debts and capital supplementary bonds.

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Subordinated debts:		
Carrying amount repayable in		
More than five years	**8,298**	8,213
Capital supplementary bonds:		
Carrying amount repayable in		
More than five years	**15,122**	15,049
	23,420	23,262

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

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

38. BONDS PAYABLE *(continued)*

Terms of the subordinated debts of the Company are ten years. With proper notice to the counterparties, the Company has an option to redeem the subordinated debts at par values at the end of the fifth year from the date of issue. The interest rate of the subordinated debts is 5.75% per annum in the first five years and 7.75% per annum in the following five years.

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

39. ISSUED CAPITAL

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Issued and fully paid:		
Domestic shares of RMB1.00 each	**15,343**	10,229
H shares of RMB1.00 each	**6,899**	4,599
	22,242	14,828

The movements in issued capital were as follows:

	Number of shares in issue *In million*	**Issued capital** *RMB million*
As at 1 January 2018	14,828	14,828
Conversion from share premium account	7,414	7,414
At 31 December 2018	**22,242**	**22,242**

On 22 June 2018, the shareholders of the Company 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.

40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, debt securities, equity securities and mutual funds, 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 payables to reinsurers. The following table sets out the carrying values and fair values of the Group's major financial instruments by classification:

	Carrying amount		Fair value	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
	RMB million	*RMB million*	***RMB million***	*RMB million*
Financial Assets				
At fair value through profit or loss				
– Equity securities and mutual funds	**7,806**	5,792	**7,806**	5,792
– Debt securities	**5,643**	1,847	**5,643**	1,847
Available-for-sale				
– Equity securities and mutual funds	**66,296**	58,909	**66,296**	58,909
– Debt securities	**96,067**	109,973	**96,067**	109,973
Held-to-maturity investment				
– Debt securities	**41,789**	41,908	**44,435**	42,272
Loans and receivables				
– Cash and cash equivalents	**33,797**	34,688	**33,797**	34,688
– Term deposits	**73,963**	61,300	**73,963**	61,300
– Investments classified as loans and receivables	**54,097**	51,180	**57,519**	52,001
– Insurance receivables, net	**42,421**	37,845	**42,421**	37,845
– Other assets	**15,203**	13,536	**15,203**	13,536
Total financial assets	**437,082**	416,978	**443,150**	418,163
Financial liabilities				
Other financial liabilities, at amortised cost				
– Payables to reinsurers	**15,706**	17,319	**15,706**	17,319
– Accrued insurance security fund	**1,026**	958	**1,026**	958
– Securities sold under agreements to repurchase	**27,999**	23,121	**27,999**	23,121
– Policyholders' deposits	**1,956**	2,296	**1,956**	2,296
– Bonds payable	**23,420**	23,262	**23,431**	22,012
– Other liabilities	**19,484**	20,995	**19,484**	20,995
Total financial liabilities	**89,591**	87,951	**89,602**	86,701

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

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

This note provides information on how the Group determines the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 27 to these consolidated financial statements.

(a) Fair value of financial assets and financial liabilities not measured at fair value

The carrying amounts of the Group's financial assets and financial liabilities not measured at fair value approximate their fair values as at 31 December 2018 and 2017 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

	Fair value hierarchy			
31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	RMB million	***RMB million***	***RMB million***	***RMB million***
Financial assets				
– Held-to-maturity investments	**3,666**	**40,769**	**–**	**44,435**
– Investments classified as loans and receivables	**–**	**57,519**	**–**	**57,519**
Financial liabilities				
– Bonds payable	**–**	**23,431**	**–**	**23,431**

	Fair value hierarchy			
31 December 2017	Level 1	Level 2	Level 3	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Financial assets				
– Held-to-maturity investments	989	41,283	–	42,272
– Investments classified as loans and receivables	–	52,001	–	52,001
Financial liabilities				
– Bonds payable	–	22,012	–	22,012

The fair values of the financial assets and financial liabilities classified under Level 2 were determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties obtained from China Bond Yield Curves.

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

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

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

Some of the Group's financial assets are measured at fair value at the end of the reporting periods. The following table gives information about how the fair values of these financial assets are determined (in particular, their fair value hierarchy, valuation technique(s) and key input(s) used).

Financial assets	Fair value as at 31 December 2018 *RMB million*	Fair value as at 31 December 2017 *RMB million*	Fair value hierarchy	Valuation technique(s) and key input(s)
Trading debt securities	763	505	Level 1	Quoted bid prices in an active market.
Trading debt securities	4,880	1,342	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at an observable rate that reflects the credit risk of counterparty.
Trading equity securities and mutual funds	7,806	5,792	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	8,338	7,181	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	87,729	102,792	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale equity securities and mutual funds	47,779	41,475	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	7,744	10,147	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend/coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale equity securities and mutual funds	5,154	3,060	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	3,791	2,485	Level 3	Relative value that are assessed based on average price-to-earnings ratio from comparative companies and earnings per share of target company.
Available-for-sale equity securities and mutual funds	1,828	1,742	Level 3	Fair value of the investments is based on the use of internal discounted cash flow valuation models.

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

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

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

31 December 2018	**Level 1** *RMB million*	**Level 2** *RMB million*	**Level 3** *RMB million*	**Total** *RMB million*
Financial assets classified as fair value through profit or loss				
– Equity securities and mutual funds	**7,806**	**–**	**–**	**7,806**
– Debt securities	**763**	**4,880**	**–**	**5,643**
Available-for-sale financial assets				
– Equity securities and mutual funds	**47,779**	**7,744**	**10,773**	**66,296**
– Debt securities	**8,338**	**87,729**	**–**	**96,067**
	64,686	**100,353**	**10,773**	**175,812**

31 December 2017	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets classified as fair value through profit or loss				
– Equity securities and mutual funds	5,792	–	–	5,792
– Debt securities	505	1,342	–	1,847
Available-for-sale financial assets				
– Equity securities and mutual funds	41,475	10,147	7,287	58,909
– Debt securities	7,181	102,792	–	109,973
	54,953	114,281	7,287	176,521

For the year ended 31 December 2018, available-for-sale debt securities with a carrying amount of RMB1,123 million (2017: RMB2,365 million) were transferred from Level 1 to Level 2 because quoted prices in the market for such investments were no longer regularly available. Conversely, available-for-sale debt securities with a carrying amount of RMB3,341 million (2017: RMB1,154 million) were transferred from Level 2 to Level 1 because quoted prices in active markets were available as at 31 December 2018.

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

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

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

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

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale financial assets	
	2018	2017
	RMB million	*RMB million*
At 1 January	**7,287**	5,785
Addition	**1,329**	998
Transfer in Level 3 *(i)*	**1,943**	–
Transfer out of Level 3 *(ii)*	**(1,151)**	(205)
Unrealised gains recognised in other comprehensive income	**1,365**	709
At 31 December	**10,773**	7,287

(i) As at 31 December 2017, the fair value of the Group's investment in an equity scheme classified as available-for-sale financial assets was classified as Level 2, as the underlying asset of the equity scheme is a New Third Board listed company. The New Third Board listed company has suspended its trading since June 2018. As at 31 December 2018, the Group used comparable companies method to determine the fair value of the equity scheme. Therefore, the Group transferred its fair value from Level 2 to Level 3.

(ii) 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 RMB1,151 million from Level 3 to Level 1.

41. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that the Company meets all obligations arising from the insurance contracts and the applicable laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Actual capital	**162,860**	154,590
Core capital	**135,172**	127,326
Minimum capital	**59,136**	55,552
Comprehensive solvency margin ratio (%)	**275%**	278%
Core solvency margin ratio (%)	**229%**	229%

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the 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 the Company, core capital is principally net assets, while supplementary capital is mainly subordinated debts and capital supplementary bonds issued by the Company.

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.

42. SHARE APPRECIATION RIGHTS ("SARs")

The shareholders of the Company approved the adoption of a scheme of SARs for senior management on 30 July 2003. The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SARs.

Under the SARs scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, department managers of the Company, general managers of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SARs.

In compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CBIRC, the Company decided to suspend the scheme in 2008 except for SARs that had been granted to anyone who is not a Mainland Chinese resident.

43. 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.

(a) Insurance risk

(1) Insurance contract liabilities

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlements exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from those expected

Severity risk – the possibility that the costs of the events will differ from those expected

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period

43. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

The Group has the objective to control and minimise insurance risk so as to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

– The launch of any new product has to be approved by appropriate authorities;

– Underwriting and claims-handling authorities at different levels are properly established;

– Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and

– Catastrophe reinsurance is used to limit the Group's exposure to flooding, earthquakes and typhoons.

Claims in certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claims payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Group's concentration of insurance risk before and after reinsurance, measured by geographical gross written premiums and net written premiums, is as follows:

	2018		2017	
	Gross written premiums	**Net written premiums**	Gross written premiums	Net written premiums
	RMB million	***RMB million***	*RMB million*	*RMB million*
Coastal and developed provinces/cities	**171,772**	**155,290**	156,727	141,985
Western China	**81,651**	**75,475**	76,344	70,479
Northern China	**51,196**	**48,554**	44,743	42,044
Central China	**60,089**	**56,321**	51,032	47,808
North-eastern China	**24,061**	**21,719**	21,468	19,002
Total	**388,769**	**357,359**	350,314	321,318

43. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

Terms

Loss and loss adjustment expense reserves are refined on a monthly basis as part of a regular ongoing process as claims develop, certain claims are settled and further claims are reported. The reserves are discounted for the time value of money if the impact is material.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Estimates of gross loss and loss adjustment expense reserves of all lines of business are based on the following selected methods:

- Paid and incurred loss development method
- Paid and incurred Bornhuetter-Fergusons method
- Expected loss ratio method

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to cargo, liability, marine and non-marine insurance.

Reinsurance	Estimation method
Proportional treaty	As a certain percentage of gross claim liabilities
Facultative reinsurance arrangements	Case estimates of individual large claims multiplied by IBNR
Other treaties	Incurred claims loss development method and Bornhuetter-Fergusons method

Assumptions and sensitivities

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affecting the estimates. The rates used for discounting long-tailed liabilities were in the range of 3.7% – 4.1% and 3.6% – 3.9% for 2018 and 2017, respectively.

The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

43. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

Assumptions and sensitivities *(continued)*

It is not possible to quantity the sensitivity of certain variables like 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.

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

	Accident year-gross					
	2014 *RMB million*	2015 *RMB million*	2016 *RMB million*	2017 *RMB million*	**2018** ***RMB million***	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	150,767	168,697	191,668	210,232	**234,325**	955,689
One year later	149,790	167,879	192,274	210,281		720,224
Two years later	148,778	167,467	191,400			507,645
Three years later	149,249	166,793				316,042
Four years later	147,141					147,141
Estimated cumulative claims	147,141	166,793	191,400	210,281	**234,325**	949,940
Cumulative claims paid	(142,602)	(160,029)	(183,726)	(185,235)	**(155,142)**	(826,734)
Sub-total						123,206
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						12,223
Outstanding claim expenses						135,429

43. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

Assumptions and sensitivities *(continued)*

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

	Accident year-net					
	2014 *RMB million*	2015 *RMB million*	2016 *RMB million*	2017 *RMB million*	**2018** ***RMB million***	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	131,379	150,312	170,712	192,690	**215,470**	860,563
One year later	130,993	149,618	170,727	191,225		642,563
Two years later	130,218	148,973	170,676			449,867
Three years later	130,626	148,429				279,055
Four years later	128,781					128,781
Estimated cumulative claims	128,781	148,429	170,676	191,225	**215,470**	854,581
Cumulative claims paid	(124,816)	(142,677)	(164,538)	(169,545)	**(145,652)**	(747,228)
Sub-total						107,353
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						10,265
Outstanding claim expenses						117,618

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

43. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(2) Reinsurance assets – terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the businesses ceded are placed on a quota share basis or surplus line basis with retention limits varying by product line. There are profit commission, sliding scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophe reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to 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.

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes the other party to incur a financial loss.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt securities, insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, corporate bonds with high credit ratings and term deposits with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration in credit risk.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

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 except for state-owned reinsurance companies. Management of the Group performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2018, receivables form the top three reinsurance companies amounted to RMB4,624 million in total (31 December 2017: RMB7,546 million).

The carrying amounts of financial assets included in the consolidated statement of financial position best represent the maximum credit risk exposure at the reporting date without taking into account any collaterals held or other credit enhancements.

An aging analysis of the financial assets past due but not impaired and impaired financial assets is shown as follows:

31 December 2018	Not past due	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	33,797	-	-	-	-	-	33,797
Term deposits	73,963	-	-	-	-	-	73,963
Debt securities	143,499	-	-	-	-	-	143,499
Insurance receivables	30,024	3,639	3,205	2,851	9,695	5,854	45,573
Reinsurance assets	28,565	-	-	-	-	-	28,565
Investments classified as loans and receivables	54,097	-	-	-	-	-	54,097
Other financial assets	12,896	430	242	1,403	2,075	657	15,628
Gross Amount	376,841	4,069	3,447	4,254	11,770	6,511	395,122
Less: Impairment provision	-	-	-	-	-	(3,577)	(3,577)
Net Amount	376,841	4,069	3,447	4,254	11,770	2,934	391,545

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

31 December 2017	Not past due	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	34,688	–	–	–	–	–	34,688
Term deposits	61,300	–	–	–	–	–	61,300
Debt securities	153,728	–	–	–	–	–	153,728
Insurance receivables	21,054	1,147	3,386	7,625	12,158	8,199	41,411
Reinsurance assets	29,410	–	–	–	–	–	29,410
Investments classified as loans and receivables	51,180	–	–	–	–	–	51,180
Other financial assets	11,525	470	213	1,232	1,915	608	14,048
Gross Amount	362,885	1,617	3,599	8,857	14,073	8,807	385,765
Less: Impairment provision	–	–	–	–	–	(4,078)	(4,078)
Net Amount	362,885	1,617	3,599	8,857	14,073	4,729	381,687

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. The government bonds and financial bonds are issued by either the Chinese government or Chinese government controlled financial institutions. 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, 98.74% (31 December 2017: 98.82%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks and CSDCC have a high credit quality.

The credit risk associated with securities purchased under resale agreements included in cash equivalent will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2018 and 2017.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Credit quality *(continued)*

As at 31 December 2018 and 2017, investments classified as loans and receivables are issued by asset management companies, trust companies or large financial institutions with high credit quality, mostly guaranteed by the lenders' related parties. The Group believes investments classified as loans and receivables have a high credit quality.

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collaterals and the valuation parameters.

Securities purchased under resale agreements are pledged by counterparts' debt securities of which the Group could take the ownership should the owner of the collateral defaults.

The Group's long-term debt investment schemes, asset management products and asset-backed securities, included in investments classified as loans and receivables, are supported by third party guarantee or with pledge.

Management monitors the market value of the collateral, requests additional collaterals when needed and performs impairment testing when applicable.

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

As at 31 December 2018, the Group maintained demand deposits and term deposits with original maturity of no more than three months at 3% of total assets (31 December 2017: 3%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding 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.

31 December 2018	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No maturity date *RMB million*	Total *RMB million*
Financial assets:							
Cash and cash equivalents	15,376	18,435	–	–	–	–	33,811
Debt securities							
– Available-for-sale	–	2,281	16,266	58,336	38,454	–	115,337
– Held-for-trading	–	238	4,001	1,087	585	–	5,911
– Held-to-maturity	–	183	1,294	13,260	51,137	–	65,874
Equity securities and mutual funds	–	–	–	–	–	74,102	74,102
Insurance receivables, net	12,599	10,662	11,051	7,951	158	–	42,421
Term deposits	–	11,327	9,958	57,894	2,990	–	82,169
Investments classified as loans and receivables	–	10,914	2,576	37,776	11,859	–	63,125
Other financial assets	1,879	4,230	3,363	6,070	217	–	15,759
Total financial assets	29,854	58,270	48,509	182,374	105,400	74,102	498,509
Financial liabilities:							
Payables to reinsurers	7,595	6,793	939	356	23	–	15,706
Accrued insurance security fund	–	1,026	–	–	–	–	1,026
Securities sold under agreements to repurchase	–	28,035	–	–	–	–	28,035
Policyholders' deposits	1,750	–	206	–	–	–	1,956
Bonds payable	–	–	859	5,120	25,713	–	31,692
Other financial liabilities	1,676	13,414	2,947	1,221	226	–	19,484
Total financial liabilities	11,021	49,268	4,951	6,697	25,962	–	97,899
Net liquidity gap	18,833	9,002	43,558	175,677	79,438	74,102	400,610

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

Maturity profiles of financial assets and financial liabilities *(continued)*

31 December 2017	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No maturity date *RMB million*	Total *RMB million*
Financial assets:							
Cash and cash equivalents	13,665	21,058	–	–	–	–	34,723
Debt securities							
– Available-for-sale	–	10,922	6,773	77,200	40,166	–	135,061
– Held-for-trading	–	3	31	1,453	941	–	2,428
– Held-to-maturity	–	84	1,308	11,288	55,518	–	68,198
Equity securities and mutual funds	–	–	–	–	–	64,701	64,701
Insurance receivables, net	16,945	9,281	6,141	5,357	121	–	37,845
Term deposits	–	1,951	7,168	41,425	19,890	–	70,434
Investments classified as loans and receivables	–	748	4,054	31,270	30,663	–	66,735
Other financial assets	2,047	2,715	4,195	4,837	172	–	13,966
Total financial assets	32,657	46,762	29,670	172,830	147,471	64,701	494,091
Financial liabilities:							
Payables to reinsurers	9,332	6,695	863	424	5	–	17,319
Accrued insurance security fund	–	958	–	–	–	–	958
Securities sold under agreements to repurchase	–	23,149	–	–	–	–	23,149
Policyholders' deposits	1,757	–	387	152	–	–	2,296
Bonds payable	–	–	859	4,660	27,030	–	32,549
Other financial liabilities	2,481	12,664	2,147	1,902	1,801	–	20,995
Total financial liabilities	13,570	43,466	4,256	7,138	28,836	–	97,266
Net liquidity gap	19,087	3,296	25,414	165,692	118,635	64,701	396,825

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

Maturity profiles of reinsurance assets and insurance contract liabilities

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

The table below summarises maturity profiles of reinsurance assets and insurance contract liabilities of the Group.

All amounts are based on undiscounted contractual cash flows.

31 December 2018	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No maturity date *RMB million*	Total *RMB million*
Reinsurance assets	–	5,909	12,569	7,962	2,596	–	29,036
Insurance contract liabilities	–	49,158	159,920	53,383	14,520	–	276,981

31 December 2017	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No maturity date *RMB million*	Total *RMB million*
Reinsurance assets	–	6,143	13,222	7,871	2,556	–	29,792
Insurance contract liabilities	–	46,691	159,061	31,411	28,615	–	265,778

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

The expected utilisation or settlement of all assets and liabilities

The Group has no significant concentration of liquidity or funding risk.

The table below summarises the expected utilisation or settlement of all assets and liabilities:

	31 December 2018			31 December 2017		
	Current*	Non-current	Total	Current*	Non-current	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	33,797	–	33,797	34,688	–	34,688
Debt securities	83,650	59,849	143,499	94,620	59,108	153,728
Equity securities and mutual funds	63,329	10,773	74,102	56,122	8,579	64,701
Insurance receivables, net	34,314	8,107	42,421	32,367	5,478	37,845
Reinsurance assets	18,210	10,355	28,565	19,140	10,270	29,410
Term deposits	577	73,386	73,963	166	61,134	61,300
Investments classified as loans and receivables	3,347	50,750	54,097	2,238	48,942	51,180
Prepayments and other assets	15,004	8,130	23,134	14,101	5,011	19,112
Investments in associates and joint venture	–	45,301	45,301	–	41,832	41,832
Investment properties	–	4,881	4,881	–	4,976	4,976
Property and equipment	–	17,235	17,235	–	15,531	15,531
Prepaid land premiums	–	2,845	2,845	–	3,023	3,023
Deferred tax assets	–	6,779	6,779	–	7,240	7,240
Total assets	252,228	298,391	550,619	253,442	271,124	524,566
Payables to reinsurers	15,327	379	15,706	16,890	429	17,319
Accrued insurance security fund	1,026	–	1,026	958	–	958
Securities sold under agreements to repurchase	27,999	–	27,999	23,121	–	23,121
Income tax payable	3,109	–	3,109	4,396	–	4,396
Other liabilities and accruals	57,304	2,815	60,119	49,971	5,381	55,352
Insurance contract liabilities	208,346	67,435	275,781	205,095	59,653	264,748
Policyholders' deposits	1,956	–	1,956	2,144	152	2,296
Bonds payable	–	23,420	23,420	–	23,262	23,262
Total liabilities	315,067	94,049	409,116	302,575	88,877	391,452

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

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(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 to manage market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate is also approved by an investment committee to direct investment decisions.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried out in RMB. Certain insurance policies issued by the Group, however, in particular in respect of cargo, commercial properties and aviation insurance, were denominated in United States Dollars ("USD"). Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in USD.

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

31 December 2018	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	30,972	2,301	495	29	33,797
Debt securities	143,151	348	–	–	143,499
Equity securities and mutual funds	71,649	1,940	513	–	74,102
Insurance receivables, net	37,661	4,431	124	205	42,421
Reinsurance assets	27,167	1,347	16	35	28,565
Term deposits	73,936	27	–	–	73,963
Investments classified as loans and receivables	54,097	–	–	–	54,097
Other financial assets	15,094	107	1	1	15,203
Total assets	453,727	10,501	1,149	270	465,647
Payables to reinsurers	13,648	1,962	26	70	15,706
Accrued insurance security fund	1,026	–	–	–	1,026
Securities sold under agreements to repurchase	27,999	–	–	–	27,999
Insurance contract liabilities	273,457	2,121	73	130	275,781
Policyholders' deposits	1,956	–	–	–	1,956
Bonds payable	23,420	–	–	–	23,420
Other financial liabilities	18,465	988	19	12	19,484
Total liabilities	359,971	5,071	118	212	365,372
Net exposure	93,756	5,430	1,031	58	100,275

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk *(continued)*

31 December 2017	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	32,081	2,161	442	4	34,688
Debt securities	152,903	825	–	–	153,728
Equity securities and mutual funds	62,783	613	1,305	–	64,701
Insurance receivables, net	33,761	3,937	33	114	37,845
Reinsurance assets	28,283	1,098	4	25	29,410
Term deposits	61,161	139	–	–	61,300
Investments classified as loans and receivables	51,180	–	–	–	51,180
Other financial assets	13,241	290	1	4	13,536
Total assets	435,393	9,063	1,785	147	446,388
Payables to reinsurers	16,953	297	16	53	17,319
Accrued insurance security fund	958	–	–	–	958
Securities sold under agreements to repurchase	23,121	–	–	–	23,121
Insurance contract liabilities	262,965	1,692	20	71	264,748
Policyholders' deposits	2,296	–	–	–	2,296
Bonds payable	23,262	–	–	–	23,262
Other financial liabilities	19,326	1,630	27	12	20,995
Total liabilities	348,881	3,619	63	136	352,699
Net exposure	86,512	5,444	1,722	11	93,689

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk *(continued)*

Sensitivity analysis

The analysis below is performed for reasonably possible movements in exchange rate with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency-sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in USD exchange rate, the correlations of these variables are ignored.

	Appreciation/ (depreciation) against RMB	**31 December 2018**		31 December 2017	
		Impact on profit	**Impact on equity**	Impact on profit	Impact on equity
		RMB million	***RMB million***	*RMB million*	*RMB million*
USD	5%	**157**	**272**	200	272
USD	(5%)	**(157)**	**(272)**	(200)	(272)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

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.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(ii) Interest rate risk *(continued)*

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 assumption may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2018	2017
Interest rate VaR	**451**	446

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to listed equity securities and mutual funds 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 in 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 it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

43. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(iii) Price risk *(continued)*

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 (2017: 10 trading days) at a confidence level of 99% (2017: 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 behaviour, which could differ substantially from past behaviour. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 days. The said assumption may not be correct in reality, especially via market which lacks liquidity.

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Equity price VaR	**2,384**	2,005

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.

	Securities sold under agreements to repurchase *RMB million* *(note 34)*	**Interest payable** *RMB million* *(note 35)*	**Bonds payable** *RMB million* *(note 38)*	**Total** *RMB million*
At 1 January 2018	**23,121**	**164**	**23,262**	**46,547**
Financing cash flows	**4,878**	**(1,904)**	**–**	**2,974**
Finance costs	**–**	**1,916**	**158**	**2,074**
Interest expenses credited to policyholders' deposits	**–**	**1**	**–**	**1**
At 31 December 2018	**27,999**	**177**	**23,420**	**51,596**

	Securities sold under agreements to repurchase *RMB million* *(note 34)*	Interest payable *RMB million* *(note 35)*	Bonds payable *RMB million* *(note 38)*	Total *RMB million*
At 1 January 2017	21,030	163	23,112	44,305
Financing cash flows	2,091	(1,849)	–	242
Finance costs	–	1,848	150	1,998
Interest expenses credited to policyholders' deposits	–	2	–	2
At 31 December 2017	23,121	164	23,262	46,547

45. CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group for the years ended 31 December 2018 and 2017.

46. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties *(note 27)* under operating lease arrangements, with leases negotiated for terms ranging from 1 to 23 years (2017: 1 to 23 years).

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Within one year	**222**	215
In the second to fifth year, inclusive	**259**	302
After five years	**37**	67
	518	584

(b) As lessee

The Group leases office premises and motor vehicles under various operating lease agreements.

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Within one year	**366**	296
In the second to fifth year, inclusive	**1,009**	962
After five years	**245**	259
	1,620	1,517

47. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the year:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Contracted, but not provided for:		
Property and equipment	**1,889**	1,889

48. RELATED PARTY TRANSACTIONS

(a) Related parties with control relationship

The Company is a state-owned enterprise and its controlling shareholder is PICC Group.

(b) Other related parties without controlling relationship with the Company:

Related parties' name	**Relationship**
PICC AMC	Fellow subsidiary
The People's Insurance Company of China (Hong Kong) Limited ("PICC HK")	Fellow subsidiary
PICC Capital Investment Management Company Limited ("PICC Capital")	Fellow subsidiary
PICC Investment Holding Company Limited ("PICC Investment")	Fellow subsidiary
PICC Life Insurance Company Limited ("PICC Life")	An associate of the Company and fellow subsidiary
PICC Health Insurance Company Limited ("PICC Health")	An associate of the Company and fellow subsidiary
PICC Reinsurance Company Limited ("PICC Re")	An associate of the Company and fellow subsidiary
PICC Financial Services Company Limited ("PICC Financial Services")	Fellow subsidiary
Zhongsheng International Insurance Brokers Company Limited ("ZSIB")	Fellow subsidiary
China Insurance Brokers Company Limited ("CIB")	Fellow subsidiary
Hua Xia Bank	An associate of the Company
Industrial Bank Co. Ltd. ("IBC")	An associate of the controlling shareholder
China Merchants Securities Co. Ltd. ("China Merchant Securities")	An associate of the controlling shareholder

48. RELATED PARTY TRANSACTIONS *(continued)*

(c) Material transactions with related parties

	Notes	2018 RMB million	2017 RMB million
Transactions with the holding company:			
2017 final dividend distribution	(i)	3,457	–
2016 final dividend distribution	(i)	–	3,161
Rental expense and WAN service fees	(ii)	95	94
Transactions with fellow subsidiaries:			
Management fee	(iii)	205	183
Subscription amount of financial products set up and managed by fellow subsidiaries	(iii)	5,127	2,946
Premiums ceded	(iv)	505	415
Reinsurance commission income	(iv)	209	213
Paid losses recoverable from reinsurers	(iv)	273	252
Reinsurance premiums assumed	(iv)	6	6
Commission expenses – reinsurance	(iv)	1	1
Gross claims paid – reinsurance	(iv)	3	7
Brokerage commission expense	(v)	316	188
Service fee	(vi)	287	–
Transactions with associates of the Company:			
Agency services commission received	(vii), (viii)	136	207
Agency services commission paid	(vii), (viii)	495	435
Premiums paid	(ix)	34	59
Interest income	(xi)	349	356
Premiums ceded	(xii)	4,058	3,170
Reinsurance commission income	(xii)	1,378	1,039
Paid losses recoverable from reinsurers	(xii)	1,726	405
Premium income	(xi)	2	2
Claims paid	(xi)	169	34
Commission expense	(xi)	1	1
Dividend income	(xi)	387	387
Transactions with associates of PICC Group:			
Interest income	(x)	499	614
Dividend income	(x)	836	775
Interest expense	(x)	31	30
Premium income	(x)	12	12
Claims paid	(x)	8	11
Commission expense	(x)	1	13

48. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes:

(i) On 22 June 2018, the shareholders of the Company at a general meeting approved a final dividend of RMB0.338 per ordinary share totalling RMB5,012 million for the year ended 31 December 2017. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB3,457 million to PICC Group.

On 23 June 2017, the shareholders of the Company at a general meeting approved a final dividend of RMB0.309 per ordinary share totalling RMB4,582 million for the year ended 31 December 2016. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB3,161 million to PICC Group.

(ii) On 1 January 2016, the Company and PICC Group renewed the integrated service agreement in relation to the leasing of office space and the usage of WAN services in South Information Center by the Company for a term of two years effective from 1 January 2016 to 31 December 2017. On 1 January 2018, the Company and PICC Group further renewed the integrated service agreement for a term of two years effective from 1 January 2018 to 31 December 2019. Pursuant to the agreement, the services include renting out, check-up and maintenance services on the office space, WAN equipment as well as the WAN technical support services agreed by the two parties. The Company paid the rent and WAN service fees to PICC Group, by reference to the relevant costs of PICC Group for renting out the space, equipment and providing services as well as the percentage of bandwidth used by the Company, determined by the Company and PICC Group after negotiation.

(iii) On 23 June 2016, the Company and PICC AMC renewed the asset management agreement for 3 years, effective from 1 July 2016 to 30 June 2019. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than management fees, performance bonuses were also paid to PICC AMC when the investment performance has satisfied certain conditions.

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

48. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(iv) On 29 December 2017, the Company and PICC HK further renewed the Framework Agreement for one year, effective from 1 January 2018 to 31 December 2018. Pursuant to the Framework Agreement, the Company agreed to cede insurance premiums to and receive commissions from PICC HK, and PICC HK agreed to cede insurance premiums to and receive commissions from the Company.

(v) On 17 June 2016, the Company and ZSIB renewed an agreement for three years, effective from 17 June 2016 to 16 June 2019. Pursuant to the agreement, the Company and ZSIB agreed to cooperate in the insurance brokerage business and other business. The Company would pay brokerage fee to ZSIB in consideration of the brokerage services provided by ZSIB and its subsidiaries on the Company's insurance products. The brokerage fees were calculated by the actual premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and ZSIB on normal commercial terms. On 27 December 2018, the Company signed a new agreement which will be effective to 16 June 2019 with ZSIB and CIB and terminated the above renewed agreement. Pursuant to the agreement, the Company will cooperate with ZSIB and CIB mainly in the field of brokerage.

(vi) On 27 November 2017, the Company and PICC Financial Services entered into an online insurance cooperation agreement for a term of one year, effective from 27 November 2017 to 26 November 2018. Pursuant to the agreement, PICC Financial Services provides the Company with services such as customer acquisition and promotion services, IT technical services and information technology platform services through its payment and financial service platform and other online and offline promotion channels, and the Company pays service fees to PICC financial services. The pricing policies and basis of the specific business were determined by both parties pursuant to the principles of compliance and fairness. The agreement has been automatically extended to 26 November 2019 after the expiration.

(vii) On 30 August 2016, the Company and PICC Health renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Health mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Health in consideration of the agency services provided by PICC Health on the Company's insurance products. The Company would receive an agency fee from PICC Health in consideration of the agency services provided by the Company on PICC Health's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Health on normal commercial terms.

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

48. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(viii) On 30 August 2016, the Company and PICC Life renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Life mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company would receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Life on normal commercial terms.

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

(ix) The Company purchased life or health insurance products from PICC Life and PICC Health for the employees of the Company.

(x) The transactions with IBC are related party transactions as IBC is an associate of PICC Group since 8 May 2013. The transactions with China Merchant Securities are related party transactions as China Merchant Securities is an associate of PICC Group since 26 May 2017.

(xi) The transactions with Hua Xia Bank are related party transactions as Hua Xia Bank is an associate of the Company since 17 November 2016.

(xii) On 16 May 2017, the Company and PICC Re entered into a Framework Agreement on Reinsurance Business Cooperation for a period from 10 March 2017 to 31 December 2017. Pursuant to the said agreement, the Company agreed to cede insurance premiums to and receive commissions from PICC Re, and PICC Re agreed to cede insurance premiums to and receive commissions from the Company. On 29 December 2017, the Company and PICC Re renewed the agreement for one year, effective from 1 January 2018 to 31 December 2018.

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

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

48. RELATED PARTY TRANSACTIONS *(continued)*

(d) Outstanding balances with related parties

	31 December 2018 ***RMB million***	31 December 2017 *RMB million*
Cash and cash equivalents:		
An associate	**56**	56
An associate of PICC Group	**1,615**	797
Term deposits:		
An associate	**6,550**	6,500
An associate of PICC Group	**20,673**	10,544
Debt securities:		
An associate of PICC Group	**3,295**	3,158
Equity securities:		
An associate of PICC Group	**19,061**	21,558
Receivables from reinsurers:		
A fellow subsidiary *(note 20)*	**233**	349
An associate *(note 20)*	**931**	588
Due from related parties:		
PICC Group *(note 24)*	**57**	53
Fellow subsidiaries *(note 24)*	**30**	57
An associate	**1,245**	1,125
An associate of PICC Group	**326**	560
Payables to reinsurers:		
A fellow subsidiary *(note 32)*	**237**	303
An associate *(note 32)*	**846**	1,081
Due to related parties:		
Fellow subsidiaries *(note 35)*	**109**	102
An associate of PICC Group	**5**	5
Bonds payable issued to:		
An associate of PICC Group	**467**	462

48. RELATED PARTY TRANSACTIONS *(continued)*

(d) Outstanding balances with related parties (*continued*)

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

The balances with PICC Group, fellow subsidiaries, associates and an associate of PICC Group are settled according to respective arrangements between the Company and the related parties.

(e) Transactions with other government-related entities in the PRC

The Company is a state-owned enterprise which is subject to the indirect control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks for insurance policies distributed.

The directors consider that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

(f) Compensation of key management personnel

	2018	2017 (Restated)
	RMB'000	*RMB'000*
Fees, salaries and allowances	**14,249**	26,685
Retirement benefits	**2,776**	2,812
Housing fund and other benefits	**651**	964
	17,676	30,461

48. RELATED PARTY TRANSACTIONS *(continued)*

(f) Compensation of key management personnel (*continued*)

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The total compensation packages for key management personnel for the year ended 31 December 2018 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

The compensation amounts for certain key management personnel for the year ended 31 December 2017 were restated based on the finalised amounts determined during 2018. Additionally, pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2017 amounting to RMB15 million for key management personnel had been deferred contingent upon the future performance.

49. STRUCTURED ENTITIES

(a) Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the judgements as described in note 3.

The Group had consolidated certain structured entities during the year which are debt schemes. As at 31 December 2018, interests in these consolidated structured entities held by the Company represented by the investment cost amounted to RMB2,909 million (31 December 2017: RMB338 million).

The financial impact of these debt schemes on the Group's financial position as at 31 December 2018, and results and cash flows for the year then ended, though consolidated, are not significant individually and therefore not disclosed separately.

Interests held by other inter!est holders with consolidated structured entities are presented as finance costs in the consolidated income statement and as other liabilities and accruals in the consolidated statement of financial position respectively. The payables to interest holders of consolidated structured entities amounted to RMB353 million as at 31 December 2018 (31 December 2017: RMB829 million). The finance costs amounted to RMB29 million for the year ended 31 December 2018 (year ended 31 December 2017: RMB17 million).

49. STRUCTURED ENTITIES *(continued)*

(b) Interests in unconsolidated structured entities

The Group invested in a variety of structured entities including asset management products sponsored by asset management companies, securities companies or insurance asset management companies, mutual funds sponsored by mutual fund management companies, trusts sponsored by trust companies and wealth management products sponsored by banks. Investments in these unconsolidated structured entities are disclosed in respective notes of "Equity securities and mutual funds" 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, net of any impairment loss.

The Group is not the investment manager, and has no power over changing any investment decisions and investment managers, as such, the Group does not control any of these structured entities and does not consolidated 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 to these unconsolidated structured entities.

	31 December 2018		
	Funding provided by the Group and carrying amount of the investment	**The Group's maximum exposure**	**Interest held by the Group**
Managed by related parties:			
Long-term debt investment schemes	**23,631**	**23,631**	**Investment income**
Wealth management products and others	**5,000**	**5,000**	**Investment income**
Asset management products	**2,630**	**2,630**	**Investment income**
Equity schemes	**4,735**	**4,735**	**Investment income**
Managed by third parties:			
Long-term debt investment schemes	**9,944**	**9,944**	**Investment income**
Wealth management products	**13,200**	**13,200**	**Investment income**
Asset management products	**2,538**	**2,538**	**Investment income**
Equity schemes	**4,376**	**4,376**	**Investment income**
Mutual funds	**29,417**	**29,417**	**Investment income**
Trust plans	**11,580**	**11,580**	**Investment income**
Total	**107,051**	**107,051**	

49. STRUCTURED ENTITIES *(continued)*

(b) Interests in unconsolidated structured entities (*continued*)

	31 December 2017		
	Funding provided by the Group and carrying amount of the investment	The Group's maximum exposure	Interest held by the Group
Managed by related parties:			
Long-term debt investment schemes	22,550	22,550	Investment income
Wealth management products	13,000	13,000	Investment income
Asset management products	2,200	2,200	Investment income
Equity schemes	1,517	1,517	Investment income
Managed by third parties:			
Long-term debt investment schemes	10,638	10,638	Investment income
Wealth management products	12,800	12,800	Investment income
Asset management products	3,020	3,020	Investment income
Equity schemes	5,505	5,505	Investment income
Mutual funds	16,527	16,527	Investment income
Trust plans	11,100	11,100	Investment income
Total	98,857	98,857	

50. EVENTS AFTER THE REPORTING PERIOD

On 22 March 2019, the Board of Directors of the Company proposed a final dividend of RMB0.272 per ordinary share for the year ended 31 December 2018 totaling RMB6,050 million, and an amount of RMB10,000 million to be appropriated to discretionary surplus reserve (including RMB5,902 million appropriated from net profit for the year and RMB4,098 million appropriated from retained profits), and approved an amount of RMB8,000 million 10-year capital supplementary bonds to be issued.

The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) The Company's statement of financial position

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
ASSETS		
Cash and cash equivalents	33,646	34,565
Debt securities	143,499	153,728
Equity securities and mutual funds	74,102	64,701
Insurance receivables, net	42,421	37,845
Reinsurance assets	28,565	29,410
Term deposits	73,963	61,300
Investments classified as loans and receivables	53,732	50,346
Prepayments and other assets	23,134	19,112
Investments in associates and joint venture	35,085	34,984
Investments in subsidiaries	96	96
Investment properties	5,049	5,140
Property and equipment	17,197	15,491
Prepaid land premiums	2,844	3,022
Deferred tax assets	6,750	7,211
TOTAL ASSETS	540,083	516,951
LIABILITIES		
Payables to reinsurers	15,706	17,319
Accrued insurance security fund	1,026	958
Securities sold under agreements to repurchase	27,999	23,121
Income tax payable	3,115	4,403
Other liabilities and accruals	59,763	54,520
Insurance contract liabilities	275,757	264,719
Policyholders' deposits	1,956	2,296
Bonds payable	23,420	23,262
TOTAL LIABILITIES	408,742	390,598
EQUITY		
Issued capital	22,242	14,828
Reserves	109,099	111,525
TOTAL EQUITY	131,341	126,353
TOTAL EQUITY AND LIABILITIES	540,083	516,951

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

(b) Movement in the Company's reserves

The movements in reserves of the Company are set out below:

	Share premium account *RMB million*	Asset revaluation reserve *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Surplus reserve *RMB million*	General risk reserve *RMB million*	Agriculture catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2018	18,986	3,081	6,191	34,585	11,308	2,471	34,903	111,525
Total comprehensive income/ (expense) for the year	–	185	(2,629)	–	–	–	12,444	10,000
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	1,627	1,627	–	(3,254)	–
Appropriations to discretionary surplus reserve	–	–	–	6,000	–	–	(6,000)	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	279	(279)	–
Utilisation of agriculture catastrophic loss reserve	–	–	–	–	–	(279)	279	–
Conversion from share premium account to issued capital	(7,414)	–	–	–	–	–	–	(7,414)
2017 final dividend	–	–	–	–	–	–	(5,012)	(5,012)
At 31 December 2018	11,572	3,266	3,562	42,212	12,935	2,471	33,081	109,099

	Share premium account *RMB million*	Asset revaluation reserve *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Cash flow hedging reserve *RMB million*	Surplus reserve *RMB million*	General risk reserve *RMB million*	Agriculture catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2017	18,986	2,943	7,023	2	32,614	9,337	1,885	28,154	100,944
Total comprehensive income/ (expense) for the year	–	138	(832)	(2)	–	–	–	15,859	15,163
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	1,971	1,971	–	(3,942)	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	586	(586)	–
2016 final dividend	–	–	–	–	–	–	–	(4,582)	(4,582)
At 31 December 2017	18,986	3,081	6,191	–	34,585	11,308	2,471	34,903	111,525

52. COMPARATIVE FIGURES

Presentation of the consolidated income statement for the year ended 31 December 2017 has been restated to conform with current year's presentation.

Definitions

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

"Articles of Association"	the articles of association of the Company
"Board" or "Board of Directors"	the board of directors of the Company
"CBIRC"	China Banking and Insurance Regulatory Commission
"CIB"	China Insurance Brokers Co. Ltd
"Company" or "We"	PICC Property and Casualty Company Limited
"Company Law"	the Company Law of the People's Republic of China
"Corporate Governance Code"	the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules
"C-ROSS"	China Risk-oriented Solvency System
"Director(s)"	the director(s) of the Company
"Guidelines"	the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Hua Xia Bank"	Hua Xia Bank Co., Limited
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"PICC AMC"	PICC Asset Management Company Limited
"PICC Capital"	PICC Capital Investment Management Company Limited
"PICC Financial Services"	PICC Financial Services Company Limited
"PICC Group"	The People's Insurance Company (Group) of China Limited
"PICC Health"	PICC Health Insurance Company Limited
"PICC HK"	The People's Insurance Company of China (Hong Kong), Limited
"PICC Investment"	PICC Investment Holding Company Limited
"PICC Life"	PICC Life Insurance Company Limited
"PICC Pension"	PICC Pension Company Limited
"PICC Re"	PICC Reinsurance Company Limited

"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Year"	the year ended 31 December 2018
"ZSIB"	Zhongsheng International Insurance Brokers Co., Ltd.
"%"	per cent

Corporate Information

REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司

Abbreviation of Chinese name: 人保財險

English name: PICC Property and Casualty Company Limited

Abbreviation of English name: PICC P&C

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

REGISTERED OFFICE

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Chaoyang District, Beijing 100022, the PRC

WEBSITE

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LEGAL REPRESENTATIVE

Miao Jianmin

SECRETARY OF THE BOARD OF DIRECTORS

Zou Zhihong

COMPANY SECRETARY

Ko Mei Ying

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AUDITORS

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Deloitte Touche Tohmatsu

Domestic Auditor
Deloitte Touche Tohmatsu Certified Public Accountants LLP

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King & Wood Mallesons