



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 14,828,510,202 shares, of which 69% 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, homeowners insurance, marine hull insurance, surety 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				
	2013 <i>RMB million</i>	2014 <i>RMB million</i>	2015 <i>RMB million</i>	2016 <i>RMB million</i>	2017 <i>RMB million</i>
Gross written premiums	223,525	253,037	281,698	311,160	350,314
Underwriting profit	5,960	7,291	8,604	5,024	9,295
Investment income	9,939	12,141	14,268	15,073	15,382
Net realised and unrealised gains/(losses) on investments	(342)	1,319	6,562	922	1,136
Profit before tax	13,439	19,441	28,203	22,451	27,161
Income tax expense	(2,881)	(4,326)	(6,356)	(4,430)	(7,353)
Profit for the year	10,558	15,115	21,847	18,021	19,808

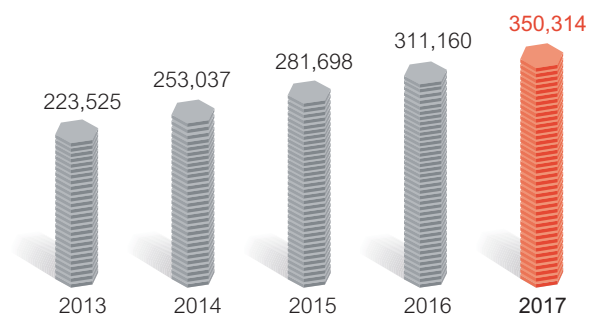
Only certain material items of the consolidated income statement are extracted and presented in the table above.

ASSETS AND LIABILITIES

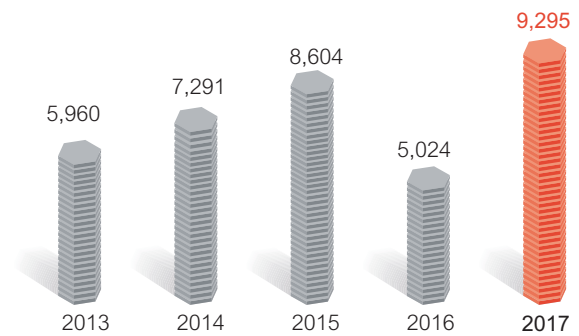
	At 31 December				
	2013 <i>RMB million</i>	2014 <i>RMB million</i>	2015 <i>RMB million</i>	2016 <i>RMB million</i>	2017 <i>RMB million</i>
Total assets	319,424	366,130	420,420	475,949	524,566
Total liabilities	261,920	280,355	311,469	356,637	391,452
Net assets	57,504	85,775	108,951	119,312	133,114

Gross written premiums

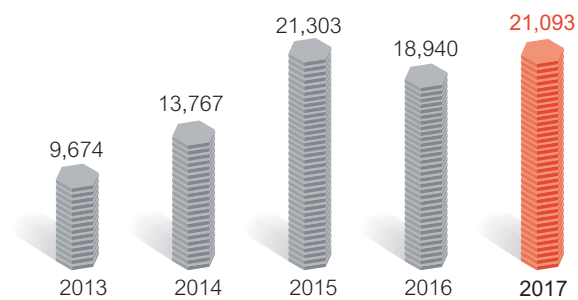
RMB million

**Underwriting profit**

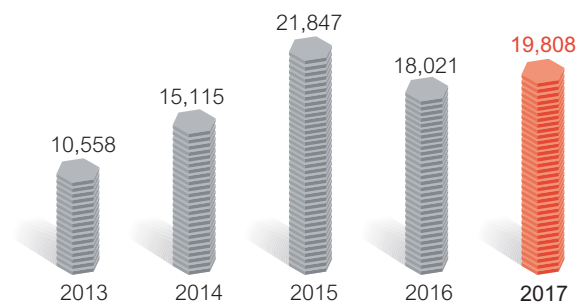
RMB million

**Total investment income**

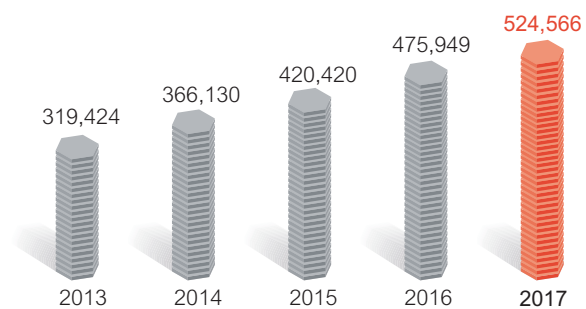
RMB million

**Profit for the year**

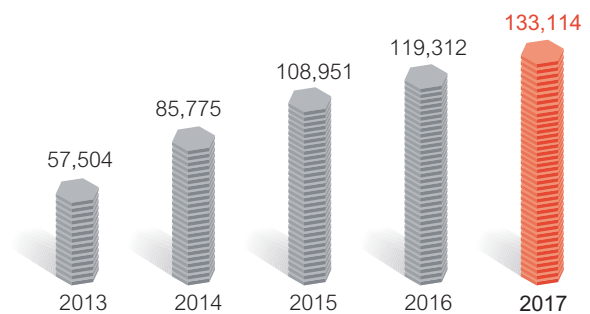
RMB million

**Total assets**

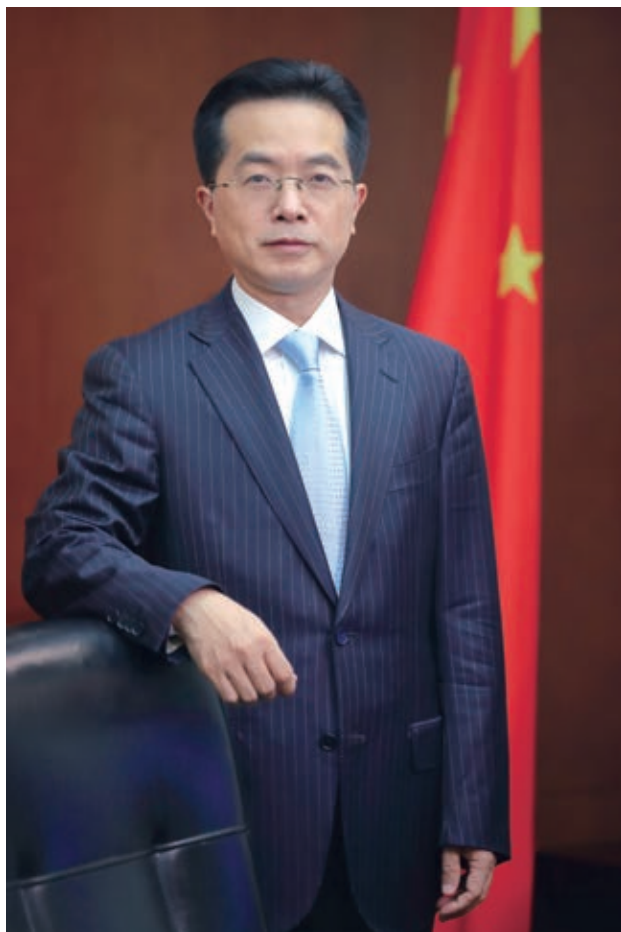
RMB million

**Total equity**

RMB million



Chairman's Statement



Miao Jianmin
Chairman

Dear Shareholders,

In 2017, by focusing on the guidance of seeking progress while maintaining stability, the Company vigorously pressed ahead by confronting and overcoming various difficulties and actively promoted the development through transformation. The Company therefore realised new achievements in various aspects.

Adhering to seeking progress while maintaining stability and obtaining outstanding operating results. Firstly, business experienced a steady growth. In 2017, the Company realised gross written premiums of RMB350,314 million, representing a year-on-year increase of 12.6%, with its incremental premiums maintaining the No.1 ranking in the market. The Company's market share was 33.1%, maintaining its leading position in the market. The premium income of 15 provincial branches each exceeded RMB10 billion. The gross written premiums of the motor vehicle insurance business of the Company were RMB249,232 million, representing a year-on-year increase of 10.5%, with the growth rate exceeding the average growth rate of the market. The gross written premiums of the non-motor vehicle insurance business had a breakthrough, exceeding RMB100 billion for the first time, with a year-on-year increase of 18.2%. **Secondly, profit increased stably.** In 2017, the Company achieved an underwriting profit of RMB9,295 million, representing a year-on-year increase of 85.0%. The combined ratio was 97.0%, continuously outperforming the average of the market. Total investment income reached RMB21,093 million, representing a year-on-year increase of 11.4%. Profit for the year was RMB19,808 million, representing a year-on-year increase of 9.9%.

Thoroughly engaging in the macro-environment of social and economic development and continuously expanding the scope of serving the real economy. Firstly, serving the alleviation of poverty and stepping up efforts to alleviate poverty through insurance. The Company took the initiative to proactively communicate with the government and entered into cooperation agreements regarding

alleviation of poverty through insurance with 29 provincial People's Governments, vigorously promoted new approaches to reduce poverty through insurance and continuously promoted new models of inclusive financing. **Secondly, serving the supply-side reform of the agricultural sector and promoting innovation of insurance products and services.** The Company continued to promote the agriculture insurance by expanding the business scope, increasing product types and raising the protection standards and proactively served new types of agricultural business entities, giving full play to the role of insurance in serving agriculture, rural areas and farmers and promoting the implementation of the policies of the central government to benefit the agricultural sector. In 2017, the Company realised gross written premiums of RMB22,090 million from the agriculture insurance business with a market share of 45.6%, maintaining the No.1 ranking in the market. **Thirdly, serving to guarantee people's livelihood and social governance and vigorously promoting the development of social security insurance business and liability insurance business.** The Company strengthened its competitive advantage in critical illness insurance and speeded up the exploring of new business areas concerning basic medical insurance administration, social security insurance for nursing and social security insurance for poverty alleviation, thus the social security insurance business realised a premium income of RMB20,295 million, representing a year-on-year increase of 38.6%. The Company made great efforts to develop liability insurance business covering safe production, food safety and environmental pollution and realised gross written premiums of RMB16,975 million, representing a year-on-year increase of 23.9%, and the insured amount was RMB44.6 trillion. **Fourthly, serving the implementation of major national strategies and supporting regional economies and the construction of "the Belt and Road Initiatives".** The Company deeply served the coordinated development of Beijing, Tianjin and Hebei and the construction of Xiongan New Area. It also proactively served the construction of "the Belt and Road Initiatives" by selecting and training global talents, deploying overseas working groups and improving the capability of offering insurance services to overseas Chinese enterprises. In 2017, the Company participated in the underwriting of 2,228 overseas projects.

Adhering to business operation in compliance with laws and regulations and further improving the internal control and risk management system. **Firstly, strictly implementing the regulatory requirements and adhering to business operation in compliance with laws and regulations.** In 2017, in an effort to act thoroughly on the spirits of the 19th National Congress of the Communist Party of China, the Central Economic Work Conference and the National Financial Work Conference and implement strictly the "1+4" series of documents, the Company adhered to business operation in compliance with laws and regulations, upheld the bottom line of no systematic risks, conducted compliance self-review and correction, and forestalled and defused operational risk. **Secondly, carrying out risk prevention and control in a strict manner and strengthening the prevention of potential risk in key sectors.** In terms of the risk of violation of regulations in key business sectors, the Company improved the business management process and conducted regular compliance inspections so that the loopholes were plugged effectively.

As the development of socialism with Chinese characteristics enters a new era, so does the economic development of China. China's economy has been transitioning from a phase of rapid growth to a stage of high quality development. With respect to the regulatory environment, the CIRC has issued the "1+4" series of documents one after another as an intense measure to tackle the disorder in the insurance market, accelerated the deregulation of premium rate of commercial motor vehicle insurance and continued to enhance the management of the insurance assets and liabilities. Vigorous regulation is and will remain as "normal" for a certain period of time. In terms of market competition, the level of competition in the property insurance sector is becoming more and more intense. At the same time, the rapid development of Internet-based technologies, in particular FinTech, continues to disrupt the traditional competition landscape of the financial insurance sector. New technologies and new business forms and models are emerging everyday. The Company must speed up its transition to high quality development in order to adapt to the changes in industry regulatory policies and the competition landscape.

The year of 2018 marks the first year of the full implementation of the spirit of the 19th National Congress of the Communist Party of China, the 40th anniversary of the adoption of the policy of reform and opening up, and a critical year for achieving the goal of building a moderately prosperous society in all aspects and continuing with the implementation of the 13th Five-Year Plan. Faced with the new era, new opportunities and new challenges, the Company is determined to persistently put the new development vision into practice and accelerate the transition to high quality development.

Optimising the main business and refining the expertise, and transforming the development model, optimising the business structure and shifting driving forces by giving priorities to quality and efficiency.

The Company will strive to achieve a coordinated development of the policy-oriented business and commercial business and a combination of the business model reform and technological reform, adhere to the practice of market benchmarking and efficient development, strengthen its market leading position and maintain its combined ratio at a level outperforming the market. On one hand, the motor vehicle insurance will be the top priority for achieving development through transformation. For this, the Company adheres to the policy of “reducing dependency on independent agencies, lowering sales cost, enhancing customer service, and increasing customer loyalty”, consolidates the customer database, strengthens the building of self-owned channels, reinforces the utilisation of technologies, optimises customer service and enhances customer experience. On the other hand, the Company will use the non-motor vehicle insurance business as an important basis for nurturing the new energy of business development. In the policy-oriented business field, the Company will fully review and align with the central policies and leverage the opportunities of expansion of agriculture insurance, critical illness insurance and liability insurance to boost its advantageous market status. In the traditional corporate customer business field, the Company will strengthen and develop the industrial business and important customer business, provide extended services to upstream and downstream of business chains, and in the individual disperse business field, the Company will speed up the development of internet

insurance business and enhance the sharing and acquiring of customers from policy-oriented business to boost the development of the individual disperse business.

Returning to the fundamental purpose of providing protection, being firmly committed to serving the real economy and serving the important national strategies, and proactively deepening the insurance supply-side structural reform of the Company.

The Company will unwaveringly serve the strategy of vitalisation of the rural areas, speed up the transformation and upgrading of insurance for agriculture, rural areas and farmers, and make relentless efforts to promote the formation of combined forces driving the development of a comprehensive, full-scope agriculture insurance. The Company will be steadfast in serving the battle for targeted poverty alleviation through a dynamic collaboration of the insurance, financing and industrial measures aimed at poverty alleviation and serving the construction of the social security systems, strengthen the market position of the Company's critical illness insurance and other social security businesses and continuously seek new growth points. The Company will also be committed to serving the implementation of the regional development strategies of the country and innovate insurance financial service, and spare no effort in supporting the battle for pollution prevention and control and accelerate the development of green insurance.

Being proactive in promoting transformation and innovation, and by focusing on innovation as the first driving force for development, working to achieve transformation in terms of quality, efficiency and driving force.

Based on the field of its specialities, the Company will promote innovation, establish an innovation management system, build up a team of professional talents of innovation, establish a professional incentive mechanism for innovation and establish a mechanism and culture conducive to encouraging and promoting innovation. The Company has various entities and organisations operating throughout China and the circumstances faced by them vary widely, therefore the Company has to promote innovation through differentiated approach, with a focus on enhancing the innovation of the regional development model of the Company to build up

the Company's regional competitive strengths. The Company will promote innovation through the refined approach with a focus on lowering cost and increasing efficiency by innovation.

Operating in compliance with regulations, upholding the bottom lines, and based on the actual conditions of the Company, achieving effective risk prevention and control in key areas. The Company will adhere to the principle of operating in compliance with laws and regulations, uphold the bottom line of avoiding systematic risks, strengthen risk awareness and risk restriction of the Company, stress on the importance of meeting the requirements of C-ROSS, facilitate the application of risk preference and risk limit in various business units and segments, reinforce the risk control performance assessment and accountability system, step up the reform of risk controlling, legal and auditing systems and mechanisms and the construction of information systems thereof with a clear delineation of accountability for the risk management at each level, and effectively prevent the major potential risks such as the risks relating to violation of rules, strategies and business operation faced by the Company.

In the context of a new era, we must show a new look and achieve new accomplishments. We shall be faithful to the initial aspirations, firmly adhere to our mission, unwaveringly implement the new development vision and further promote the transformation toward high quality development of the Company, thereby writing a new chapter of PICC P&C's development in the new era and creating more value for the shareholders!

Miao Jianmin
Chairman

Beijing, China
23 March 2018

Biographical Details of Directors, Supervisors and Other Senior Management

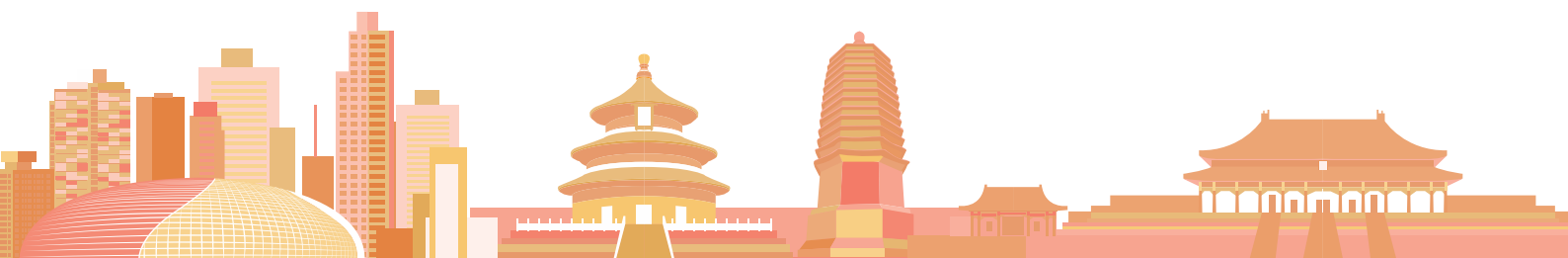
DIRECTORS

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, and a senior economist. Mr Miao is currently the Chairman of the Board of Directors and an Executive Director of PICC Group*. 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 PICC Group* in April 2017, and has served as Chairman (ceasing 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 and executive director of the council of China Chamber of International Commerce in December 2015. 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.

* These companies are listed on the Hong Kong Stock Exchange.

** This company is listed on the New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange.



Lin Zhiyong, aged 55, a postgraduate, a Master, a senior economist, the Vice Chairman of the Board of Directors, an Executive Director and the President of the Company. Mr Lin currently is also a Vice Chairman of the Insurance Association of China, a Vice Chairman of the Insurance Society of China, Director of the Specialised Committee on Agriculture Insurance of the Insurance Association of China, Deputy Director of the Specialised Committee on Fund Application of the Insurance Association of China and a Director of Hua Xia Bank. Mr Lin joined The People's Insurance Company of China ("PICC") in 1980 and was previously the Deputy General Manager of Quanzhou Branch of PICC Property Insurance Company, Deputy General Manager and General Manager of PICC Fuzhou Branch, Deputy General Manager and General Manager of PICC Fujian Provincial Branch, and an Executive Vice President of the Company. Mr Lin was granted the "National May Day Labor Medal" in 1998 and won the honorary title of "National Excellent Communist Party Member" in 1999. In 2010, Mr Lin was elected as an "Excellent Entrepreneur of Fujian Province". He has 38 years of operation and management experience in the PRC insurance industry.

Li Tao, aged 52, Ph.D, a senior economist, a Non-executive Director of the Company. Mr Li is currently the Secretary of the Board of Directors and a Vice Director of the Listing Issue Office of PICC Group*. Mr Li currently is also 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 and a Senior Specialist of The People's Insurance Company (Group) of China. 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 33 years of substantial experience in research and management.

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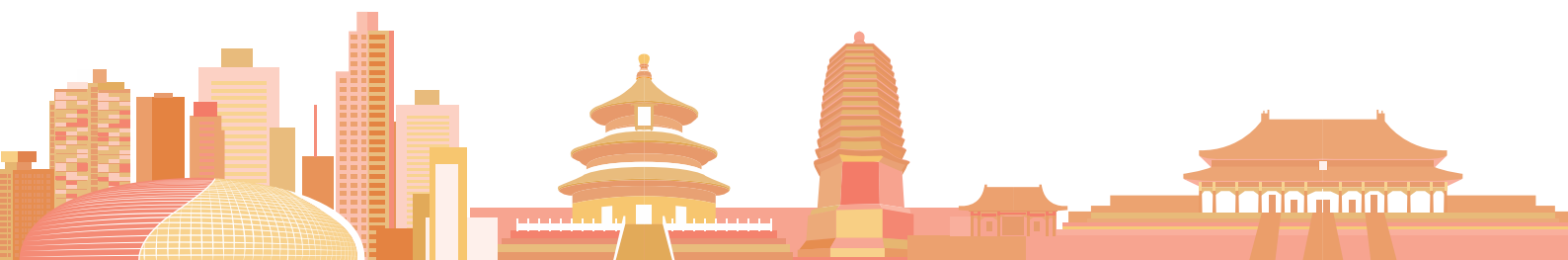


Yun Zhen, aged 59, a university graduate, a senior economist, an Executive Director and an Executive Vice President of the Company. Mr Yun currently is also a member of the Standing Committee of the Specialised Committee on Human Resources of the Insurance Association of China, a Non-executive Director of PICC Life Insurance Company Limited. Mr Yun joined PICC in 1985 and was previously the Deputy Manager and Manager of PICC Hohhot Central Sub-branch, Deputy General Manager and General Manager of Inner Mongolia Branch of the Company, General Manager of Shandong Provincial Branch of the Company and a Vice President of PICC Life Insurance Company Limited. Mr Yun has 33 years of substantial operation and management experience in the PRC insurance industry.

Wang Dedi, aged 60, a senior economist, an Executive Director, an Executive Vice President and the Director of the Labour Union Work Committee of the Company. Mr Wang joined PICC in 1992 and was previously the Deputy General Manager and General Manager of PICC Anshan Branch of Liaoning Provincial Branch, Assistant General Manager, Deputy General Manager and General Manager of PICC Liaoning Provincial Branch, and General Manager of Beijing Branch of the Company. Mr Wang has 26 years of substantial operation and management experience in the PRC insurance industry.

Lin Hanchuan, aged 69, 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, an Independent Non-executive Director of Shengang Securities Co., Ltd., and concurrently the Vice Chairman of the Chinese Industrial Economic Association and an Executive Director of the Chinese Institute of Business Administration. 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.

* This company is listed on the Shanghai Stock Exchange.



Lo Chung Hing (Silver Bauhinia Star), aged 66, 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 and an Independent Non-executive Director of China Shanshui Cement Group Limited*. 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 and a member of the Financial Services Advisory Committee of the Trade Development Council of Hong Kong. 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.

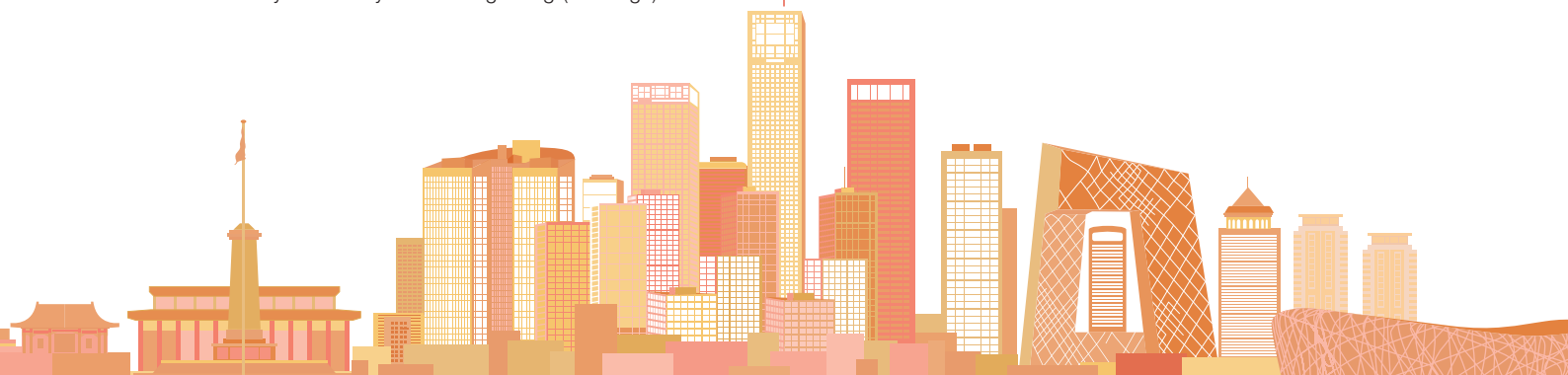
* This company is listed on the Hong Kong Stock Exchange.

** These companies are listed on the Hong Kong Stock Exchange and traded in the form of American depositary receipts in U.S.A.

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

Na Guoyi, aged 61, Ph.D, a professor, an Independent Non-executive Director of the Company. Mr Na is an independent scholar and concurrently the Director of the International Department 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 57, 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.



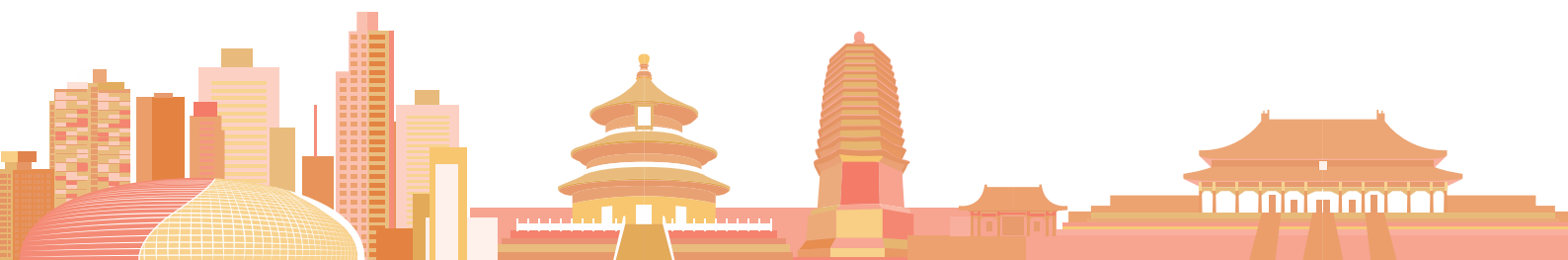
Chu Bende, aged 64, a postgraduate of the Party School of the Central Committee of Communist Party of China, a senior economist, and an Independent Non-executive Director of the Company. Mr Chu was previously the Deputy Director of the Office of the State Administration of Foreign Exchange ("SAFE"), 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, a Vice Chairman of the National Internet Finance Association of China and an Adjunct Professor of University of International Business and Economics. 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 63, Ph.D, an Independent Non-executive Director of the Company. Ms Qu is currently a Professor of Accounting and a Doctoral Supervisor of Xiamen University, 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 an Independent Non-executive Director of SDIC Essence Co., Ltd.***, Sankeshu Coatings 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.

* This company is listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange.

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

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



SUPERVISORS

Li Zhuyong, aged 45, Ph.D, a senior economist, a Supervisor of the Company since June 2015. Mr Li is currently the Legal Director of PICC Group*, a Director of The People's Insurance Company of China (Hong Kong), Ltd., an Adjunct Professor of China University of Political Science and Law, an Arbitrator of China International Economic and Trade Arbitration Commission, Beijing Arbitration Commission and China Maritime Arbitration Commission, and Vice Chairman of China Institute of Insurance Law. Mr Li began his career in 1994. He joined PICC in 1998 and was previously the Deputy Manager and Manager of the Legal Department of PICC, Deputy General Manager and General Manager of the Department of Law and Compliance of PICC Holding Company and General Manager of the Risk Management Department/Legal and Compliance Department of The People's Insurance Company (Group) of China. Mr Li graduated from Capital University of Economics and Business with a master's degree in law and afterwards graduated from China University of Political Science and Law with a doctorate degree in law. Mr Li is a practicing corporation lawyer in China and has 23 years of work experience in the field of legal compliance and risk management.

* This company is listed on the Hong Kong Stock Exchange.

Ding Ningning, aged 70, Ph.D, an Independent Supervisor of the Company since June 2015. Mr Ding is currently a researcher of the Social Development Research Department of the Development Research Center ("DRC") of the State Council of the PRC, a Director of the China International Association for Urban and Rural Development and an Independent Non-executive Director, a member of the Audit Committee and a member of the Nomination Committee of Huabao International Holdings Limited*. Mr Ding has been conducting research at the DRC for 36 years since 1982, and was the Director of the Enterprise Economic Research Department of the DRC from 1993 to 1998 and the Director of the Social Development Research Department of the DRC from 1998 to 2008. He was a member of the Listed Company Supervisory Committee of China Securities Regulatory Commission for four sessions from 1993 to 2000. Mr Ding was previously an Independent Non-executive Director of the Company. Mr Ding graduated from the Department of Electrical Engineering of Tsinghua University with a bachelor's degree in engineering and graduated from the Party School of the Central Committee of the Communist Party of China in its first doctorate course in economics. Mr Ding studied and conducted research on the British economic history at the Center of Chinese Economics Study of Oxford University, England. He has substantial experience in the area of economic research.

* This company is listed on the Hong Kong Stock Exchange.



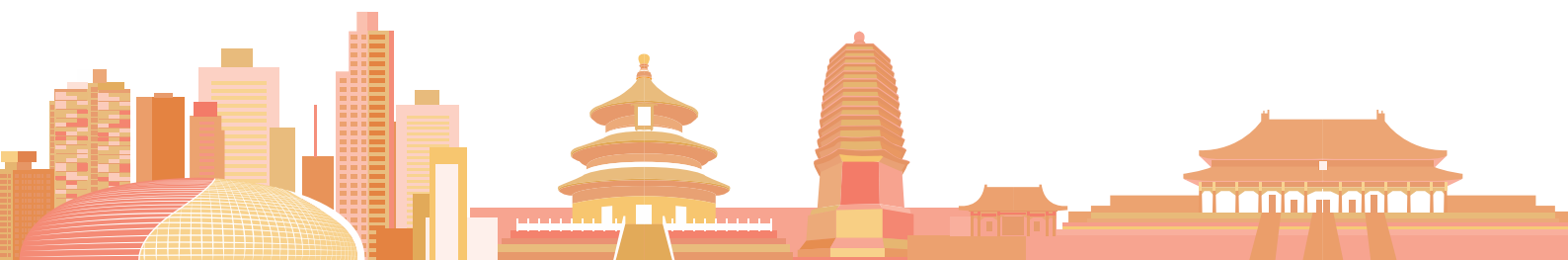
Lu Zhengfei, aged 54, Ph.D, a professor, a doctoral supervisor, an Independent Supervisor of the Company since January 2011. Mr Lu is currently a Professor of Accounting and Doctoral Supervisor of Guanghua School of Management of Peking University, the Director of the Research Center for Financial Analysis and Financial Investment of Peking University, a Cheung Kong Chair Professor of the Ministry of Education of the PRC, an Executive Director and concurrently the Deputy Director of the Professional Committee for Financial Management of the Chinese Accounting Association, a Director of the Chinese Tax Institute and a Director of China Cost Research Society. Mr Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sinotrans Limited*, Sino Biopharmaceutical Limited*, China National Materials Company Limited*, Lian Life Insurance Co., Ltd., Zhejiang Tailong Commercial Bank, Beijing Turen Urban Planning and Design Co., Ltd. and Bank of China Limited**. 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.

* These companies are listed on the Hong Kong Stock Exchange.

** This company is listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

Li Fuhan, aged 58, 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 27 years of substantial operation and management experience in the PRC insurance industry.

Gao Hong, aged 51, 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 and 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 22 years of operation and management experience in the PRC insurance industry.



OTHER SENIOR MANAGEMENT

Jiang Caishi, aged 52, Ph.D, a senior economist, an Executive Vice President of the Company. Mr Jiang currently is also the President of the Shanghai Institute of Marine Insurance, Chairman on Duty of China Agriculture Insurance and Reinsurance Community, General Conference Chairman and Council President of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool, 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, a Deputy Director of the Specialised Committee on Rail Construction Safety of China Association of Work Safety and Vice President of PICC Philanthropy Charity Foundation. 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, and a Senior Specialist and concurrently the General Manager of the Business Development Department of The People's Insurance Company (Group) of China. Mr Jiang has 30 years of substantial operation and management experience in the PRC insurance industry.

Xie Xiaoyu, aged 56, a postgraduate, a Master, a researcher, 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. Ms Xie joined the Company in 2013 and was previously the Deputy Director and 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 Secretariat Division 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, 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, and the Chief Operation Officer of Health Management and a Vice President of PICC Health Insurance Company Limited. Ms Xie has 26 years of substantial experience in management.

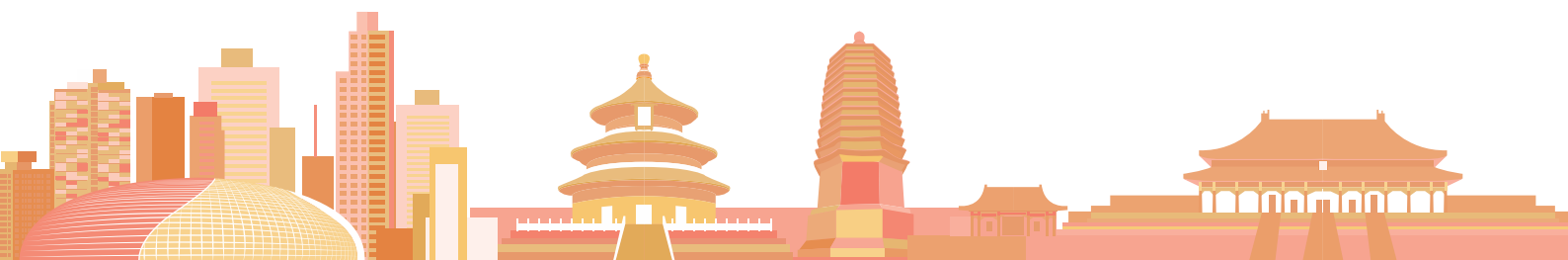


Zhang Xiaoli, aged 53, a postgraduate, a Master, Secretary of the Commission for Discipline Inspection, the Responsible Compliance Officer and the Responsible Auditing Officer of the Company. Mr Zhang is also the Director of the Specialised Committee on Corporate Governance of the Insurance Association of China. 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 an Executive Vice President, 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 18 years of substantial management experience in the PRC insurance industry.

Hua Shan, aged 53, a doctoral postgraduate, Ph.D, an Executive Vice President of the Company. 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 34 years of substantial operation and management experience in the PRC insurance industry.

Feng Xianguo, aged 55, 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 33 years of substantial operation and management experience in the PRC insurance industry.

Shen Dong, aged 49, 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 26 years of substantial financial management experience in the PRC insurance industry.



Wu Jianlin, aged 55, a university graduate, a senior economist and an Assistant to the President of the Company. Mr Wu was 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, and the Chief Responsible Officer and General Manager of Zhejiang Provincial Branch 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 33 years of substantial operation and management experience in the PRC insurance industry.

Shao Liduo, aged 51, a doctoral postgraduate, a senior engineer, an Assistant to the President and 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 28 years of substantial operation and management experience in the PRC insurance industry and the information and technology sector.

Zou Zhihong, aged 47, 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 and General Manager of the Legal Department 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 of the Legal Department of the Company. Mr Zou graduated from Wuhan University with a doctorate degree in law. Mr Zou has 20 years of substantial experience in the field of legal compliance.



Discussion and Analysis of Operating Results and Financial Conditions



OVERVIEW

In 2017, the supply-side structural reform in China continued, and the shifting from old driving forces to the new ones accelerated. The scientific and technological innovation changed with each passing day, and the development strategy of the state featuring openness was deeply promoted. The national economy was stable with improvement, and the quality and efficiency of economic growth improved steadily. With the modernisation of state governance continuing to deepen, the formation of social pluralistic governance accelerating and efforts to improve the well-being of the people continuing to increase, the social development entered a new stage of growth. The new trend of economic and social development together with the market-oriented reform of the insurance sector had, on one hand, triggered more demand for insurance, facilitated the transformation and upgrading of the insurance sector and boosted the optimisation of the business structure, and, on the other hand, posed new challenges to the market players in terms of innovating

business model, upgrading product supply, supporting the development of real economy and enhancing the ability of risk prevention and control, etc.

Facing the opportunities and challenges arising from the new era, new changes and new trends, the Company, in keeping with the vision of innovative, coordinated, green and open development that is for everyone, promoted proactively five major strategies, namely service upgrade, business going global, internet-oriented development, extension and integration of value chain and platformisation, and accelerated overall transformation and upgrading. The Company deepened the organisational reform, improved the operation and channel arrangement, developed and innovated product supply, improved service quality continuously, took the initiative to perform social responsibility and perfected the comprehensive risk management system, thereby accumulating more powerful driving forces, forming a more balanced development and establishing a firmer market leading position.

Market share remaining stable and business developing at the same pace with that of the market.

In 2017, the Company and its subsidiaries developed a full range of sales channels and innovated new business development models, thereby achieving gross written premiums of RMB350,314 million, representing a year-on-year increase of 12.6% with the gross premiums maintaining No.1 ranking in the market. The Company's market share was 33.1% (Note) in the property and casualty insurance market of the PRC. Gross written premiums of the motor vehicle insurance business amounted to RMB249,232 million, representing a year-on-year increase of 10.5%. The new driving forces for development of the non-motor vehicle insurance business continued to grow and achieved gross written premiums of RMB101,082 million, representing a year-on-year increase of 18.2%.

Note: Calculated based on the PRC insurance industry data for 2017 published on the website of the CIRC.

Profitability surpassing that of the market and the leading position being effectively strengthened.

In 2017, the combined ratio of the Company and its subsidiaries was 97.0%, representing a year-on-year decrease of 1.1 percentage points; underwriting profit was RMB9,295 million, representing a year-on-year increase of 85.0%, which significantly outperformed that of the market; total investment income reached RMB21,093 million, representing a year-on-year increase of 11.4%; profit before tax reached RMB27,161 million, representing a year-on-year increase of 21.0%; profit for the year was RMB19,808 million, representing a year-on-year increase of 9.9%; return on equity ratio was 15.7%, maintaining at an industry leading level.



Gross written premiums

350,314

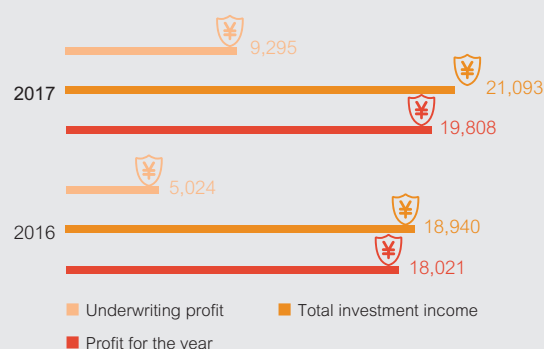
RMB million

Market share

33.1%

Profitability

RMB million



Continuous growth of assets and steady enhancement of comprehensive strengths.

As at the end of 2017, the total assets of the Company and its subsidiaries reached RMB524,566 million, representing an increase of 10.2% over that of the beginning of the year. The total equity was RMB133,114 million, representing an increase of 11.6% over that of the beginning of the year. The total amount of investment assets grew steadily, reaching RMB415,508 million. The Company's core solvency margin ratio reached 229%, and the comprehensive solvency margin ratio was 278%. Attributable to its outstanding industry position and continuously increasing comprehensive strengths, the Company ranked top 100 Hong Kong stocks for five consecutive years and topped the list of the "Most Valuable Investments". The rating granted by Moody's Investors Service to the Company in terms of insurance financial strength is A1, which is the highest rating in Mainland China.

Prominence of value in our services and continuous increase of social influence.

In 2017, the Company and its subsidiaries took the initiative to serve the construction of real economy and the modernisation of state governance, as a result of which the insurance coverage continued to expand. It dealt properly with severe catastrophes such as the earthquake in Jiuzhaigou and Typhoon Hato, receiving high recognition from local governments and customers. The Company actively promoted helicopter rescue service which is unique in the sector, and enhanced its scientific innovation and professionalism on claim settlement to streamline the claim settlement procedures and improve the claim settlement efficiency. In 2017, the Company's customer net promoter score (NPS) ranked first in the sector and received from the CIRC the highest rating of service evaluation of insurance companies. The Company also won several awards such as "Innovation in Poverty Alleviation by Financial Enterprises" and "Best Insurance Company of the Year 2017".

Solvency margin



Comprehensive solvency margin ratio

278%

Core solvency margin ratio

229%





(I) Strengthening market benchmarking and promoting balanced development to create stronger development momentum

The Company firmly promoted the consolidation and reorganisation of institutions and optimised the organisational layout to improve the operational efficiency of organisations, creating a new competitive advantage of the Company. It strengthened the overall benchmarking assessment, improved the assessment index system, and incentivised and guided the benchmark development. The Company implemented proactive financial policies, adjusted the resources allocation model, and expanded the business operation autonomy at the basic level to bring out the vitality at the basic level and uplift the capability of responding to the market. It also took the initiative to adjust the marketing strategy and strengthened the management of the sales process in proactive response to the deregulation of premium rate of commercial motor vehicle insurance. The Company implemented differentiated sales strategy and boosted the interaction with the customers so as to develop a broader platform for the expansion of new room for development of the Company. Moreover, it developed a framework system for the strategic management of channels and regions so as to provide basic guides for the implementation of the collaborative development of channels and differentiated operations of regions. The Company integrated the regional coordinated development, accelerated the transformation and upgrading of branches in Western China, and formulated a general plan and policy for the development of the strategically significant cities and deepened the construction of channels for the county-level business for the purpose of a more balanced development. The Company also launched the globalisation strategy in its positive response to the Belt and Road Initiative. Overseas business work model and management system was established, which constituted initial efforts of the Company to further broaden the geographic coverage of our business.

(II) Serving the national economy and focusing on the well-being of the people to establish a firmer leading position

The Company adhered to serving the overall economic and social development as its mission. In terms of serving the agriculture, rural areas and farmers, the Company expanded the insurance coverage and protection, accelerated the development of featured agriculture insurance products and made efforts to develop commercial insurance business in rural areas. As to serving the alleviation of poverty, the Company launched the “Year of Joint Action against Poverty” jointly with the State Council Leading Group Office of Poverty Alleviation and Development to explore and develop featured products for poverty alleviation. The Company formed a specialised team of inclusive financing to innovate and promote the advanced model for inclusive financing. The Company contributed to the improvement of people’s well-being by strengthening its competitive advantage in critical illness insurance, accelerating the development of new business areas of the social security insurance, setting up a “one-stop” service platform and exploring health management services. The Company served the real economy and the major national strategies by strategically developing key insurance businesses such as insurance for the first set of major technical equipment, individual credit loan surety insurance, extended warranty liability insurance for motor vehicles and internet insurance. The Company served the national strategy of entrepreneurship and innovation by promoting insurance for entrepreneurship and innovation. In addition, it also initiated and promoted the “insurance + service” model and made efforts to develop insurance business relating to people’s well-being and social governance so as to open up room of new strategy. The Company deeply served the coordinated development of Beijing, Tianjin and Hebei, and the construction of Xiongan New Area. It made efforts to develop green insurance business, facilitated the construction of green finance reform and innovation pilot area. In 2017, the credit and surety insurance, liability insurance and accidental injury and health insurance of the Company became the new growth points for the non-motor vehicle commercial insurance business, facilitating the achievement of a new breakthrough in the Company’s business and effectively consolidating its leading position in the market.

(III) Accelerating the research and application of new technologies, committing to reducing cost and increasing efficiency to continuously enhance the value creation capability

The Company made efforts to implement the cost leadership strategy, enable the accurate allocation of resources, and optimise the reinsurance management. It strengthened the underwriting management and control, optimised the business structure, deepened the implementation of lean claims and promoted the model of integrated handling of traffic accidents, resulting in a significant decrease of the loss ratio. It also improved the asset allocation and enhanced the refined management, leading to a steady growth of the total investment income. It took the initiative to pursue reform of new technologies by proactively studying and exploring the application of mobile internet, big data, artificial intelligence (AI), block chain and other new technologies in the insurance sector. It innovated operation and management tools and applied AI technology to optimise the business processes, and upgraded and promoted the platform of "PICC V Alliance" (人保V盟), leading to the continuous improvement in the operational efficiency. It improved the PICC app and its Wechat subscription account to establish a mobile e-commerce platform and a mobile operation platform to provide customers with one-stop online services. It launched the service of "serving customers with heart and facilitating claims with technology", pioneered air rescue by helicopter and improved the customer complaints management system so that the customer satisfaction continued to increase, and the value creation capability of the Company was continuously enhanced.

(IV) Strengthening the risk management and control, perfecting the comprehensive risk management system and enhancing the risk management and control capabilities

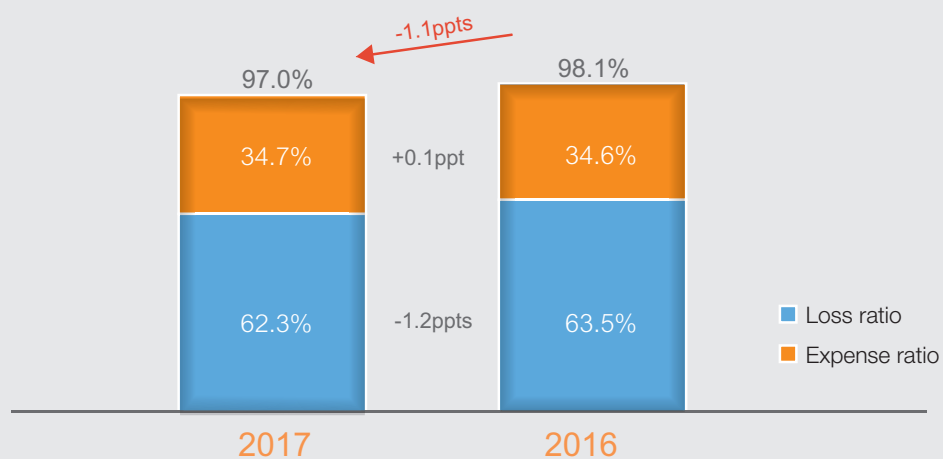
In keeping with the spirit of the Central Economic Work Conference and the National Financial Work Conference and meeting the regulatory requirements of the CIRC, the Company focused on the overall development strategy, implemented a steady underwriting, reinsurance and investment policy, upheld a prudent and rational approach in the management of significant risks to ensure that the underwriting ability and solvency of the Company being compatible to the business scale and development speed. By adhering to the risk management target of "compliance operation, effective management and control, asset security, and capital adequacy" and guided by the development strategy for a new era, the Company, taking the implementation of C-ROSS as an opportunity, updated the risk preference system, deeply pushed forward the construction of comprehensive risk management system and perfected the risk management and control mechanism. The Company continued to reinforce the foundation of the overall risk management, improved the basic procedures for the effective management of all major risks, improved the risk management skills, explored the introduction of advanced methods and instruments, constructed a sound closed-loop operating mechanism and practically enhanced its ability to manage and control major risks, thereby strengthening its risk identification and prevention capability. Moreover, the Company took the initiative to carry out self-review and rectification in terms of compliance to strengthen the monitoring of risks as well as forestall and defuse operational risk, resulting in a more steady and sound operation of the Company.

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			
	2017		2016	
	RMB million	%	RMB million	%
Net earned premiums	309,076	100.0	270,261	100.0
Net claims incurred	(192,520)	(62.3)	(171,759)	(63.5)
Total expenses	(107,261)	(34.7)	(93,478)	(34.6)
Underwriting profit	9,295	3.0	5,024	1.9

Combined ratio

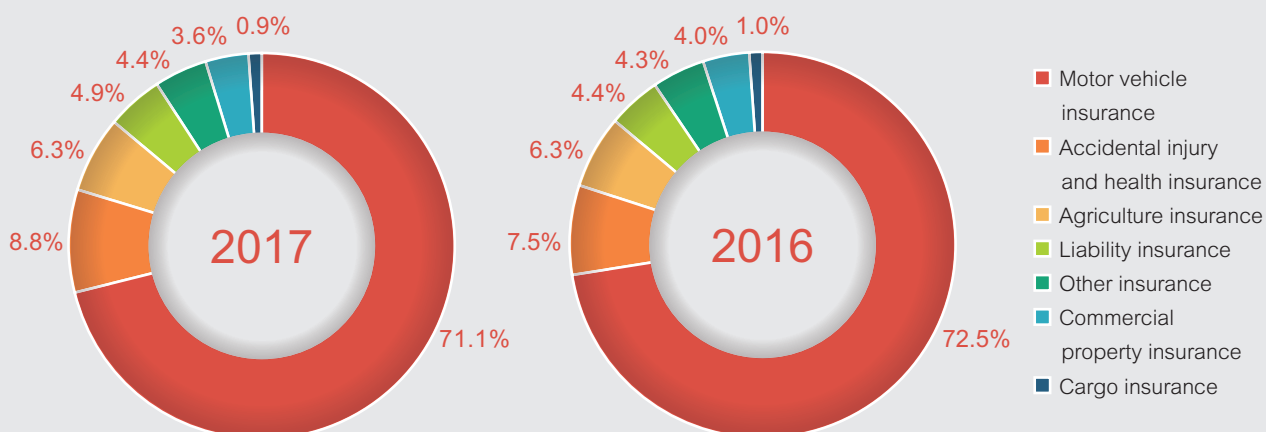


GROSS WRITTEN PREMIUMS

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	
	2017	2016
	RMB million	RMB million
Motor vehicle insurance	249,232	225,640
Commercial property insurance	12,623	12,321
Accidental injury and health insurance	30,646	23,432
Liability insurance	16,975	13,703
Cargo insurance	3,232	2,977
Agriculture insurance	22,090	19,535
Other insurance	15,516	13,552
Total	350,314	311,160

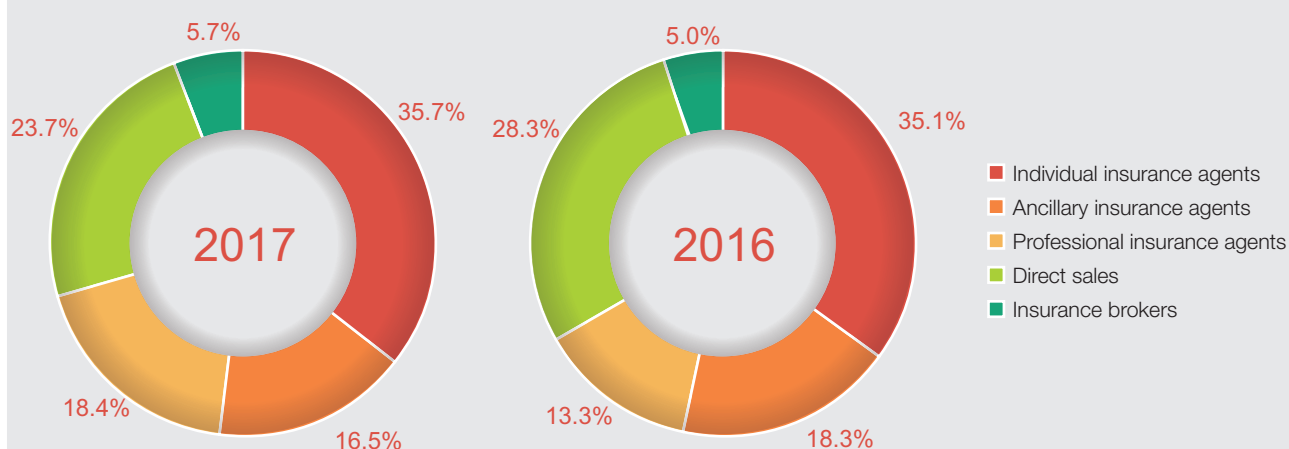
Composition of gross written premiums



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

	Year ended 31 December			
	2017		2016	
	Amount RMB million	Percentage %	Amount RMB million	Percentage %
Insurance agents	246,610	70.6	206,904	66.7
Among which:				
Individual insurance agents	124,548	35.7	109,044	35.1
Ancillary insurance agents	57,705	16.5	56,681	18.3
Professional insurance agents	64,357	18.4	41,179	13.3
Direct sales	82,859	23.7	87,968	28.3
Insurance brokers	19,821	5.7	15,581	5.0
Total	349,290	100.0	310,453	100.0

Breakdown of direct written premiums by distribution channels



Gross written premiums of the Company and its subsidiaries were RMB350,314 million in 2017, representing an increase of RMB39,154 million (or 12.6%) from RMB311,160 million in 2016. The business growth was largely driven by the development of the motor vehicle insurance, accidental injury and health insurance, liability insurance, agriculture insurance and credit and surety insurance business. Amongst these segments:

Gross written premiums of the motor vehicle insurance segment were RMB249,232 million, representing an increase of RMB23,592 million (or 10.5%) from RMB225,640 million in 2016. In 2017, on one hand the Company continued to strengthen the construction and consolidation of the sales channels, stepped up efforts to enhance pricing capability and improved the ability of resources allocation and the ability to acquire additional business; and on the other hand, the Company optimised the management mechanism of the existing business, strived to ensure the good quality of the key process indicators relating to business renewal and increased customer stickiness by provision of high quality service so as to drive up the renewal rate, thereby boosting the year-on-year increase in the underwriting policies of the motor vehicle insurance, effectively mitigating the impact of the drop in the average premiums per-vehicle of the motor vehicle insurance and realising a rapid growth of the motor vehicle insurance business.

The gross written premiums of the commercial property insurance segment were RMB12,623 million, representing an increase of RMB302 million (or 2.5%) from RMB12,321 million in 2016. In 2017, the Company took proactive measures to cope with the adverse effect of a decline in the premium rate resulting from the market competition, by strengthening market research and leveraging the opportunities presented by national policies, to continuously seek and foster new growth points and vigorously develop all risks insurance for property, machinery damage insurance and business interruption insurance; and meanwhile, the Company increased the technological content and service quality of the underwriting risk control service and fostered customer stickiness and loyalty, thereby achieving an overall steady growth of the commercial property insurance business.

Gross written premiums of the accidental injury and health insurance segment were RMB30,646 million, representing an increase of RMB7,214 million (or 30.8%) from RMB23,432 million in 2016. In 2017, by proactively serving the strategy of “Healthy China”, the Company reinforced its advantage in the critical illness insurance business, accelerated the development of new markets in the basic medical insurance management, social security insurance for nursing

care and poverty alleviation and so on, established “one-stop” service platforms, explored the health management service, and speeded up the secondary development of customers, as a result of which the health insurance business developed rapidly. The Company further promoted digitalisation of the process of issuance of policies and the use of mobile integrated terminals in promoting businesses, accelerated the internal business consolidation and coordinated development, promoted diverse channels for insurance application in the traditional business, thereby boosting a rapid growth in the accidental insurance for drivers and passengers of motor vehicles and so on, while maintaining a sound and stable growth in the traditional business such as accidental injury insurance for corporations, school students and young children.

Gross written premiums of the liability insurance segment were RMB16,975 million, representing an increase of RMB3,272 million (or 23.9%) from RMB13,703 million in 2016. In 2017, the Company actively served the overall economic and social development, precisely identified and leveraged the opportunities presented by national policies, as a result of which the employer liability insurance, safe production liability insurance, insurance for the first set of major technical equipment, export product liability insurance, government aid insurance and such other insurance businesses showed a trend of sound development. Meanwhile, by leveraging its business network advantage, the Company strengthened the channel collaboration in marketing, as such, the extended warranty liability insurance for motor vehicle, the insurance for online shopping freight loss and such other insurance businesses brought new growth points to the Company's liability insurance segment.

Gross written premiums of the cargo insurance segment were RMB3,232 million, representing an increase of RMB255 million (or 8.6%) from RMB2,977 million in 2016. In 2017, the economy in China was stable with improvement and the corporate production and investment activities stabilised and witnessed a rebound. There was a surge in both the volumes and prices of raw metals, minerals, building materials and other commodities directly linked to the recent round of inventory replenishment, which in turn led to a growth in the relevant traditional insurance business

such as insurance for import, water transport, land and water transport and so on. At the same time, the Company continued to develop the individual disperse business and the insurance for baggage carried in the vehicle and insurance for carry-on baggage expanded tremendously.

Gross written premiums of the agriculture insurance segment were RMB22,090 million, representing an increase of RMB2,555 million (or 13.1%) from RMB19,535 million in 2016. In 2017, faced with increasingly fierce market competition, the Company increased the input of resources and, while maintaining a stable development of the existing business, stepped up efforts to develop the insurance for breeding or cultivation business, energetically explored the innovative insurance businesses relating to agricultural product price index and climate index, insurance products for new agriculture entities and poverty alleviation, agriculture insurance with special local features and other incremental business, all of which created new driving forces for the development of the agriculture insurance.

Gross written premiums of the other insurance segment were RMB15,516 million, representing an increase of RMB1,964 million (or 14.5%) from RMB13,552 million in 2016. In 2017, the Company's individual credit loan surety insurance and performance surety insurance segments achieved a relatively rapid growth, which drove the credit and surety insurance business to develop quickly. Meanwhile, the Company also achieved a balanced development of businesses including special risks insurance, construction insurance and homeowners property 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	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Motor vehicle insurance	236,877	209,667
Commercial property insurance	7,148	7,527
Accidental injury and health insurance	25,622	19,833
Liability insurance	11,795	9,572
Cargo insurance	2,427	2,161
Agriculture insurance	16,489	14,428
Other insurance	8,718	7,073
Total	309,076	270,261

Net earned premiums of the Company and its subsidiaries were RMB309,076 million in 2017, representing an increase of RMB38,815 million (or 14.4%) from RMB270,261 million in 2016.

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			
	2017		2016	
	Net claims incurred RMB million	Loss ratio %	Net claims incurred RMB million	Loss ratio %
Motor vehicle insurance	(139,407)	(58.9)	(124,718)	(59.5)
Commercial property insurance	(4,076)	(57.0)	(5,741)	(76.3)
Accidental injury and health insurance	(24,004)	(93.7)	(17,649)	(89.0)
Liability insurance	(6,929)	(58.7)	(5,767)	(60.2)
Cargo insurance	(1,227)	(50.6)	(1,149)	(53.2)
Agriculture insurance	(11,033)	(66.9)	(11,233)	(77.9)
Other insurance	(5,844)	(67.0)	(5,502)	(77.8)
Total	(192,520)	(62.3)	(171,759)	(63.5)

Net claims incurred of the Company and its subsidiaries in 2017 were RMB192,520 million, representing an increase of RMB20,761 million (or 12.1%) from RMB171,759 million in 2016. The loss ratio was 62.3% in 2017, decreased by 1.2 percentage points from 63.5% in 2016. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB139,407 million, representing an increase of RMB14,689 million (or 11.8%) from RMB124,718 million in 2016. The loss ratio decreased by 0.6 percentage points from 59.5% in 2016 to 58.9% in 2017. In 2017, the Company further developed the potential of profitable insurance businesses, refined the risk classification and strengthened the management and control over high-risk businesses, thereby optimising the business structure of motor vehicle insurance. The deregulation of premium rate of commercial motor vehicle insurance resulted in the selective reporting for claims by policy holders, thus the valid claim cases and claim frequency for confirmed cases witnessed a continuous decrease. Meanwhile, the Company made achievement in terms of claim cost control after it continuously improved the pricing capability on claim settlement, strengthened the management on spare parts and working hours, improved the management on motor vehicle repairing resources, and reinforced the efforts on motor vehicle insurance inspection and claim recovery.

Net claims incurred of the commercial property insurance segment were RMB4,076 million, representing a decrease of RMB1,665 million (or -29.0%) from RMB5,741 million in 2016. The loss ratio decreased by 19.3 percentage points from 76.3% in 2016 to 57.0% in 2017. In 2017, both the net claims incurred and the loss ratio of the commercial property insurance segment dropped significantly on a year-on-year basis, as a result of the Company's continuous improvement of underwriting risk control capability, roll-out of various initiatives to decrease the claims payment and fewer catastrophes compared with the same period of the previous year.

Net claims incurred of the accidental injury and health insurance segment were RMB24,004 million, representing an increase of RMB6,355 million (or 36.0%) from RMB17,649 million in 2016. The loss ratio increased by 4.7 percentage points from 89.0% in 2016 to 93.7% in 2017. In 2017, the Company had seen a rapid growth of its social security insurance business such as the critical illness insurance with broader underwriting coverage and higher level of protection, leading to an increase of the overall loss ratio of the accidental injury and health insurance segment.

Net claims incurred of the liability insurance segment were RMB6,929 million, representing an increase of RMB1,162 million (or 20.1%) from RMB5,767 million in 2016. The loss ratio decreased by 1.5 percentage points from 60.2% in 2016 to 58.7% in 2017. In 2017, the Company optimised the business structure from the source of underwriting, reinforced the management and control over the claim settlement process and strengthened the management on personal injury cases, resulting in a decrease of loss ratio of the liability insurance segment on a year-on-year basis.

Net claims incurred of the cargo insurance segment were RMB1,227 million, representing an increase of RMB78 million (or 6.8%) from RMB1,149 million in 2016. The loss ratio decreased by 2.6 percentage points from 53.2% in 2016 to 50.6% in 2017. In 2017, there was a sound and steady growth in the cargo insurance segment of the Company, but the number of large amount claims and the claim amount remained stable on a year-on-year basis, resulting in a slight drop in the loss ratio.

Net claims incurred of the agriculture insurance segment were RMB11,033 million, representing a decrease of RMB200 million (or -1.8%) from RMB11,233 million in 2016. The loss ratio decreased by 11.0 percentage points from 77.9% in 2016 to 66.9% in 2017. In 2017, the Company continuously optimised the business structure of agriculture insurance and enhanced its control over underwriting and claim assessment. In addition, there was a year-on-year decrease in loss caused by nationwide natural catastrophes. As a result, the agriculture insurance segment witnessed a slight decrease in claim cost while experiencing growth in premiums, leading to a noticeable drop in the loss ratio.

Net claims incurred of the other insurance segment were RMB5,844 million, representing an increase of RMB342 million (or 6.2%) from RMB5,502 million in 2016. The loss ratio decreased by 10.8 percentage points from 77.8% in 2016 to 67.0% in 2017. In 2017, the loss ratios of the homeowners insurance, credit and surety insurance, construction insurance and marine hull insurance all decreased as a result of efforts made by the Company to strengthen the management and control over underwriting and claim assessment as well as fewer natural disasters and accidents.

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			
	2017		2016	
	Total expenses RMB million	Expense ratio %	Total expenses RMB million	Expense ratio %
Motor vehicle insurance	(88,722)	(37.5)	(77,924)	(37.2)
Commercial property insurance	(3,277)	(45.8)	(3,542)	(47.1)
Accidental injury and health insurance	(2,885)	(11.3)	(2,482)	(12.5)
Liability insurance	(4,280)	(36.3)	(3,277)	(34.2)
Cargo insurance	(904)	(37.2)	(785)	(36.3)
Agriculture insurance	(4,203)	(25.5)	(2,813)	(19.5)
Other insurance	(2,990)	(34.3)	(2,655)	(37.5)
Total	(107,261)	(34.7)	(93,478)	(34.6)

Total expenses of the Company and its subsidiaries were RMB107,261 million in 2017, increased by RMB13,783 million (or 14.7%) from RMB93,478 million in 2016, with the expense ratio increasing by 0.1 percentage point from 34.6% in 2016 to 34.7% in 2017. In 2017, the Company implemented the comprehensive budget management and continued the cost leadership strategy. On one hand, the Company further cut the costs and expenses at each managerial level, strictly controlled the management expenses, thereby reducing the management expenses ratio by 0.1 percentage point on a year-on-year basis to 2.6%; on the other hand, the Company implemented the proactive financial policies, optimised the resource allocation model, proactively responded to the deregulation of premium rate of commercial motor vehicle insurance, promoted the basic level business development, thereby achieving an underwriting expense ratio of 32.1%, representing a year-on-year increase of 0.2 percentage points.

UNDERWRITING PROFIT

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			
	2017		2016	
	Underwriting profit/(loss) RMB million	Underwriting profit/(loss) ratio %	Underwriting profit/(loss) RMB million	Underwriting profit/(loss) ratio %
Motor vehicle insurance	8,748	3.6	7,025	3.3
Commercial property insurance	(205)	(2.8)	(1,756)	(23.4)
Accidental injury and health insurance	(1,267)	(5.0)	(298)	(1.5)
Liability insurance	586	5.0	528	5.6
Cargo insurance	296	12.2	227	10.5
Agriculture insurance	1,253	7.6	382	2.6
Other insurance	(116)	(1.3)	(1,084)	(15.3)
Total	9,295	3.0	5,024	1.9

The Company and its subsidiaries recorded an underwriting profit of RMB9,295 million in 2017, representing an increase of RMB4,271 million (or 85.0%) from RMB5,024 million in 2016; the underwriting profit ratio was 3.0%, representing an increase of 1.1 percentage points as compared with 2016.

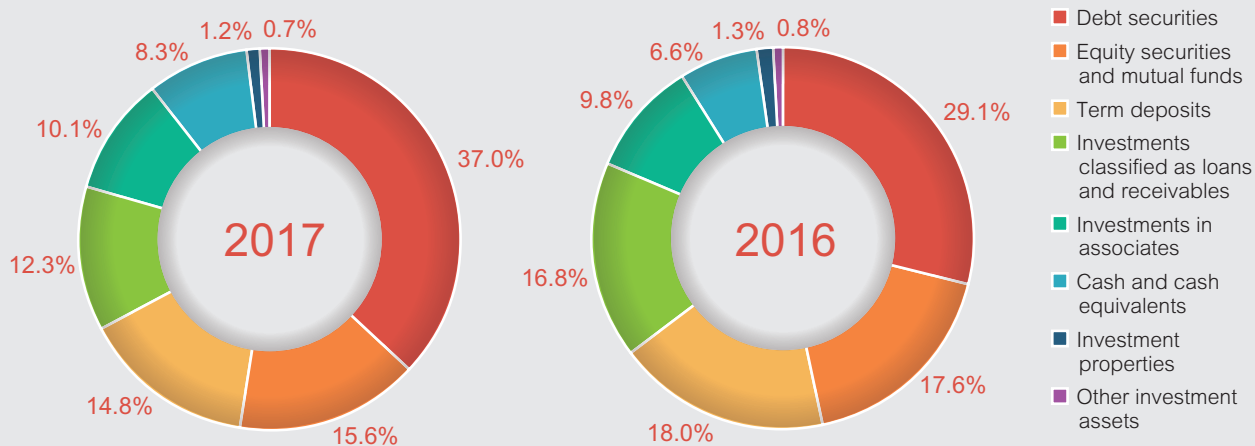
INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2017		31 December 2016	
	Balance RMB million	Percentage %	Balance RMB million	Percentage %
By category:				
Cash and cash equivalents	34,688	8.3	25,144	6.6
Term deposits	61,300	14.8	68,286	18.0
Debt securities	153,728	37.0	110,645	29.1
Equity securities and mutual funds	64,701	15.6	67,038	17.6
Investments classified as				
loans and receivables	51,180	12.3	63,855	16.8
Investment properties	4,976	1.2	4,902	1.3
Investments in associates	41,832	10.1	37,045	9.8
Other investment assets (Note)	3,103	0.7	3,061	0.8
Total investment assets	415,508	100.0	379,976	100.0

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

Composition of Investment Assets



In 2017, the steady growth in the underwriting business and the increase in underwriting profit of the Company provided stable cash flow support for the investment business. As at the end of the reporting period, the investment assets increased by RMB35,532 million (or 9.4%) compared to the beginning of the year. In 2017, while maintaining the overall size of the investment assets, the Company 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 as well as its own risk preferences.

In 2017, in response to the volatility and adjustment in the capital market, the Company proactively carried out risk management and control. While increasing moderately the investment in equity securities in the secondary market and preferred shares, the Company drastically reduced the size of its investment in mutual funds, leading to a decrease of RMB2,337 million (or -3.5%) in the size of equity securities and mutual funds compared to the end of 2016. In addition, subject to the strict control of credit risks, the Company made full use of the favorable opportunity arising from the relatively high interest rates environment to increase the investment in fixed income financial products such as bonds, and effectively increased the efficiency and expanded channels of capital utilisation.

Investment Income

	Year ended 31 December	
	2017	2016
	RMB million	RMB million
Operating lease income from investment properties	273	256
Interest income	13,278	12,351
Dividend income	1,831	2,466
Total of investment income	15,382	15,073

Investment income of the Company and its subsidiaries was RMB15,382 million in 2017, representing an increase of RMB309 million (or 2.1%) from RMB15,073 million in 2016. In 2017, as the Company strengthened the risk control of equity assets and increased the investment in fixed income assets, the dividend income decreased by RMB635 million (or -25.8%) while the interest income increased by RMB927 million (7.5%) on a year-on-year basis.

Net Realised and Unrealised Gains on Investments

	Year ended 31 December	
	2017	2016
	RMB million	RMB million
Realised gains on investments	1,532	1,176
Unrealised losses on investments	(158)	(304)
Impairment losses	(297)	(98)
Fair value gains on investment properties	59	148
Total of net realised and unrealised gains on investments	1,136	922

In 2017, the Company and its subsidiaries proactively made use of the opportunities in the capital market to control the level of its holdings of equity assets. As a result, the trading gains of investment products such as stocks and funds increased and the realised gains on investments of the Company and its subsidiaries increased by RMB356 million (or 30.3%), and the net unrealised losses on investments decreased by RMB146 million on a year-on-year basis.

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	
	2017 RMB million	2016 RMB million
Profit before tax	27,161	22,451
Income tax expense	(7,353)	(4,430)
Profit for the year	19,808	18,021
Total assets (Note)	524,566	475,949

Note: Based on the data as at 31 December 2017 and 31 December 2016.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB27,161 million in 2017, representing an increase of RMB4,710 million (or 21.0%) from RMB22,451 million in 2016.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB7,353 million in 2017, representing an increase of RMB2,923 million from RMB4,430 million in 2016.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year was RMB19,808 million in 2017, representing an increase of RMB1,787 million (or 9.9%) from RMB18,021 million in 2016. Basic earnings per share attributable to owners of the parent in 2017 was RMB1.336.

CASH FLOW

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

	Year ended 31 December	
	2017 RMB million	2016 RMB million
Net cash flows from operating activities	21,441	22,077
Net cash flows used in investing activities	(7,523)	(18,206)
Net cash flows used in financing activities	(4,374)	(1,555)
Net increase in cash and cash equivalents	9,544	2,316

In 2017, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB21,441 million, representing a decrease of RMB636 million from RMB22,077 million in 2016. In 2017, due to the cross-annual settlement of some policy-backed business and the rapid development of the individual credit loan surety insurance subject to settlement by installments and other business, there was an increase in the premiums receivable, resulting in a slight decrease in the net cash flows from operating activities on a year-on-year basis.

In 2017, the net cash flows used in investing activities of the Company and its subsidiaries amounted to RMB7,523 million, representing a decrease of RMB10,683 million from RMB18,206 million in 2016. This was mainly attributable to the fact that the investment in Hua Xia Bank in 2016 caused a decrease of RMB23,867 million in the cash flows used in investments in associates in 2017 on a year-on-year basis. Meanwhile, due to the year-on-year decrease in cash generated from sales of investment products in 2017, the above effect was partially offset.

In 2017, the net cash flows used in financing activities of the Company and its subsidiaries were RMB4,374 million, representing an increase of RMB2,819 million from RMB1,555 million in 2016. This was mainly attributable to the fact that in 2016 the Company's net cash flows from the issuance of capital supplementary bonds and the redemption of subordinated debts were RMB7,000 million, and that in 2017 the net cash flows from the transactions of securities sold under agreements to repurchase increased by RMB4,749 million on a year-on-year basis.

As at 31 December 2017, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB34,688 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 replenishing the capital and 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 RMB1,730 million in 2017.

SOLVENCY MARGIN REQUIREMENT

As at 31 December 2017, the actual capital of the Company and its subsidiaries was RMB154,590 million, the core capital was RMB127,326 million, the minimum capital was RMB55,552 million, the comprehensive solvency margin ratio was 278%, and the core solvency margin ratio was 229%.

GEARING RATIO

As at 31 December 2017, the gearing ratio (*Note*) of the Company and its subsidiaries was 70.2%, representing an increase of 0.1 percentage point from 70.1% as at 31 December 2016.

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 2017, 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 23 March 2018, the Board proposed a final dividend of RMB0.338 per ordinary share for the year ended 31 December 2017, an amount of RMB6 billion to be appropriated to discretionary surplus reserve, and a conversion from share premium account to issued capital in a proportion of 5 shares for every 10 shares held. Such proposals are subject to the approval of the shareholders' general meeting of the Company.

CREDIT RISK

Credit risk is the risk of economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payments when due. The assets of the Company and its subsidiaries which are subject to credit risk are substantially insurance receivables, reinsurance assets, debt securities and deposits with commercial banks.

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers who purchase part of the insurance policies through insurance intermediaries. The ability to collect premiums in a timely manner remains one of the key performance indicators of the Company. The Company's premiums receivable involves a large number of diversified customers, therefore 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 or above by Standard & Poor's (or equivalent ratings given by other international rating agencies such as A.M. Best, Fitch and Moody's). The management of the Company and its subsidiaries regularly review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies and determine reasonable impairment provision on reinsurance assets of the Company and its subsidiaries.

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

The Company and its subsidiaries manage and lower 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. As at 31 December 2017, the Company did not hold any interest rate swap contracts.

DEVELOPMENT OF NEW PRODUCTS

In 2017, the Company focused on the hot spots of the market and the needs of customers, and registered 253 insurance provisions on the registration platform for products requiring filing of the Insurance Association of China, including 107 main insurance provisions and 146 rider provisions, 152 national provisions and 101 regional provisions. The Company filed 663 agriculture insurance provisions with the CIRC's Insurance Provisions Electronic Filing System, all of which are regional provisions, including 625 main insurance provisions and 38 rider provisions. The Company submitted 14 national provisions to the CIRC for approval, including 12 main insurance provisions and 2 rider provisions.

EMPLOYEES

As at the end of 2017, the Company had 180,078 employees. In 2017, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB29,445 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 2018, the Company will resolutely implement the national strategic plans, stick to the general working principle of pursuing progress while ensuring stability, thoroughly implement the new development vision, adhere to excellence in its main business and sophistication in its speciality, deepen the integration of policy-backed business and commercial business and the integration of business model transformation and technological reform, improve the quality, enhance efficiency and change driving forces of the Company's development, and promote the Company's transformation towards high quality development. The Company will also enhance its service capabilities, defuse operational risks, and better serve the development of the real economy, the modernisation of state governance and the people's ever-growing needs for a better life. We will strive for a full achievement of the annual operation objectives of the Company with high quality development.

- (1) **To transform the business model, enhance business capturing capabilities, and ensure the leading position in the motor vehicle insurance industry.** Efforts will be made to establish a business structure with a leading position in motor vehicle insurance by making

use of scientific business layout, forward-looking and early warnings, and smart management; improve the motor vehicle insurance promotion strategy, reduce customer resource leakage, improve the efficiency of resource utilisation, and enhance the Company's business capturing capabilities; implement the motor vehicle insurance boost strategy, transform the development model with focus on service, and bring the motor vehicle insurance into a new stage of development, in which services and brands are the key to success; implement the motor vehicle insurance value chain strategy, upgrade insurance supply, and build new advantages in motor vehicle insurance.

- (2) **To accelerate the development of integration, upgrade insurance supply, enhance the ability to serve the overall economic and social development, and improve the development capability of non-motor vehicle insurance.** Efforts will be made to connect with the modern economic system construction, build an insurance development platform for new economy, and serve the revitalisation and development of the real economy; link up with rural rejuvenation strategies, upgrade the market layout of insurance for agriculture, rural areas

and farmers, build a new development landscape for a comprehensive, full-scope agriculture insurance, and serve the modernisation of rural agriculture and areas; connect with the modernisation of state governance, innovate and upgrade insurance supply, and serve the comprehensive deepening of reform and the building of China under the rule of law; connect with the “Healthy China” strategy, build platforms, improve people’s well-being, speed up the construction of the social security insurance service platform, and serve the improvement of medical security system.

- (3) **To implement regional strategies, accelerate overseas deployment, and promote coordinated regional development.** Efforts will be made to improve the regional strategic layout, implement regional strategic management, optimise the allocation of regional resources, build a differentiated regional management model, promote regional transformation and upgrading, and enhance regional market competitiveness; continue to promote the “countywide evergreen” action plan and accelerate the enhancement of countywide development capabilities; serve the country’s development strategy featuring openness, accelerate overseas deployment, and further promote the globalisation strategy.
- (4) **To actively pursue new technological reforms, optimise organisational structure, implement the big data strategy, and optimise the Company’s value chain with an excellent operational platform.** Efforts will be made to be customer-centric, optimise the management system and organisational structure, and improve organisational capabilities and operational efficiency; accelerate the promotion and utilisation of new technologies in all aspects

of the Company’s value chain, and improve the Company’s market responsiveness, risk management capabilities and customer service capabilities; meet the needs for the Company’s transformation towards high quality development, and build an industry-leading IT system; implement the big data strategy, and enhance the Company’s customer identification, risk assessment, and targeted marketing capabilities.

- (5) **To enhance professional capabilities, prevent and control risks in key areas, and achieve quality improvement, cost reduction and efficiency increase.** Efforts will be made to improve strategic risk management capabilities, improve the strategic risk management system, forestall and defuse strategic risks, and ensure the effective implementation of strategies; improve refined management capabilities, strengthen underwriting pricing management, improve risk assessment and underwriting mechanisms, deepen the lean management of claims, improve the professional and management capabilities relating to claim settlement, improve investment management capabilities, strengthen asset and liability matching management, optimise asset allocation, deepen capital utilisation, enhance investment income, forestall and defuse operational risks, and ensure the industry-leading profitability; enhance compliant operation capabilities, establish and improve independent risk assessment mechanisms, improve the risk prevention system, deepen the construction of informatisation of risk management, comprehensively improve the effects of preventing and controlling strategic risks, operational risks and non-compliance risks, ensure that the Company does not have systemic risks, and ensure the stable and sound operation of the Company.

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, homeowners insurance, marine hull insurance, surety 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, business develops in a continuous and healthy manner and business performance makes steady improvement. During the Year, the Company fully implemented the C-ROSS regulatory requirements, 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 risk, 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 warning of risks in key areas and segments.

At present and for a certain period of time in the future, the Company will be faced with uncertainties from changes to the external environment and policies such as the further deepening of the supply-side structural reform, continuous upgrades in consumers' demands, acceleration of business model reform of market players and speed up of industry development transformation as well as new technologies, new forms of business and new development trends. **Firstly**, the progress of the deregulation of premium rate of commercial motor vehicle insurance and the upcoming third round

of commercial motor vehicle insurance premium rate deregulation may lead to a further decrease in premium adequacy and an increase in loss ratio, which will have an impact on the Company's premium income and underwriting profit and require the Company to improve its core capabilities such as the pricing ability, operation efficiency and claim settlement service. **Secondly**, the People's Bank of China, the CBRC, the CSRC and the CIRC have issued policies to unify the regulatory standards for macro asset management with a scale reaching RMB1 trillion, requiring it to remove channel businesses, eliminate embedded products and achieve de-leveraging. The policies also strengthen the regulation of P2P lending, cash lending and illegal fund raising by means of Internet finance, requiring the Company to improve its internal control and compliance as well as risk management and control abilities. **Thirdly**, the Ministry of Finance has, one by one, issued four sets of revised accounting standards for financial instruments, including the Accounting Standards for Business Enterprises No. 22 – Confirmation and Measurement of Financial Instruments. Compared to the original standards, the revised standards reflect material changes in the classification, measurement and impairment of financial instruments, which will affect, amongst others, the accounting treatment, profit and loss, information disclosure, solvency, risk management, valuation and information system of the Company, and may, in particular, have a relatively large impact on the Company's future profit and loss, making it necessary for the Company to respond proactively in a continuous way. **Fourthly**, with a cross-industry participation of the Internet, big data, cloud computing and such other new technologies in the insurance business, the insurance industry has accelerated in its internet-oriented development, and the market is faced with a structural reshaping, where the escalation of competition in the insurance industry and the cross-industry competition exist concurrently.

At present and for a certain period of time in the future, the basic target of the Company will be to seek stable growth under the guidance of serving the real economy and preventing and controlling financial risks, and the Company will accelerate the transformation towards high quality development. **Firstly**, the Company will change its business model through reducing dependency on independent agencies, lowering sales cost, enhancing customer service and increasing customer loyalty, and will upgrade insurance supply and improve its ability to further develop its business. **Secondly**, in an effort to fully carry out the requirements of the National Financial Work Conference and the CIRC documents on risk prevention and control, the Company will focus on the results of Solvency Aligned Risk Management Requirements and Assessment (SARMRA) and improvement of comprehensive risk rating by optimising the risk preference, risk tolerance and amount limit systems, establishing and improving the independent risk assessment mechanism, increasing the utilisation of risk management skills and tools, achieving risk prevention and control in key areas and improving the overall risk management and control ability. **Thirdly**, the Company will improve its ability for refined management and forestall and defuse operational risks by means of enhancing underwriting pricing management and refined management of claim settlement, improving the differentiated allocation of resources, deepening application of funds, etc. **Fourthly**, the Company will implement the innovation-driven development strategy and big data strategy, deepen the integration of business model reform and technological reform, optimise the management system and organisational structure, and accelerate the application of new technologies in various segments of the Company's value chain.

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 strictly complied with all relevant environmental laws and regulations of the State. During the Year, the Company had no environmental pollution accidents, received no complaints and was neither fined nor punished for environmental pollution or violation of environmental regulations. The Company integrated the green environment philosophy into its daily operation and management, advocated the green development philosophy and promoted the sustainable development of society.

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, electronic insurance policy and electronic business platform construction, 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, in order to reduce the cost of property operations and the consumption of related resources.

The Company’s major emissions included emissions resulting from the consumption of electricity, gasoline, diesel and natural gas. The emission reduction management focused on energy consumption reduction, energy efficiency improvement and greenhouse gas emission reduction through energy saving management. The Company took effective measures to reduce carbon emissions and energy consumption resulting from business activities. All kinds of wastes were subject to specialised treatment following the principle of classified treatment and in strict compliance with the relevant national environmental protection standards.

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 and regulations, and various rules and regulatory documents promulgated by the regulatory authorities.

During the Year, 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 a series of risk prevention and control documents issued by the CIRC, the Company carried out self-reviews and self-corrections in 9 key risk areas and implemented the 39 risk prevention and control measures proposed by the CIRC and ensured

that the risks of the Company were under control on the whole and safeguarded the bottom line of no systematic financial risk. Through formulating and improving internal rules and systems, the Company implemented various external 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.

During the Year, 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

The Company adhered to the customer-centric principle and continuously improved customer experience. The Company strictly abided by the State policies and laws and regulations and continuously pushed forward the elimination of misleading sales. In guidance of customer demands, the Company provided customers with one-stop comprehensive sales service covering insurance consultancy service, marketing assistance service for claims and insurance renewal reminder

service. The Company vigorously pushed forward the electronisation of claim settlement documents, introduced the one-page claim settlement scheme and reduced or exempted the required documents for claim settlement, thus achieving the fast-track handling process for insurance cases with small amounts of claim payment. The Company strengthened the customer information management, revised the Measures for Customer Information Management and clearly defined the customer privacy protection principle so as to ensure customer information security. The Company established the insurance complaint comfort system. The number of complaints made to the regulator against the Company per RMB100 million premiums was below the average number of the property and casualty insurance industry. The customer satisfaction of the Company was steadily enhanced. The Company also kept on providing customers with training services and risk management services such as risk assessment, disaster and loss prevention, etc. In the insurance company service rating issued by the CIRC in 2017, the Company received the rating of “AA” which is the highest service rating achieved in the industry.

PROFIT DISTRIBUTION

On 23 March 2018, the Board proposed the distribution of a final dividend of RMB0.338 per share (inclusive of applicable tax) for the year ended 31 December 2017, an appropriation of RMB6 billion to discretionary surplus reserve, and a conversion from share premium account to issued capital in a proportion of 5 shares for every 10 shares held. Such proposals are subject to the approval of the Company’s shareholders at the annual general meeting. Detailed arrangements regarding the final dividend and the conversion from share premium reserve to issued capital will be disclosed separately.

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

There were no changes in the share capital of the Company during the Year.

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 2017, according to the PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB41,154 million and the distributable reserves of the Company were RMB41,183 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB90 million, of which RMB56 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 a Supervisor from 1 January 2017 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 12 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 13 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 subsidiaries of PICC Group, the controlling shareholder of the Company, are also engaged in accidental injury insurance and short-term health insurance business. Mr Wu Yan, the former Chairman of the Company, was also previously the Chairman of PICC Life and PICC Health. Mr Miao Jianmin, the current Chairman of the Company, is also the Chairman of PICC Life and PICC Health. Mr Li Tao, a Non-executive Director of the Company, is also the Chief Supervisor of PICC Life. Mr Yun Zhen, an Executive Director of the Company, is also a Non-executive Director of PICC Life.

The Company holds 40% of the issued capital of Donghai Marine Insurance Company Limited. Marine hull insurance, ship builder's risk insurance, shipping cargo insurance, shipping liability insurance and the reinsurance of the foregoing are the principal businesses of Donghai Marine Insurance Company Limited. Such businesses fall within the Company's scope of business as well. Mr Wang He, a former Executive Director of the Company, is also the Chairman of the Board of Donghai Marine Insurance Company Limited.

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 2017 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 policy was 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 2017 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 2017, 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	Percentage of total number of shares in issue
PICC Group	Beneficial owner	10,228,980,980	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
BlackRock, Inc.	Interest of controlled corporations	280,260,830 (Note 1)	Long position	6.09%	1.89%
	Interest of controlled corporations	3,104,000 (Note 1)	Short position	0.07%	0.02%
JPMorgan Chase & Co.	Beneficial owner, investment manager, trustee, approved lending agent	264,609,474 (Note 2)	Long position	5.75%	1.78%
	Beneficial owner	5,434,000 (Note 2)	Short position	0.11%	0.04%
	Approved lending agent	77,164,365	Lending pool	1.67%	0.52%

Notes:

- Among which, 240,000 H shares (Long position) and 1,048,000 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.
- Among which, 3,607,623 H shares (Long position) and 3,842,000 H shares (Short position) were held through derivatives, categorised as 680,000 H shares (Long position) and 448,000 H shares (Short position) held through physically settled listed derivatives, 110,000 H shares (Short position) held through cash settled listed derivatives, and 2,927,623 H shares (Long position) and 3,284,000 H shares (Short position) held through physically 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 2017.

PUBLIC FLOAT

As at the date of this report, 31% 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 Wu Yan, the former Chairman and a former Executive Director of the Company, also previously serving as the Chairman of PICC AMC, and with Mr Miao Jianmin, the current 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 transaction of the Company in the Year that is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules was the capital increase in PICC Re. PICC Group is the controlling shareholder of the Company and PICC Re, PICC Re is therefore a connected person of the Company under the Listing Rules.

On 30 August 2017, the Company entered into the capital increase agreement with PICC Re and PICC Group, pursuant to which all parties agreed on an increase of RMB2 billion in the registered capital of PICC Re, which shall be subscribed by PICC Group and the Company according to their proportions of shareholdings. The Company shall increase the share capital of PICC Re with an amount of RMB980 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 and an important emerging reinsurer 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 its 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; (iv) the asset management agreement and the memorandum of understanding

entered into between the Company and PICC AMC; and (v) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively. As all of PICC HK, PICC Re, ZSIB, PICC AMC, PICC Life and PICC Health are subsidiaries of PICC Group, the controlling shareholder of the Company, these companies are connected persons of the Company under the Listing Rules.

- (i) On 7 March 2017, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2017 and expiring on 31 December 2017. 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 RMB610 million and RMB282 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 RMB415 million and RMB213 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 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.

- (ii) On 16 May 2017, the Company and PICC Re entered into the framework agreement on reinsurance business cooperation for a term commencing from 10 March 2017 and expiring on 31 December 2017. PICC Re is the fourth Chinese-funded corporate reinsurance company and an important emerging reinsurer in the PRC. The Company entered into the framework agreement on reinsurance business cooperation with PICC Re in order to achieve risk diversification, stabilisation of operation, etc. Pursuant to the framework 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 billion and RMB1.6 billion, 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 RMB3,170 million and RMB1,039 million, respectively.

On 29 December 2017, the Company and PICC Re 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.

- (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 would 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 RMB235 million. The actual brokerage fees paid by the Company to ZSIB and its subsidiaries for the Year were RMB188 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 RMB240 million. The actual service fee paid by the Company to PICC AMC for the Year was RMB183 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 RMB2,946 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 Health 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 RMB707 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 RMB705 million. The actual commissions paid by the Company to PICC Life and PICC Health for the Year were RMB435 million. The actual commissions paid by PICC Life and PICC Health to the Company for the Year were RMB207 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 annual general meeting.

By Order of the Board of Directors

Miao Jianmin

Chairman

Beijing, the PRC

23 March 2018

Report of the Supervisory Committee

Dear Shareholders,

In 2017, the Supervisory Committee and all its members 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 and other laws and regulations, regulatory requirements and the Articles of Association, exercised dedication and diligence, fully exercised their supervisory duties and functions, carried out their work in compliance with regulations, 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 19 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 seventh meeting of the fourth session of the Supervisory Committee was held on 19 January and two proposals, namely the Proposal to Nominate Mr Wang He to Act as a Supervisor of the Supervisory Committee of the Company and the Proposal to Convene an Extraordinary General Meeting, were considered and approved.

Secondly, the eighth meeting of the fourth session of the Supervisory Committee was held on 24 March and nine proposals, namely the Proposal to Elect the Chairman of the Supervisory Committee, the Proposal to Consider the Auditor's Report and the Audited Financial Statements for 2016, the Proposal to Consider the Profit Distribution Plan for 2016, the Proposal to Consider the Report of the Supervisory Committee for 2016, the Proposal to Consider the Corporate Governance Report for 2016 – the Supervisory Committee section, the Proposal to Consider the Internal Control Assessment Report for 2016, the Proposal to Consider the Compliance Assessment Report for 2016, the Proposal to Consider the Risk Assessment Report for 2016 and the Proposal to Consider the Report on Related Party Transactions and Implementation of the Related Party Transactions Management System for 2016, were considered and approved.

Thirdly, the ninth meeting of the fourth session of the Supervisory Committee was held on 21 April and the Proposal to Consider the Evaluation Report on Implementation of the Development Plan for 2016 was considered and approved.

Fourthly, the tenth meeting of the fourth session of the Supervisory Committee was held on 25 April and the Proposal to Consider the Financial Statements and the Major Solvency Margin Ratio Indicators for the First Quarter of 2017 was considered and approved.

Fifthly, the eleventh meeting of the fourth session of the Supervisory Committee was held on 23 August and three proposals, namely the Proposal for the Financial Statements for the Interim Period of 2017, the Proposal for the Profit Distribution Plan for the Interim Period of 2017 and the Proposal for Amendments to the Articles of Association of PICC Property and Casualty Company Limited, were considered and approved. Separately, the Report of the Responsible Auditing Officer and the Auditing Department on Auditing Work Progress for the Interim Period of 2017 was considered.

Sixthly, the twelfth meeting of the fourth session of the Supervisory Committee was held on 31 October and the Proposal for the Financial Statements for the First Three Quarters of 2017 and the Proposal for Amendments to the Compliance Policy (2008 version) of PICC Property and Casualty Company Limited were considered and approved.

WORK OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee completed the appointment of a Supervisor of the Company and the election of the Chairman of the Supervisory Committee. The Supervisory Committee comprised six Supervisors. The number of Supervisors and the percentages of Independent Supervisors and Employee Representative Supervisors were in compliance with the relevant provisions of the Company Law and the Articles of Association.

During the Year, the Supervisory Committee attended the Company's 2016 annual general meeting and two extraordinary general meetings held in 2017. The Supervisory Committee submitted the Report of the

Supervisory Committee of the Company for 2016 to the annual general meeting and submitted the Proposal for Appointment of a Supervisor of the Company to the first extraordinary general meeting held in 2017, which were both approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in writing, attended fourteen 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 substance 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 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 focus 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 focus 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 Supervisors, to perform their responsibilities, went down to the branches of the Company to conduct a number of visits and inspections. Through the visits and inspections, the Supervisors obtained an understanding of the Company's business operation and development and the implementation of internal control policies and risk management and control at the basic level, and further improved the actual work of the Supervisory Committee and broadened its scope of practice.

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 2017 and audited annual financial statements for the year of 2017 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.

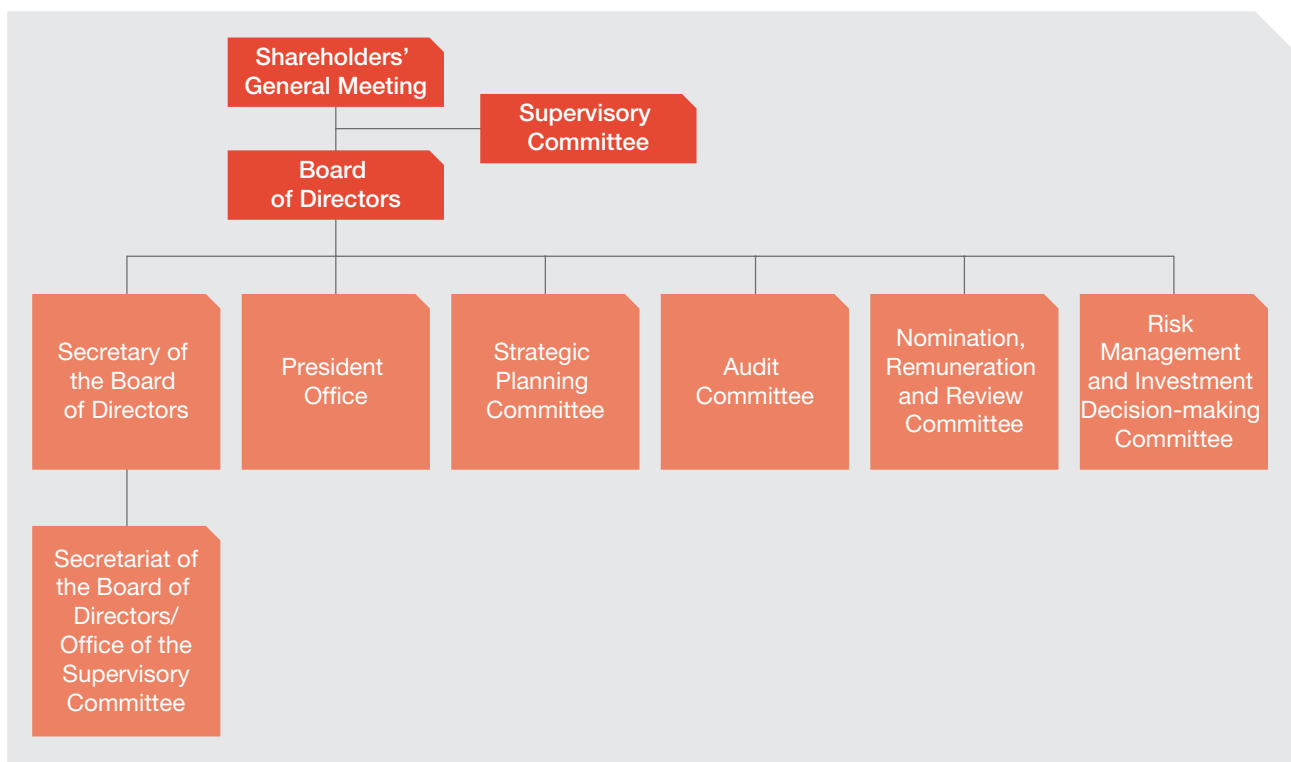
In 2018, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, uphold a highly efficient corporate governance operation and the sound development of the Company, proactively take the initiative 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 2017, 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 CIRC and the requirements under the applicable provisions of the Corporate Governance Code and the SFO.



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 three shareholders' general meetings and submitted fifteen proposals and reports to the shareholders' general meetings, held fourteen Board meetings, at which sixty-seven 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, conducted annual performance appraisals of the Directors and senior management, considered and approved the distribution of the final dividend for 2016, considered the appointment of Directors, appointed Vice Presidents, Assistants to the President and Secretary of the Board, considered and approved the organisational structure and considered the re-appointment of auditors, etc., and enhanced the Company's internal control, 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.

Composition

During the Year, the Board comprised the following Directors:

Name	Position	Date of commencement of directorship	Term
Mr Wu Yan (Resigned) (Note 1)	Chairman, Executive Director	23 March 2007	From 26 June 2015 to 7 December 2017 (Resigned on 8 December 2017)
Mr Lin Zhiyong	Vice Chairman, Executive Director	26 June 2015	From 26 June 2015 to 25 June 2018
Ms Yu Xiaoping (Resigned) (Note 2)	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 Wang He (Resigned) (Note 3)	Executive Director	17 January 2011	From 26 June 2015 to 23 March 2017 (Resigned on 24 March 2017)
Mr Yun Zhen*	Executive Director	31 October 2017	From 31 October 2017 to 25 June 2018
Mr Wang Dedi*	Executive Director	31 October 2017	From 31 October 2017 to 25 June 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
Mr Na Guoyi*	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. Mr Wu Yan resigned as the Chairman and an Executive Director on 8 December 2017.
2. Ms Yu Xiaoping resigned as a Non-executive Director on 7 March 2018.
3. Mr Wang He was originally an Executive Director and an Executive Vice President. Mr Wang He was appointed as a Supervisor at the Extraordinary General Meeting of the Company on 24 March 2017, whose term of office commenced on the same day. Mr Wang He resigned as an Executive Director and an Executive Vice President on the same day.

* Pending the CIRC'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 2017 to the date of this report are as follows:

Mr Wang He was originally an Executive Director and an Executive Vice President. Mr Wang He was appointed as a Supervisor at the Extraordinary General Meeting of the Company on 24 March 2017, whose term of office is three years commencing immediately after the conclusion of the Extraordinary General Meeting and expiring on 23 March 2020. To comply with the provision of the Articles of Association that neither a Director nor other senior management personnel of the Company may serve as a Supervisor concurrently, Mr Wang He resigned as an Executive Director and an Executive Vice President on the same day, with effect from the commencement of his term of office as a Supervisor.

At the Extraordinary General Meeting of the Company on 31 October 2017, Mr Yun Zhen and Mr Wang Dedi were appointed as Executive Directors and Ms Qu Xiaohui as an Independent Non-executive Director, whose terms of office commenced on the same day and will continue until the expiry of the term of the current session of the Board. The term of the current session of the Board will expire on 25 June 2018.

Mr Wu Yan resigned as the Chairman of the Board and an Executive Director due to work arrangement, with effect from 8 December 2017.

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

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 will continue until the expiry of the term of the current session of the Board. Mr Miao Jianmin was elected as the Chairman of the Board on the same day.

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 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 corporate bonds, formulating proposals for any amendments to the Articles of Association, drawing up plans for merger, division, change of corporate form or dissolution of the Company; appointing or removing the president, vice presidents, secretary of the Board, responsible compliance officer, responsible financial officer, responsible auditing officer and assistants to the president and determining their remuneration, rewards and disciplinary matters, etc.; electing members of the specialised committees under the Board; and approving the Company's investment in other enterprises or the provision of guarantees to persons other than the shareholders or actual controllers 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 individual Director or any other individual or organisation. If delegation of certain decisions 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.

Summary of Work Undertaken

During the Year, the Board convened three shareholders' general meetings and submitted fifteen proposals and reports to the shareholders' general meetings. Fourteen Board meetings were convened, at which sixty-seven proposals were considered and approved. The attendance record of the Directors at the meetings is as follows:

Name	Board Meeting		Shareholders' General Meeting	
	Number of meetings attended/Number of meetings that require attendance	Attendance rate	Number of meetings attended/Number of meetings held	Attendance rate
Wu Yan	13/13	100%	3/3	100%
Lin Zhiyong	13/14	93%	3/3	100%
Yu Xiaoping	12/14	86%	2/3	67%
Li Tao	14/14	100%	3/3	100%
Wang He	3/3	100%	1/1	100%
Yun Zhen	2/3	67%	0/0	–
Wang Dedi	3/3	100%	0/0	–
Lin Hanchuan	14/14	100%	2/3	67%
Lo Chung Hing	14/14	100%	3/3	100%
Na Guoyi	12/14	86%	2/3	67%
Ma Yusheng	13/14	93%	2/3	67%
Chu Bende	14/14	100%	3/3	100%
Qu Xiaohui	2/3	67%	0/0	–

Notes:

- 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.
- During the Year, Mr Lin Zhiyong and Mr Ma Yusheng attended thirteen Board meetings in person and one Board meeting by appointing another Director as proxy to attend on their behalf; Ms Yu Xiaoping and Mr Na Guoyi attended twelve Board meetings in person and two Board meetings by appointing another Director as proxy to attend on her/his behalf; Mr Yun Zhen and Ms Qu Xiaohui attended two Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his/her behalf.

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

- convened three shareholders' general meetings and submitted fifteen proposals and reports to the shareholders' general meetings, including the Report of the Board for 2016, the Auditor's Report and the audited financial statements for 2016, the profit distribution plan for 2016, the appointment of executive directors and an independent non-executive director and the re-appointment of auditors, etc., all of which were approved at the shareholders' general meetings;
- considered and approved the appointment of Mr Feng Xianguo and Mr Shen Dong as Vice Presidents, Mr Wu Jianlin and Mr Shao Liduo as Assistants to the President, and Mr Zou Zhihong as Secretary of the Board;
- 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 Chairman, the Directors and the President, etc.;
- considered and approved the Internal Control Assessment Report for 2016 and the Compliance Assessment Report for 2016 of the Company, considered the Report on Progress of Improvement Based on the Management Recommendation Letter of the Previous Year, revised and improved the Compliance Policy of the Company, reviewed and continuously enhanced the effectiveness of the Company's internal control;
- considered and approved the Risk Assessment Report for 2016, the Solvency Report for 2016 and the Solvency Stress Test Report for 2016 of the Company, considered and approved the Report on Special Rectification Campaign concerning Risk Check in Fund Utilisation of the Company, revised and improved the Comprehensive Risk Management Measures and the Risk Preference System Framework of the Company, and reviewed and continuously improved the effectiveness of the Company's risk management;
- considered and approved the Information Disclosure Report for 2016, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2016, the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2016 and the Evaluation Report on Implementation of the Development Plan for 2016;
- revised and improved the Working Rules of the Audit Committee to meet new regulatory requirements;
- considered and approved the 2017 interim results;
- considered and approved the participation of the Company in the capital increase in PICC Re and the establishment of an online auto parts trading platform jointly with PICC Financial Services Company Limited;
- considered and approved the Company's investment in the wealth management products of Hua Xia Bank with entrusted assets; and
- considered and approved the establishment of International Business Department, Inclusive Finance Department, Big Data Center and Auto Finance Department and the remove and reorganising of Bancassurance Business Department of the Company.

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 CIRC. 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 and 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.

Lin Zhiyong: attended various trainings and meetings organised by the Party School of the Central Committee of CPC and PICC Group, 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 took part in various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, interpretation of China's macroeconomic situation, 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.

Yun Zhen: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of related party transactions, etc., and attended various trainings organised by the Company, including trainings on corporate governance, information disclosure, artificial intelligence, big data, global property insurance market trends, interpretation of China's macroeconomic situation, etc.

Wang Dedi: attended the training course on "Raising the Level of Party Building in State-owned Enterprises" organised by the Organisation Department of the CPC Central Committee as well as various trainings and meetings organised by PICC Group on rural revitalisation strategies, insurance for green finance, environmental pollution control, food safety, etc. and gained a deeper understanding of applicable domestic and foreign laws and regulations, regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance and others, macro policies, business development, 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, financial strategies adopted by Asian businesses, workforce management and development, etc.

Na Guoyi: paid continuous attention to the global development trends of innovations and entrepreneurship, visited Israel for the innovation management education at Tel Aviv University, The Hebrew University of Jerusalem and Israel Institute of Technology, held face-to-face communications with Dr. Robert Aumann, a Nobel prize winner in economics, at The Hebrew University of Jerusalem, attended the "Innovation Workshop" organised by Israel Institute of Technology and received a certificate of completion of the course, studied the innovation and entrepreneurial activities of Israeli enterprises and research institutions and met with Saul Singer, author of the *Start-up Nation*, visited the United Kingdom to conduct field study of the innovation education at Oxford University and Cambridge University, attended the innovation forum at Oxford University, exchanged ideas on innovation practices with people from British business community, gave management lessons to Chinese entrepreneurs and senior management, and attended all the trainings organised by the Company.

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 2017 Annual Meeting, the 24th EBES Conference of Eurasia Business and Economics Society, the annual meeting of Accounting Society of China and other annual meetings and reported papers and participated in seminars, and was invited to Tohoku University in Japan as a forum guest and gave a speech on Accounting in Asia (China).

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan, the Chairman of the Board, resigned as the Chairman and an Executive Director on 8 December 2017. Subsequently, Mr Lin Zhiyong, the Vice Chairman and the President, presided over the works of the Board until the newly-appointed Chairman Mr Miao Jianmin took

office on 12 March 2018. 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 other senior management, etc. Details of the duties and responsibilities of the Chairman have been set out on page 36 of the Company's 2005 Annual Report. Details of the duties and responsibilities of the President have been set out on pages 52 and 53 of the Company's 2013 Annual Report.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee made amendments to the Working Rules of the Audit Committee of the Company based on the provisions of the Measures for the Compliance Management of Insurance Companies issued by the CIRC. Such amendments had been considered and approved by the Board and the new regulatory requirements were followed in the work. 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, appointed as a member of the committee on 31 October 2017)

Duties and Responsibilities

The Company made amendments to the scope of work of the Audit Committee based on the provisions of the Measures for the Compliance Management of Insurance Companies issued by the CIRC. Details of the revised duties and responsibilities are as follows:

Relationship with the external accounting firm:

- make recommendations to the Board in respect of the appointment, removal or non-reappointment of the external accounting firm providing audit services to the Company, deal with any matters concerning the resignation or dismissal of the external accounting firm;
- consider the remuneration and terms of engagement of the external accounting firm;
- review the independence of the external accounting firm and the effectiveness of their audit procedures, discuss the nature and scope of the audit and the relevant reporting obligations with the external accounting firm before commencement of the audit;
- review and ascertain the independence and objectivity of the external accounting firm in respect of its provision of non-audit services, decide whether to retain such accounting firm to provide non-audit services, formulate relevant rules and monitor the implementation of such rules;

- meet at least twice a year with the external accounting firm to discuss auditors' remuneration and matters concerning the audit; and
- act as the key representative body of the Company for overseeing the Company's relations with the external accounting firm.

Reviewing the financial reports of the Company:

- examine the completeness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports and review material opinions on financial reporting set out in such financial statements and reports. When reviewing the relevant financial statements and reports, focus on the review of the changes in accounting policies and practices, material judgements, material audit adjustments, assumptions of going concern and any qualified opinions, and compliance with the applicable accounting standards and the provisions relating to financial reporting under the Listing Rules and other laws and regulations. When reviewing the relevant financial statements, reports and accounts, consider any significant or unusual matters that are, or may need to be, reflected in such financial statements, reports and accounts, and give due consideration to any matters that have been raised by the Company's department heads responsible for the finance and accounting function, monitoring function and internal audit function, or the external accounting firm.

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

- review the financial control and internal control system of the Company, and:
 - (1) ensure that a review of the effectiveness of the internal control systems of the Company and its subsidiaries has been conducted at least annually. The review

should cover all material controls, including financial, operational and compliance controls;

(2) the annual review should, in particular, consider:

- (a) the work scope and quality of management's ongoing monitoring of the internal control system, the work of internal audit function and other assurance providers;
- (b) the extent and frequency of communication of monitoring results to the Board;
- (c) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition;
- (d) the effectiveness of the Company's processes for financial reporting and compliance with the Listing Rules, and the procedures and internal control measures for the handling and dissemination of inside information; and
- (e) ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

- discuss with the management about the internal control system of the Company and ensure that the management has performed its duty to establish an effective internal control system;

- consider major investigation findings on internal control matters and the management's response to these findings, handle and respond to complaints relating to major internal control problems on a timely basis, supervise the rectification of major problems identified in the process of internal audit and external audit as delegated by the Board or on its own initiative;
- ensure coordination between internal audit and external audit;
- review the management rules for internal audit of the Company and provide opinions to the Board, guide the internal audit of the Company to conduct effectively, review and monitor the effectiveness of the internal audit function, review the work reports of the internal audit, consider the Company's annual internal audit plans, internal audit budgets and human resources plans and give opinions to the Board as well as take charge of their implementation after the approval of the Board, ensure that the internal audit department is adequately resourced and has appropriate standing within the Company, regularly meet and communicate with the officer in charge of the Company's internal audit department, consider the annual work plans and annual work reports of the internal audit department;
- review the Company's financial and accounting policies and practices;
- review the Management Recommendation Letters issued by the external accounting firm to the management, any material queries raised by the external accounting firm to the management in respect of accounting records, accounts or the internal control system and inspect the management's response in relation thereto, and ensure that the Board will provide a timely response to the issues raised in the Management Recommendation Letters;
- examine and verify material related party transactions of the Company, consider the work reports on special audits in respect of related party transactions;

- consider the reports on the progress of audit work from the Responsible Auditing Officer at least quarterly, consider the reports on internal control assessment in a timely manner, assess the work of the Responsible Auditing Officer and provide comments to the Board; evaluate the work of the department heads responsible for the finance and accounting function and the internal audit function of the Company;
- consider the reports on compliance matters from the Responsible Compliance Officer and the Compliance Department, supervise the compliance management of the Company, understand the implementation of compliance policies and identify the existing issues and provide opinions and recommendations to the Board, examine the Company's annual compliance reports;
- review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions; and
- other matters authorised by the Board.

Remuneration of Auditors

In the Year, the Company paid RMB14.90 million for audit-related services, including the fees for the audit of the financial statements for 2017 and the review of the interim financial statements for 2017. In the Year, the Company paid RMB1.05 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 2017 annual and 2017 interim filing materials to Kanto Local Finance Bureau of Japan and RMB0.40 million for the internal control audit relating to the utilisation of insurance funds for 2017. 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 forty-one 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	1/1
Attendance rate	100%	83%	100%	100%	100%

Notes:

- During the Year, a new member was added to the Audit Committee. The table above lists the numbers of meetings held and attended by each member during his/her term of office.
- Mr Li Tao attended ten meetings in person and two meetings by appointing Mr Lin Hanchuan as proxy to attend on his behalf.

During the Year, the Audit Committee approved the amendments to the Working Rules of the Audit Committee and 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 2016 and on the interim review work for 2017, 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 2017, 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 Report of the Company for 2016, the Solvency Reports for the fourth quarter of 2016 and the second quarter of 2017, the financial statements and results announcement for the interim period of 2017, and the financial statements for the first and third quarters of 2017, discussed with the management on issues relating to, among others, performance of critical illness insurance and the premiums receivable.

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 2016;
- considered and approved the Report on Progress of Improvement Based on the Management Recommendation Letter for 2015, considered the Management Recommendation Letter for 2016;

- 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 2016 and the work plans for 2017, 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 2016; and
- considered and approved fifteen 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, Independent Non-executive Director and the Secretary of the Board, considered the proposals for the candidates of Vice Presidents and Assistants to the President nominated by the President, conducted annual appraisals of the Chairman, the Directors, 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 (Executive Director, appointed as a member of the committee on 31 October 2017)

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, 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 six meetings, at which nine 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	6/6	6/6	6/6	0/0
Attendance rate	100%	100%	100%	–

Note: During the Year, a new member was added to the Nomination, Remuneration and Review 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 Nomination, Remuneration and Review Committee in the Year included:

- considered the structure, number of members and composition of the Board;
- proposed Mr Yun Zhen and Mr Wang Dedi as Executive Directors and Ms Qu Xiaohui as an Independent Non-executive Director according to the director nomination procedures and considerations above, which were approved by the Board and the shareholders' general meeting;
- considered and approved the appointment of Mr Feng Xianguo and Mr Shen Dong as Vice Presidents, the appointment of Mr Wu Jianlin and Mr Shao Liduo as Assistants to the President, and the appointment of Mr Zou Zhihong as the Secretary of the Board, which were approved by the Board;
- taking 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 2017, and such recommendations were approved by the Board and the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2016 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the Chairman, the Directors, 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 with performance appraisal scores; and made recommendations for bonus coefficients for the Chairman, 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, which were approved by the Board; and
- considered the Corporate Governance Report for 2016.

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: Wu Yan (Executive Director, resigned)

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

Notes:

1. Mr Wu Yan resigned as the Chairman of the Board and an Executive Director on 8 December 2017 and ceased to act as the Chairman of the Strategic Planning Committee simultaneously.
2. Mr Wang He resigned as an Executive Director on 24 March 2017 and ceased to act as a member of the Strategic Planning Committee simultaneously.
3. Mr Miao Jianmin was appointed on 12 March 2018 as the Chairman of the Strategic Planning Committee.

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 nine meetings and considered nineteen proposals. The attendance record of committee members at the meetings is as follows:

Name	Wu Yan	Lin Zhiyong	Li Tao	Na Guoyi	Wang He
Number of meetings attended/Number of meetings that require attendance	8/8	9/9	9/9	9/9	2/2
Attendance rate	100%	100%	100%	100%	100%

Note: During the Year, certain Directors resigned and ceased to act as the Chairman/a member of the Strategic Planning 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 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 2016 and the Corporate Governance Report for 2016;
- considered and approved the financial plan for the Year;
- considered and approved the profit distribution plans for 2016 and the interim period of 2017;
- considered and approved the participation of the Company in the capital increase in PICC Re and the establishment of an online auto parts trading platform with PICC Financial Services Company Limited;
- considered and approved the establishment of International Business Department, Inclusive Finance Department, Big Data Center and Auto Finance Department and the remove and reorganising of Bancassurance Business Department of the Company;
- considered and approved the Capital Plan (2017-2019) of the Company and the subordinate outlines to the Thirteenth Five-year Development Plan 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 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 (2017-2019), 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: Wu Yan (Executive Director, resigned)

Members: Lin Zhiyong (Executive Director), Yu Xiaoping (Non-executive Director, resigned), Wang He (Executive Director, resigned), Wang Dedi (Executive Director, appointed as a member of the committee on 31 October 2017)

Notes:

1. Mr Wu Yan resigned as the Chairman of the Board and an Executive Director on 8 December 2017 and ceased to act as the Chairman of the Risk Management and Investment Decision-making Committee simultaneously.
2. Mr Wang He resigned as an Executive Director on 24 March 2017 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.
3. 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.
4. Mr Miao Jianmin was appointed on 12 March 2018 as the Chairman of the Risk Management and Investment Decision-making Committee.

Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for, among others, evaluating and clearly determining the nature and extent of risks the Company is willing to take in achieving the Company's business objectives; considering the overall goal, basic policies and working rules of risk management of the Company; considering the organisational structure for risk management and its duties and responsibilities, the report on risk assessment of significant decisions, proposed solutions to major risks and the annual risk assessment reports of the Company; monitoring the effective operation of the risk management system; considering the management system for the utilisation of insurance funds and the rules and regulations, and decision-making process in relation to the utilisation of insurance funds; considering the overall objective, risk preference, risk tolerance level and risk management policies in respect of the Company's risk management of solvency margin; and formulating the Company's annual strategic allocation plans for and investment strategies on assets. Details of the duties and responsibilities have been set out on pages 55 and 56 of the Company's 2016 Annual Report.

Summary of Work Undertaken

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

Name	Wu Yan	Lin Zhiyong	Yu Xiaoping	Wang He	Wang Dedi
Number of meetings attended/Number of meetings that require attendance	3/3	3/3	3/3	1/1	0/0
Attendance rate	100%	100%	100%	100%	–

Note: During the Year, certain Directors resigned and ceased to act as the Chairman/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.

The major work accomplished by the Risk Management and Investment Decision-making Committee in the Year included:

- considered and approved the Risk Assessment Report for 2016, and gave advice on further development of the comprehensive risk management system;
- considered and approved the Report on Special Rectification Campaign concerning Risk Check in Fund Utilisation, the Capital Plan (2017-2019), and amendments to the Risk Preference System Framework and the Comprehensive Risk Management Measures, 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;
- 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);
- 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; and
- considered and approved the Company's investment in the wealth management products of Hua Xia Bank with entrusted assets.

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 2017. The Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2017 to review and continuously improve the effectiveness of the internal control systems of the Company and its subsidiaries.

The Board 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 and directly operating entities under 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, 36 provincial branches, Northeast Backup Service Center and Shipping Insurance Operation 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 to 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, nine Monitoring and Auditing Centers and the Audit Departments of 31 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 administration of information disclosure, setting out the procedures for identification, handling and dissemination of inside information. All departments of the head office and all provincial branches 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 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 systematic 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 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, where the internal control, compliance and risk management 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 effect of the risk management system at least once a year and holds people accountable for any breach of the provisions thereof.

By closely focusing on the overall development strategy, the Company implements steady marketing, underwriting, reinsurance and investment policies, upholds a prudent and rational approach in the significant risk management, and maintains the underwriting ability and solvency compatible to the business scale and development speed. 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 2017, the Company kept the overall risks under control and had not experienced any systematic financial risks affecting its operation.

In 2017, the Company fully implemented the regulatory requirements of C-ROSS of the CIRC, steadily pushed forward various tasks in overall risk management, and achieved a score of 81.65 in the 2017 on-site Solvency Aligned Risk Management Requirements and Assessment (SARMRA assessment) conducted by

the CIRC. **Firstly, the Company improved the risk compliance mechanism and system.** The Company fully implemented the Measures for the Compliance Management of Insurance Companies issued by the CIRC, made efforts to improve the top-level design and the team building by system improvement, deployment of part-time employees, compliance appraisal, promotion and training as well as the “Three Tiers of Defence” work model. The Company also fully benchmarked the regulatory requirements of C-ROSS of the CIRC, the SARMRA assessment and the comprehensive risk rating, rectified matters over which the Company failed to gain the points, improved the risk preference, risk tolerance and amount limit system, and improved the risk implementation information system.

Secondly, the Company carried out self-inspection and rectification in risk prevention and control. The Company carried out top-down self-inspection and rectification for financial risk prevention and control in order to promptly prevent and eliminate any material risks which may affect the Company’s operation, carried out compliance inspections in key areas, self-assessment of internal control throughout the Company, specialised internal control assessments of relevant segments and various risk checks. **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, 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 consistently enhanced its 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 2017.

SUPERVISORY COMMITTEE

Overview

During the Year, the Supervisory Committee discharged its supervisory duties strictly in accordance with the Company Law and the Articles of Association 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 Yueshu (retired), Wang He (appointed on 24 March 2017 and resigned on 25 January 2018)

Supervisors: Li Zhuoyong (Supervisor), Ding Ningning* (Independent Supervisor), Lu Zhengfei (Independent Supervisor), Qu Yonghuan (Employee Representative Supervisor, retired), Shen Ruiguo (Employee Representative Supervisor, retired), Li Fuhuan* (Employee Representative Supervisor), Gao Hong* (Employee Representative Supervisor)

Changes in the members of the Supervisory Committee during the period from 1 January 2017 to the date of this report are as follows:

At the meeting of representatives of employees of the Company on 28 February 2017, Mr Li Fuhuan* and Ms Gao Hong* were elected as the Employee Representative Supervisors of the Company for a term of three years effective immediately after the conclusion of the meeting of representatives of employees and expiring on 27 February 2020.

Ms Qu Yonghuan and Mr Shen Ruiguo retired as Employee Representative Supervisors of the Company on 28 February 2017.

At the Extraordinary General Meeting of the Company on 24 March 2017, Mr Wang He was appointed as a Supervisor with a term of three years commencing

immediately after the conclusion of the Extraordinary General Meeting and expiring on 23 March 2020. Mr Wang He was also elected by the Supervisory Committee as the Chairman of the Supervisory Committee on the same day, whose term of office was the same as his term of office as a Supervisor.

Mr Wang Yueshu retired as a Supervisor and the Chairman of the Supervisory Committee on 24 March 2017.

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

* Pending the CIRC'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 nineteen proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

Name	Wang Yueshu	Wang He	Li Zhuyong	Ding Ningning	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo	Li Fuhan	Gao Hong
Number of meetings attended/Number of meetings that require attendance	1/1	5/5	6/6	6/6	5/6	1/1	1/1	5/5	5/5
Attendance rate	100%	100%	100%	100%	83%	100%	100%	100%	100%

Notes:

- During the Year, certain Supervisors were appointed or retired. The table above lists the numbers of meetings held and attended by each Supervisor during his/her term of office.
- During the Year, Mr Lu Zhengfei attended five meetings in person and one meeting by appointing Mr Ding Ningning as proxy to attend on his behalf.

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.

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 2016 annual results and the 2017 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 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 on a regular basis.

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 12 March 2018, at which the proposals for the appointment of a Director and the amendments to the Articles of Association, the Procedural Rules for Shareholders' General Meeting, the Procedural Rules for the Board of Directors and the Procedural Rules for the Supervisory Committee were considered. All the resolutions were passed at the Extraordinary General Meeting by way of poll. The Extraordinary General Meeting approved the amendments to the Articles of Association, including amendments to the responsibilities of the Board of Directors, and such amendments shall become effective subject to the CIRC's approval. The main amendments to the responsibilities of the Board of Directors include: the Board of Directors is responsible for formulating the plans for material acquisition and purchase of shares of the Company; considering and approving the outbound investments, asset acquisitions, asset disposals and write-offs and asset mortgages 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 of Directors for consideration and approval in accordance with laws and regulations and regulatory provisions; proposing the procedural rules for shareholder's general meetings and the Board of Directors; and selecting the external auditor who conducts audit of the Directors and senior management personnel of the Company. Details of the revised responsibilities have been set out on pages 38 to 40 of the circular of the Extraordinary General Meeting dated 23 January 2018 of the Company.

Company Honours



RANKED 37TH IN “HONG KONG STOCKS – TOP 100”

In April 2017, the final winner list of 2016 “HONG KONG STOCKS – TOP 100” jointly organised by Hong Kong Finet Group Limited and the website www.QQ.com was officially announced. The Company ranked in the main list for the fifth consecutive year, ranking 37th in the main list “Top 100 in Comprehensive Strength”. Meanwhile, the Company was on the sub-list “Stock with Highest Investment Value” for the first time and topped the list.

2017 MOST RELIABLE INSURANCE COMPANY OF THE YEAR

In July 2017, the election result of the “2017 China Insurance Ark Award” jointly organised by *Securities Times* and the Insurance Asset Management Association of China was announced. The Company was awarded the “2017 Most Reliable Insurance Company of the Year”.

TOP 10 COMPETITIVE PROPERTY INSURANCE COMPANIES IN CHINESE MARKET 2017

In October 2017, the Company was awarded the title of the “TOP 10 Competitive Property Insurance Companies in Chinese Market 2017” in the list series of the “Top 10 Competitive Insurance Companies in Chinese Insurance Market for the Year 2017” jointly announced by Central University of Finance and Economics and *China Insurance News*.

HIGHEST RATING OF SERVICES OF INSURANCE COMPANIES

In November 2017, in the rating result of the 2017 services of insurance companies announced by the CIRC, the Company received the rating of “AA” which is the highest service rating achieved in the industry.

EXCELLENT INSURANCE PROTECTION BRAND OF THE YEAR

In December 2017, the election result of the eighth “Golden Wealth Management” organised by *Shanghai Securities Times* was announced. The Company was awarded the Excellent Insurance Protection Brand of the Year in the election of “Golden Wealth Management”.



BEST PROPERTY INSURANCE COMPANY OF THE YEAR

In December 2017, the election result of the “Best Financial Institutions in China” organised by *Financial Times* was announced. The Company was awarded the “Best Property Insurance Company of the Year” of 2017.

2017 BEST PROPERTY INSURANCE COMPANY IN ASIA

In December 2017, in the “Competitiveness Rankings of Asian Insurance Companies” organised by *21st Century Business Herald* and 21st Century Finance Research Institute, the Company was ranked the top and awarded the “2017 Best Property Insurance Company in Asia”.

2017 CHINA TOP FINANCIAL LEAGUE – AWARD OF PROPERTY INSURANCE BRAND OF THE YEAR

In January 2018, in the “2017 China TOP Financial League” announced in the “New Finance and New Development – 2018 Financial Development Summit Forum” organised by *The Paper*, the Company was awarded the “Property Insurance Brand of the Year”.

EXCELLENT AND INNOVATIVE AUTOMOBILE FINANCE

In January 2018, in the result of election for “Innovative Enterprises in Automobile Distribution Service Sector in China 2017” announced in Beijing, the Company was awarded the “Excellent and Innovative Automobile Finance”, the highest award in the China Automobile Financing Innovation Award.

PROPERTY INSURANCE COMPANY OF THE YEAR 2017

In January 2018, in the award ceremony held in Beijing for the eleventh “Golden Cicada Award” organised by *China Times* and Sina Finance, the Company was awarded the “Property Insurance Company of the Year 2017”.

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 87 to 218 which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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
<p>Valuation of insurance contract liabilities</p> <p>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.</p> <p>The Group recorded insurance contract liabilities of RMB264,748 million as at 31 December 2017.</p> <p>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.</p> <p>Details of the insurance contract liabilities are set out in note 36 to the consolidated financial statements.</p>	<p>Our procedures in relation to the valuation of insurance contract liabilities included:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 its reasonableness; and • Evaluating the methodology and assumptions, or performing a diagnostic check to identify any abnormalities for the remaining classes.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of financial assets</p> <p>We identified the impairment of financial assets as a key audit matter as the Group applied significant judgement whether objective evidence of impairment exists. Significant accounting estimates are also involved in determining the presented values of expected future cash flows, or the fair values measured by significant unobservable inputs.</p> <p>As at 31 December 2017, the Group held debt securities of RMB153,728 million, equity securities and mutual funds of RMB64,701 million, insurance receivables, net, of RMB37,845 million and investments classified as loans and receivables of RMB51,180 million. Impairment losses of RMB297 million and RMB391 million respectively were recorded for available-for-sale financial assets and insurance receivables for the current year.</p> <p>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.</p>	<p>Our procedures in relation to impairment assessment of financial assets included:</p> <ul style="list-style-type: none"> • 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 presented value of future cash flows or fair values measured at Level 3. These assumptions include comparable transactions, pricing multiples, expected future cash flows generated by the instruments and the choice of discount rates; • Checking, on a sample basis, any other indications of objective 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.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on the investment in an associate	
<p>We identified the impairment assessment on the investment in an associate as a key audit matter as the Group applied significant judgement and estimation in the impairment assessment when there is an indicator that the investment in an associate is impaired.</p> <p>The Group found the carrying amount of an associate, Hua Xia Bank Co., Limited, a company listed on the Shanghai Stock Exchange, exceeded its market value for more than one year. As at 31 December 2017, the carrying amount and fair value of this associate was RMB29,611 million and RMB23,069 million, respectively.</p> <p>Hence, the Group performed an impairment assessment on this investment by calculating its recoverable amount based on value in use as determined by the enterprise discounted free cash flow model. Based on the assessment result, the management determined that there was no impairment loss on the investment in the associate.</p> <p>Details of this investment in an associate are disclosed in note 25 to the consolidated financial statements.</p>	<p>Our procedures in relation to impairment assessment of the investment in an associate included:</p> <ul style="list-style-type: none"> • Evaluating the management's process for preparing its impairment assessment and the critical judgement in the assessment; • With the assistance of our internal valuation specialist: <ul style="list-style-type: none"> • Assessing the recoverable amount based on its value in use as determined by the enterprise discounted free cash flow model, reviewing assumptions used in the model in particular projected cash flows and discount rates; • Testing arithmetical accuracy of the calculation of value in use; and • Reviewing the sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, would result in the investment being impaired.

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 HKSA's 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 HKSAAs, 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 Man Kai Sze.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Notes	2017 RMB million	2016 RMB million
GROSS WRITTEN PREMIUMS	5	350,314	311,160
Net earned premiums	5	309,076	270,261
Net claims incurred	6	(192,520)	(171,759)
Net policy acquisition costs	7	(74,348)	(62,954)
Other underwriting expenses		(24,939)	(23,147)
Administrative expenses		(7,974)	(7,377)
UNDERWRITING PROFIT		9,295	5,024
Investment income	8	15,382	15,073
Net realised and unrealised gains on investments	9	1,136	922
Investment related expenses		(675)	(637)
Interest expenses credited to policyholders' deposits		(2)	(2)
Exchange (losses)/gains, net		(451)	422
Sundry income		372	369
Sundry expenses		(473)	(457)
Finance costs	10	(1,998)	(1,208)
Share of profits of associates		4,575	2,945
PROFIT BEFORE TAX	11	27,161	22,451
Income tax expense	14	(7,353)	(4,430)
PROFIT FOR THE YEAR		19,808	18,021
Profit attributable to			
– owners of the Company		19,807	18,020
– non-controlling interests		1	1
		19,808	18,021
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (in RMB)	15	1.336	1.215

Details of the dividends approved for the year are disclosed in note 16 to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB million	2016 RMB million
PROFIT FOR THE YEAR		19,808	18,021
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value losses		(89)	(4,368)
– Reclassification of (gains)/losses to profit or loss on disposals		(1,317)	69
– Impairment losses		297	98
Income tax effect	30	277	1,050
		(832)	(3,151)
Net losses on cash flow hedges		(3)	(5)
Income tax effect	30	1	1
		(2)	(4)
Share of other comprehensive expense of associates		(728)	(203)
NET OTHER COMPREHENSIVE EXPENSE THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		(1,562)	(3,358)
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		184	275
Income tax effect	30	(46)	(69)
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		138	206
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		(1,424)	(3,152)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		18,384	14,869
Total comprehensive income attributable to			
– owners of the Company		18,383	14,868
– non-controlling interests		1	1
		18,384	14,869

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	31 December 2017 RMB million	31 December 2016 RMB million
ASSETS			
Cash and cash equivalents	17	34,688	25,144
Derivative financial assets		–	3
Debt securities	18	153,728	110,645
Equity securities and mutual funds	19	64,701	67,038
Insurance receivables, net	20	37,845	30,479
Reinsurance assets	21	29,410	30,707
Term deposits	22	61,300	68,286
Investments classified as loans and receivables	23	51,180	63,855
Prepayments and other assets	24	19,112	15,805
Investments in associates	25	41,832	37,045
Investment properties	27	4,976	4,902
Property and equipment	28	15,531	14,977
Prepaid land premiums	29	3,023	3,185
Deferred tax assets	30	7,240	3,878
TOTAL ASSETS		524,566	475,949
LIABILITIES			
Payables to reinsurers	32	17,319	16,443
Accrued insurance security fund	33	958	834
Securities sold under agreements to repurchase	34	23,121	21,030
Income tax payable		4,396	2,680
Other liabilities and accruals	35	55,352	48,115
Insurance contract liabilities	36	264,748	242,093
Policyholders' deposits	37	2,296	2,330
Bonds payable	38	23,262	23,112
TOTAL LIABILITIES		391,452	356,637
EQUITY			
Issued capital	39	14,828	14,828
Reserves		118,279	104,478
Equity attributable to owners of the Company		133,107	119,306
Non-controlling interests		7	6
TOTAL EQUITY		133,114	119,312
TOTAL EQUITY AND LIABILITIES		524,566	475,949

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Issued capital	Share premium account	Share	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 of associates	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
Balance at 1 January 2017	14,828	18,986*	2,879*	7,023*	2*	32,614*	9,337*	1,885*	176*	31,576*	6	119,312
Profit for the year	-	-	-	-	-	-	-	-	-	19,807	1	19,808
Other comprehensive income/(expense)	-	-	138	(832)	(2)	-	-	-	(728)	-	-	(1,424)
Total comprehensive income/(expense)	-	-	138	(832)	(2)	-	-	-	(728)	19,807	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)
Balance at 31 December 2017	14,828	18,986*	3,017*	6,191*	-*	34,585*	11,308*	2,471*	(552)*	42,273*	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.

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Available-for-sale investment					Share of other comprehensive income of associates						
	Issued capital	Share premium account	Asset revaluation reserve**	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Agriculture catastrophic loss reserve	Share of other comprehensive income of associates	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	
Balance at 1 January 2016	14,828	18,986*	2,673*	10,174*	6*	30,804*	7,527*	1,885*	379*	21,684*	108,946	5 108,951
Profit for the year	-	-	-	-	-	-	-	-	-	18,020	18,020	1 18,021
Other comprehensive income/(expense)	-	-	206	(3,151)	(4)	-	-	-	(203)	-	(3,152)	- (3,152)
Total comprehensive income/(expense)	-	-	206	(3,151)	(4)	-	-	-	(203)	18,020	14,868	1 14,869
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	-	1,810	1,810	-	-	(3,620)	-	- -
2015 final dividend****	-	-	-	-	-	-	-	-	-	(4,508)	(4,508)	- (4,508)
Balance at 31 December 2016	14,828	18,986*	2,879*	7,023*	2*	32,614*	9,337*	1,885*	176*	31,576*	119,306	6 119,312

* The consolidated reserves of RMB104,478 million (31 December 2015: RMB94,118 million) in the consolidated statement of financial position as at 31 December 2016 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 24 June 2016, the shareholders of the Company at a general meeting approved a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million for the year ended 31 December 2015.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB million	2016 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		27,161	22,451
Adjustments for:			
Investment income	8	(15,382)	(15,073)
Net realised and unrealised gains on investments	9	(1,136)	(922)
Interest expenses credited to policyholders' deposits		2	2
Exchange losses/(gains), net		451	(422)
Share of profits of associates		(4,575)	(2,945)
Depreciation of property and equipment	11, 28	1,544	1,573
Amortisation of prepaid land premiums	11, 29	149	147
Net gains on disposal of items of property and equipment	11	(56)	(121)
Finance costs	10	1,998	1,208
Investment related expenses		675	637
Impairment losses on insurance receivables	11, 20	391	387
(Reversal of)/provision for impairment losses on prepayments and other assets	11, 24	(46)	36
Operating cash flows before working capital changes		11,176	6,958
Changes in working capital:			
Increase in insurance receivables		(7,757)	(11,549)
Increase in other assets		(4,497)	(1,741)
Increase in payables to reinsurers		876	7,302
Increase in accrued insurance security fund		124	93
Increase in other liabilities and accruals		6,335	8,117
Increase in insurance contract liabilities, net		23,952	20,524
Cash generated from operations		30,209	29,704
Income tax paid		(8,768)	(7,627)
Net cash flows from operating activities		21,441	22,077

	Notes	2017 RMB million	2016 RMB million
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		13,232	13,017
Rental income received from investment properties		273	256
Dividend income received from equity securities and mutual funds		1,840	2,465
Payment for capital expenditure		(1,730)	(2,105)
Proceeds from disposal of items of property and equipment		156	208
Payment for acquisition of associates		(1,077)	(24,944)
Payment for purchase of debt securities, equity securities and mutual funds		(80,091)	(86,564)
Payment for purchase of investments classified as loans and receivables		(45,820)	(42,983)
Dividend income received from associates		628	234
Proceeds from sale of debt securities, equity securities and mutual funds		64,555	82,629
Proceeds from sale of investments classified as loans and receivables		33,529	9,180
Decrease in term deposits, net		6,982	30,401
Net cash flows used in investing activities		(7,523)	(18,206)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds payable	38	–	15,000
Payment for redemption of bonds payable	38	–	(8,000)
Increase/(decrease) in securities sold under agreements to repurchase, net		2,091	(2,658)
(Decrease)/increase in policyholders' deposits		(34)	104
Interest paid		(1,849)	(1,493)
Dividends paid		(4,582)	(4,508)
Net cash flows used in financing activities		(4,374)	(1,555)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		25,144	22,828
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	34,688	25,144

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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. The 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.

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 (“CO”).

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. These consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicated.

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

2.3 APPLICATION OF NEW AND REVISED HKFRSs

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the above 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.

Amendments to HKAS 7 – Disclosure Initiative

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

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

A reconciliation between the opening and closing balances of these items is provided in note 44. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional information in note 44, the application of these amendments has had no impact on the Group's consolidated financial statements.

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 15	Revenue from Contracts with Customers and the related Amendments ²
HKFRS 16	Leases ³
HKFRS 17	Insurance Contracts ⁵
HK (IFRIC)-Int 22	Foreign Currency Transaction and Advance Consideration ²
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments ³
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
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 ⁶
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ³
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ²
Amendments to HKAS 40	Transfers of Investment Property ²
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2015-2017 Cycle ³

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

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to 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 and Amendments to HKFRS 4 – Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

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 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 of and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, 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 and Amendments to HKFRS 4 – Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts (continued)

In January 2017, HKFRS 4 was amended to address issues arising from the different effective dates of HKFRS 9 and the upcoming HKFRS 17.

The amendment provides entities meeting a criterion for engaging predominantly in insurance activities with the option 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 of these amendments and concluded that its activities were predominantly connected with insurance as at 31 December 2015. During the year, the Group and the Company reassessed and concluded its activities are still predominantly connected with insurance. The Group and the Company has decided to apply the temporary exemption in its reporting period, commencing on 1 January 2018.

Based on the Group's and the Company's financial instruments and risk management policies as at 31 December 2017, the following principal impacts to the consolidated financial statements and the separate 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, some of them will continue to be subsequently measured at amortised cost upon the application of HKFRS 9. However, a significant amount of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value through profit or loss instead of amortised cost under 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;

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

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

Classification and measurement (continued)

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in note 18: a significant portion of these financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the application of 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 or reclassified (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). However, a significant amount of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under 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/Company will not elect the option for designation at FVTOCI for most equity available-for-sale financial assets carried at fair value. Therefore, most equity available-for-sale financial instruments will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, available-for-sale investment revaluation reserve relating to these remaining financial assets will be transferred to retained profits on the date of transition.

Impairment

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

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

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

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

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

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

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

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

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

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, potentially the adoption of HKFRS 15 will only have impacts on service income for handling certain taxes or levies for relevant authorities.

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. 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.

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

HKFRS 16 – Leases (continued)

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

In contrast to lessee accounting, 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.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB1,517 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 and refundable rental deposits received 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 and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advanced lease payments.

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

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

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.

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.

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

HKFRS 17 – Insurance Contracts (continued)

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.

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.

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

HKFRS 17 – Insurance Contracts (continued)

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

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's 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Business combinations (*continued*)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments in associates

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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates 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 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. Changes in net assets of the associate 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 exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments in associates (*continued*)

When the Group ceases to have significant influence over an associate, 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 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 and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate 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.

When the Group reduces its ownership interests in an associate 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 of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies: (i) the entity and the Group are members of the same group; (ii) one entity is an associate or 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).

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*)

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.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Leasing (*continued*)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 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 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, except for those that are classified and accounted for as investment properties under the fair value model. 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.

Investments and other 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (*continued*)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as 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 upon initial recognition 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.

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 and 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 rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in investment income in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (*continued*)

Subsequent measurement (continued)

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 rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation 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-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in net realised and unrealised gains/(losses) on investments, or until the investment is determined to be impaired, at which time the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively, and are recognised in the income statement as investment income 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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 changes in arrears or economic conditions that correlate with 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 payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

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.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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.

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 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 rate 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial liabilities (*continued*)

Subsequent measurement (continued)

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition of financial liabilities

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement (continued)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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.

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 insurance contracts contain both an insurance component and a deposit component. The Group unbundles these two components, if the insurance component and the deposit component are distinct and separately measurable.

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, no reclassification can subsequently be made.

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 rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be receivable, with the impairment loss recorded in the income statement.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, business 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Insurance contract liabilities (*continued*)

Derecognition of insurance contract liabilities

Insurance contract liabilities are derecognised when they are discharged or 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.

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 reinsured. Investment income or expense on these contracts is accounted for using the effective interest method when accrued.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Income tax (*continued*)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities, other than described below.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured, using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumed is rebutted. The presumption is rebutted when the investment properties are depreciable and is held within a business model whose objective is to consume substantially economic benefits embodied in the investment properties over time, rather than through sale.

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 recognised in profit or loss where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the amount is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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.

Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the consolidated statement of financial position.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Employee benefits (*continued*)

Pension scheme

Employees of the Group are required to participate in a central pension scheme operated by the local municipal government of the PRC. The Group is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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.

Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably; 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:

- (a) premium income, which is recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage;
- (b) rental income, on a straight-line basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the right to receive dividend payment has been established.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Profit appropriation

In accordance with the PRC Company Law and the Group's respective entities' articles of association, the Group's respective entities are required to make appropriations to the statutory surplus reserve based on their respect year-end profit (after offsetting any prior years' losses) as determined based on relevant accounting principles and financial regulations applicable to entities established in the PRC in their annual statutory financial statements. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Group's respective entities 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 general accepted accounting principles ("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.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Foreign currencies (*continued*)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive income and accumulated in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainties about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which 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. Any contracts that do not transfer significant insurance risk are classified as investment contracts and accounted for in accordance with HKAS 39.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (*continued*)

Judgements (*continued*)

Significant influence when less than 20 per cent of voting power is held

The Group determines whether it can exercise influence over an investee when it holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, 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.

Impairment assessment on the investment of an associate

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. The most significant judgements relate to the impairment assessment of the investment in Hua Xia Bank Co., Limited ("Hua Xia Bank"). Details of this associate are disclosed in Note 25.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

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 which the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

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

- For insurance contracts under which 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 Government Securities Depository Trust & 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 89 – 98 basis points as at 31 December 2017 (31 December 2016: 91 – 101 basis points). The discount rates of the different duration used as at 31 December 2017 were 3.6% – 3.9% (31 December 2016: 3.6% – 4.0%).
- 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	2017	2016
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	2017	2016
Agriculture insurance	33.3%	33.3%
Motor vehicle insurance	2.5%	2.5%
Others insurance	5.5%	5.5%

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (*continued*)

Estimation uncertainty (*continued*)

Valuation of insurance contract liabilities (continued)

The major assumptions needed in measuring loss and loss adjustment expense reserves include the 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).

Impairment of financial assets

Financial assets measured at amortised cost

When there is an objective evidence that there is impairment in loans and receivables and held-to-maturity investments, the Group assesses the degree of risk and collectability of each item. The Group needs to recognise an impairment loss in the income statement if the present value of expected future cash flows is less than the carrying amount of a financial asset measured at amortised cost. The Group mainly considers the financial situation, credit rating, and collaterals of the debtors in estimating the future cash flows.

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

Financial assets measured at amortised cost include cash equivalents, insurance receivables, term deposits, held-to-maturity investments, investments classified as loans and receivable and miscellaneous receivables. The carrying values of these assets are disclosed in the consolidated statement of financial position and respective notes.

Available-for-sale financial assets

As disclosed in note 40 to these financial statements, certain available-for-sale financial instruments are measured at Level 3 fair value and determination of the fair value of these financial instruments involves significant use of unobservable inputs.

If Level 3 fair value of an available-for-sale financial instrument is below its carrying amount, the Group determines whether impairment exists by: for equity instruments, judging whether this decline below cost is "significant" or "prolonged" as explained in note 2.5 "Impairment of financial assets"; for debt instruments, whether the decline in fair value is due to market interest rates or interest rates specific to the issuers of the financial instruments, or presence of other objective evidence of impairment.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the president's office 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 eight 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 others segment mainly represents insurance products related to homeowners, special risks, marine hull, construction and credit; and
- (h) the corporate segment includes the income and expenses from investment activities, share of results of associates, non-operating income and expenses, unallocated income and expenditures of the Group.

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 (g)) is a measure of underwriting profit/(loss) and corporate business income and expense (for segment (h)), 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 liabilities and other payables, which are not allocated further.

Geographical information is not presented as all of the Group's customers, operations and assets and liabilities are located in the PRC based on the operation of the relevant entities. No inter-segment transactions occurred in 2017 and 2016.

In 2017 and 2016, 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 2017 and 2016 are as follows:

	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
2017	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Gross written premiums	249,232	12,623	3,232	16,975	30,646	22,090	15,516	-	350,314
Net earned premiums	236,877	7,148	2,427	11,795	25,622	16,489	8,718	-	309,076
Net claims incurred	(139,407)	(4,076)	(1,227)	(6,929)	(24,004)	(11,033)	(5,844)	-	(192,520)
Net policy acquisition costs	(65,614)	(1,812)	(571)	(2,715)	(1,680)	(509)	(1,447)	-	(74,348)
Other underwriting expenses	(17,800)	(1,107)	(219)	(1,093)	(790)	(2,829)	(1,101)	-	(24,939)
Administrative expenses	(5,308)	(358)	(114)	(472)	(415)	(865)	(442)	-	(7,974)
Underwriting profit/(loss)	8,748	(205)	296	586	(1,267)	1,253	(116)	-	9,295
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)
Sundry income and expenses, net	-	-	-	-	-	-	-	(101)	(101)
Finance costs	-	-	-	-	-	-	-	(1,998)	(1,998)
Share of profits of associates	-	-	-	-	-	-	-	4,575	4,575
Profit/(loss) before tax	8,748	(205)	296	586	(1,267)	1,253	(118)	17,868	27,161
Income tax expense	-	-	-	-	-	-	-	(7,353)	(7,353)
Profit/(loss) for the year - segment results	8,748	(205)	296	586	(1,267)	1,253	(118)	10,515	19,808

4. OPERATING SEGMENT INFORMATION (continued)

2016	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Gross written premiums	225,640	12,321	2,977	13,703	23,432	19,535	13,552	–	311,160
Net earned premiums	209,667	7,527	2,161	9,572	19,833	14,428	7,073	–	270,261
Net claims incurred	(124,718)	(5,741)	(1,149)	(5,767)	(17,649)	(11,233)	(5,502)	–	(171,759)
Net policy acquisition costs	(55,387)	(2,717)	(407)	(2,049)	(1,351)	196	(1,239)	–	(62,954)
Other underwriting expenses	(17,282)	(501)	(247)	(888)	(780)	(2,407)	(1,042)	–	(23,147)
Administrative expenses	(5,255)	(324)	(131)	(340)	(351)	(602)	(374)	–	(7,377)
Underwriting profit/(loss)	7,025	(1,756)	227	528	(298)	382	(1,084)	–	5,024
Investment income	–	–	–	–	–	–	–	15,073	15,073
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	922	922
Investment related expenses	–	–	–	–	–	–	–	(637)	(637)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	–	(2)	–	(2)
Exchange gains, net	–	–	–	–	–	–	–	422	422
Sundry income and expenses, net	–	–	–	–	–	–	–	(88)	(88)
Finance costs	–	–	–	–	–	–	–	(1,208)	(1,208)
Share of profits of associates	–	–	–	–	–	–	–	2,945	2,945
Profit/(loss) before tax	7,025	(1,756)	227	528	(298)	382	(1,086)	17,429	22,451
Income tax expense	–	–	–	–	–	–	–	(4,430)	(4,430)
Profit/(loss) for the year									
– segment results	7,025	(1,756)	227	528	(298)	382	(1,086)	12,999	18,021

4. OPERATING SEGMENT INFORMATION (continued)

The segment assets, liabilities and other segment information of the Group as at 31 December 2017 and 2016 are as follows:

31 December 2017	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	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	4,056	7,502	22,082	456,000	524,566
Segment liabilities	209,267	19,171	3,276	21,044	19,231	12,801	27,380	79,282	391,452
Other segment information:									
Depreciation and amortisation	1,381	67	18	94	170	121	85	-	1,936
Impairment losses on insurance receivables, prepayments and other assets	27	14	1	27	56	186	34	-	345
Interest income	-	-	-	-	-	-	-	13,278	13,278

31 December 2016	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Segment assets	13,517	11,754	1,410	6,064	6,240	6,465	18,471	412,028	475,949
Segment liabilities	190,900	19,216	3,158	17,344	15,556	12,865	24,927	72,671	356,637
Other segment information:									
Depreciation and amortisation	1,406	75	19	85	146	121	82	-	1,934
Impairment losses on insurance receivables, prepayments and other assets	6	51	31	64	78	58	135	-	423
Interest income	-	-	-	-	-	-	-	12,351	12,351

5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	2017 RMB million	2016 RMB million
Gross written premiums		
Direct written premiums	349,290	310,453
Reinsurance premiums assumed	1,024	707
	350,314	311,160
Net earned premiums		
Gross written premiums	350,314	311,160
Less: Reinsurance premiums ceded	(28,996)	(30,386)
	321,318	280,774
Net written premiums		
	321,318	280,774
Gross change in unearned premium reserves	(11,835)	(11,360)
Less: Reinsurer's share of change in unearned premium reserves	(407)	847
	(12,242)	(10,513)
Net change in unearned premium reserves		
	(12,242)	(10,513)
Net earned premiums	309,076	270,261

6. NET CLAIMS INCURRED

	2017 RMB million	2016 RMB million
Gross claims paid	199,777	180,496
Less: Paid losses recoverable from reinsurers	(18,967)	(18,748)
	180,810	161,748
Net claims paid		
	180,810	161,748
Gross change in loss and loss adjustment expense reserves	10,820	13,445
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	890	(3,434)
	11,710	10,011
Net change in loss and loss adjustment expense reserves		
	11,710	10,011
Net claims incurred	192,520	171,759

7. NET POLICY ACQUISITION COSTS

	2017 RMB million	2016 RMB million
Commission expenses	59,725	46,557
Less: Reinsurance commission income	(8,817)	(9,559)
Underwriting personnel expenses	18,184	16,288
Business tax and other surcharges	1,513	6,208
Contributions to insurance security fund (note 33)	2,683	2,398
Others	1,060	1,062
	74,348	62,954

8. INVESTMENT INCOME

	2017 RMB million	2016 RMB million
Operating lease income from investment properties	273	256
Interest income from:		
Current and term deposits	4,262	4,921
Debt securities		
– Held-to-maturity	2,103	2,101
– Available-for-sale	3,777	2,822
– Held-for-trading	53	55
Derivative financial instruments	3	118
Investments classified as loans and receivables	3,080	2,334
	13,278	12,351
Dividend income from equity securities and mutual funds:		
– Available-for-sale	1,748	2,151
– Held-for-trading	83	315
	1,831	2,466
	15,382	15,073

9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	2017 RMB million	2016 RMB million
Realised gains from:		
Debt securities		
– Available-for-sale	90	285
– Held-for-trading	–	13
Equity securities and mutual funds		
– Available-for-sale	1,227	(354)
– Held-for-trading	215	223
Derivative financial instrument (<i>note</i>)	–	1,009
	1,532	1,176
Unrealised losses from:		
Debt securities classified as held-for-trading	(55)	(23)
Equity securities and mutual funds classified as held-for-trading	(59)	(271)
Derivative financial instruments	(44)	(10)
	(158)	(304)
Impairment losses on equity securities and mutual funds classified as available-for-sale	(297)	(98)
Fair value gains on investment properties (<i>note 27</i>)	59	148
	1,136	922

Note:

For the year ended 31 December 2016, the realised gain of a derivative financial instrument arose from an agreement to purchase interests in equity instrument at a price predetermined by a formula agreed by the Group and the third parties. The amount represents the difference between the final consideration paid by the Group and the fair value of this equity instrument when the transaction was completed.

10. FINANCE COSTS

	2017 RMB million	2016 RMB million
Interest on bonds payable	1,157	650
Interest on securities sold under agreements to repurchase	801	509
Other finance costs	40	49
	1,998	1,208

11. PROFIT BEFORE TAX

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

	Notes	2017 RMB million	2016 RMB million
Depreciation of property and equipment	28	1,544	1,573
Amortisation of prepaid land premiums	29	149	147
Employee expenses (including directors', supervisors' and senior management's remunerations)			
– Salaries, allowances and performance related bonuses		28,800	26,661
– Pension scheme contributions		3,232	2,651
Impairment losses on insurance receivables	20	391	387
(Reversal of)/provision for impairment losses on prepayments and other assets	24	(46)	36
Minimum lease payments under operating leases in respect of land and buildings		985	808
Net gains on disposal of items of property and equipment		(56)	(121)
Auditors' remuneration		16	15

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors and supervisors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

2017	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 (President)	-	1,123	214	46	1,383
Mr. Yun Zhen (appointed on 31 October 2017)	-	1,002	196	67	1,265
Mr. Wang Dedi (appointed on 31 October 2017)	-	899	192	67	1,158
Mr. Wang He (resigned on 24 March 2017)	-	-	-	-	-
Non-executive directors:					
Mr. Li Tao (note 1)	-	-	-	-	-
Ms. Yu Xiaoping (note 1) (resigned on 7 March 2018)	-	-	-	-	-
Mr. Wang Yincheng (note 1) (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)	-	1,008	196	67	1,271
Mr. Li Zhuyong (note 1)	-	-	-	-	-
Mr. Li Fuhan (appointed on 28 February 2017)	-	630	111	50	791
Ms. Gao Hong (appointed on 28 February 2017)	-	630	154	58	842
Mr. Wang Yueshu (retired on 24 March 2017)	-	674	147	55	876
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	247	-	-	-	247
	1,765	5,966	1,210	465	9,406

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

(a) Directors and supervisors *(continued)*

The executive and non-executive directors' emoluments 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. Wu Yan for his services as the chairman of the Board.

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

The independent supervisors' emoluments shown above were mainly for their services as supervisors of the Company.

Note:

(1) These non-executive directors and supervisor 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 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 Insurance Regulatory Commission (the "CIRC"), 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 2017 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 emoluments and that disclosed above will not have significant impact on the consolidated financial statements.

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(a) Directors and supervisors (continued)

2016 (Restated)	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefits RMB'000	Housing fund and other benefits RMB'000	Total remuneration before tax RMB'000
Executive directors:						
Mr. Wu Yan (Chairman of the Board)	-	-	-	-	-	-
Mr. Lin Zhiyong (President)	-	661	893	150	39	1,743
Mr. Guo Shengchen (resigned on 9 August 2016)	-	749	1,011	198	60	2,018
Mr. Wang He	-	652	881	192	59	1,784
Non-executive directors:						
Ms. Yu Xiaoping (note 1)	-	-	-	-	-	-
Mr. Li Tao (note 1)	-	-	-	-	-	-
Mr. Wang Yincheng (note 1)	-	-	-	-	-	-
Independent non-executive directors:						
Mr. Lin Hanchuan	239	-	-	-	-	239
Mr. Lo Chung Hing	239	-	-	-	-	239
Mr. Na Guoyi	239	-	-	-	-	239
Mr. Ma Yusheng	239	-	-	-	-	239
Mr. Chu Bende (appointed on 24 June 2016)	114	-	-	-	-	114
Supervisors:						
Mr. Wang Yueshu (Chairman of the Supervisory Committee)	-	674	910	195	59	1,838
Mr. Li Zhuoyong (note 1)	-	-	-	-	-	-
Ms. Qu Yonghuan	-	-	-	-	22	22
Mr. Shen Ruiguo	-	445	1,409	141	54	2,049
Independent supervisors:						
Mr. Lu Zhengfei	239	-	-	-	-	239
Mr. Ding Ningning	239	-	-	-	-	239
	1,548	3,181	5,104	876	293	11,002

Note:

(1) 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 2016 were restated based on the finalised amounts determined during 2017. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2016 amounting to approximately RMB6 million for executive directors and supervisors had been deferred contingent upon the future performance.

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(b) Senior management

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

	2017	2016 (Restated)
	RMB'000	RMB'000
Other emoluments		
– Salaries and allowances	6,905	4,668
– Performance related bonuses	–	6,186
– Retirement benefits	1,602	1,506
– Housing fund and other benefits	499	449
	9,006	12,809

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 2017 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 emoluments and that disclosed above will not have significant impact on the consolidated financial statements.

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

	2017	2016 (Restated)
HKD1,000,001 to HKD1,500,000	8	1
HKD1,500,001 to HKD2,000,000	–	7
	8	8

The compensation amounts for certain members of senior management for the year ended 31 December 2016 were restated based on the finalised amounts determined during 2017. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2016 amounting to approximately RMB11 million for senior management had been deferred contingent upon the future performance.

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three directors/supervisors (2016: five directors/supervisors), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining two (2016: Nil) highest paid individual are set out below:

	2017 RMB'000	2016 (Restated) RMB'000
Salaries and allowances	1,672	–
Retirement benefits	547	–
Housing fund and other benefits	128	–
	2,347	–

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

	2017	2016 (Restated)
HKD1,000,001 to HKD1,500,000	2	–

The compensation amounts for highest paid individuals for the year ended 31 December 2016 were restated based on the finalised amounts determined during 2017.

14. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2016: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2017 RMB million	2016 RMB million
Current		
– Charge for the year	10,444	7,327
– Adjustments in respect of current tax of prior years	39	37
Deferred (note 30)	(3,130)	(2,934)
Total tax charge for the year	7,353	4,430

14. INCOME TAX EXPENSE (continued)

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:

	2017 RMB million	2016 RMB million
Profit before tax	27,161	22,451
Tax at the statutory tax rate of 25% (2016: 25%)	6,790	5,613
Income not subject to tax	(1,787)	(1,552)
Expenses not deductible for tax (note)	2,311	332
Adjustments in respect of current tax of prior years	39	37
Tax charge at the Group's effective tax rate	7,353	4,430

Note:

Commission expenses are not deductible for tax purposes when they exceed certain percentages of premiums income. The increase in commission expenses resulted in an increase in expenses not deductible for tax purposes.

15. EARNINGS PER SHARE

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

	Note	2017	2016
Earnings:			
Profit attributable to owners of the Company (RMB million)		19,807	18,020
Shares:			
Weighted average number of ordinary shares in issue (in million shares)	39	14,828	14,828
Basic earnings per share (RMB)		1.336	1.215

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. Diluted earnings per share amounts for the years ended 31 December 2017 and 2016 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDENDS

	2017 RMB million	2016 RMB million
Dividends recognised as distribution during the year:		
2016 final dividend – RMB0.309 per ordinary share	4,582	–
2015 final dividend – RMB0.304 per ordinary share	–	4,508

No interim dividend was proposed by the Board of Directors in 2017 and 2016.

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.

Pursuant to the shareholders' approval at the general meeting on 24 June 2016, a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million in respect of the year ended 31 December 2015 was declared.

17. CASH AND CASH EQUIVALENTS

	31 December 2017 RMB million	31 December 2016 RMB million
Demand deposits	13,665	18,590
Securities purchased under resale agreements with original maturity of less than three months	20,082	5,492
Deposits with banks with original maturity of less than three months	941	1,062
	34,688	25,144
Classification of cash and cash equivalents:		
Loans and receivables	34,688	25,144

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 2017 and 31 December 2016.

18. DEBT SECURITIES

	31 December 2017 RMB million	31 December 2016 RMB million
Classification of debt securities:		
Held for trading, at fair value		
– Government bonds	989	946
– Financial bonds	70	–
– Corporate bonds	788	2,305
	1,847	3,251
Available-for-sale, at fair value		
– Government bonds	7,880	7,075
– Financial bonds	11,742	8,783
– Corporate bonds	64,551	49,885
– Wealth management products	25,800	–
	109,973	65,743
Held-to-maturity, at amortised cost		
– Government bonds	3,224	3,026
– Financial bonds	26,780	26,761
– Corporate bonds	11,904	11,864
	41,908	41,651
	153,728	110,645

19. EQUITY SECURITIES AND MUTUAL FUNDS

	31 December 2017 RMB million	31 December 2016 RMB million
Investments, at fair value:		
Mutual funds	16,527	28,805
Shares	32,988	28,593
Preferred shares	7,921	5,561
Perpetual bonds	243	252
Equity schemes	7,022	3,827
	64,701	67,038

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 2017 RMB million	31 December 2016 RMB million
Classification of equity securities and mutual funds:		
Held for trading, at fair value	5,792	10,543
Available-for-sale, at fair value	58,909	56,495
	64,701	67,038

During the year, an impairment loss of RMB297 million was provided by the Group on equity securities and mutual funds (2016: RMB98 million).

20. INSURANCE RECEIVABLES, NET

	31 December 2017 RMB million	31 December 2016 RMB million
Premiums receivable and agents' balances	20,400	13,786
Receivables from reinsurers	21,011	19,911
	41,411	33,697
Less: Impairment provisions on		
– Premiums receivable and agents' balances	(3,308)	(2,960)
– Receivables from reinsurers	(258)	(258)
	37,845	30,479

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

	31 December 2017 RMB million	31 December 2016 RMB million
Not yet due	20,900	18,827
Within 1 month	2,737	2,496
1 to 3 months	4,507	3,770
3 to 6 months	3,640	3,594
6 to 12 months	4,985	1,472
1 to 2 years	920	208
Over 2 years	156	112
	37,845	30,479

20. INSURANCE RECEIVABLES, NET (*continued*)

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

	2017 RMB million	2016 RMB million
At 1 January	3,218	2,872
Impairment losses recognised (<i>note 11</i>)	391	387
Amount written off as uncollectible	(43)	(41)
At 31 December	3,566	3,218

Included in the Group's insurance receivables are amounts due from a fellow subsidiary of RMB349 million (31 December 2016: RMB117 million) and an associate of RMB588 million (31 December 2016: Nil), respectively. Please refer to note 48(c) for details.

21. REINSURANCE ASSETS

	31 December 2017 RMB million	31 December 2016 RMB million
Reinsurers' share of:		
Unearned premium reserves (<i>note 36</i>)	9,747	10,154
Loss and loss adjustment expense reserves (<i>note 36</i>)	19,663	20,553
	29,410	30,707

22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
More than 3 months to 1 year	166	162
1 to 2 years	100	8
2 to 3 years	689	213
More than 3 years	60,345	67,903
	61,300	68,286

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2017 RMB million	31 December 2016 RMB million
Long-term debt investment schemes	33,188	28,339
Wealth management products	–	28,400
Trust plans	11,100	3,000
Asset management products	5,220	3,616
Subordinated debts held	500	500
Others	1,172	–
	51,180	63,855

Long-term debt investment schemes ("Debt Schemes") are structured entities and offer either fixed or variable interests to their investors, and 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 2017 (31 December 2016: 2% to 100%) of the total funds raised. The interest rates of these Debt Schemes are 3.50% to 7.00% (31 December 2016: 4.30% to 7.00%) per annum as at 31 December 2017.

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

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 of 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.

As at 31 December 2017, all the wealth management products held by the Group at 31 December 2016 were fully redeemed.

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. The interest rate of the debt is 5.60% (31 December 2016: 5.60%) per annum as at 31 December 2017.

24. PREPAYMENTS AND OTHER ASSETS

	Note	31 December 2017 RMB million	31 December 2016 RMB million
Interest receivables		5,427	5,379
Capital security fund	(i)	2,966	2,966
Co-insurance receivables		2,008	1,636
Prepayments and deposits		855	673
Other receivables		1,598	1,841
Amounts due from PICC Group (note 48(c))		53	64
Amounts due from fellow subsidiaries (note 48(c))		57	11
Other assets		6,660	3,793
		19,624	16,363
Less: Impairment provision on			
– Co-insurance receivables		(355)	(401)
– Other receivables		(157)	(157)
		19,112	15,805

Note:

- (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 the CIRC as a security fund. The use of the security fund is subject to the approval of the CIRC.

25. INVESTMENTS IN ASSOCIATES

	31 December 2017 RMB million	31 December 2016 RMB million
Cost of investments in associates	37,620	36,053
Share of post-acquisition profit and other comprehensive income, net of dividend received	4,212	992
	41,832	37,045

Acquisition of associates

In February 2015, the Group invested RMB2.79 billion in Sinopec Marketing Project Equity Investment Plan ("Sinopec Marketing Plan"), an equity investment plan set up and managed by PICC Assets Management Company Limited (the "PICC AMC"), for 29.399% interests. Sinopec Marketing Plan, which is considered a material associate of the Group, is engaged in equity investment and accounted for using the equity method in the Group's consolidated financial statements. This investment is not strategic to the Group's activities.

On 23 June 2016, the Company, PICC Health Insurance Company Limited ("PICC Health") and other shareholders of PICC Health entered into a share subscription agreement. Pursuant to this agreement, the Company subscribed approximately 2,119 million shares of PICC Health through private placement at a consideration of RMB2,500 million and on completion of the subscription, the Company held 24.726% interests in PICC Health. On 30 June 2016, the capital injection of PICC Health was approved by CIRC. Therefore, the investment in PICC Health was accounted for as an associate of the Company under the equity method as from that date. Previously, the Group held no direct or indirect interests in PICC Health.

On 28 December 2015, the Company entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to sell to the Company 877,302,599 shares, 267,072,000 shares and 991,671,286 shares of Hua Xia Bank, respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.99% of the total issued ordinary shares of Hua Xia Bank) and the Company conditionally agreed to purchase these shares. This transaction was completed on 17 November 2016.

The Group holds the view that it has the ability to have significant influence over Hua Xia Bank since 17 November 2016 and therefore accounts for its interests in Hua Xia Bank as an associate. An excess of RMB2,636 million, which represents the Group's share of the net fair value of the identifiable assets and liabilities of Hua Xia Bank over the cost of the investment, was included as income in the Group's share of profits of associates for the year ended 31 December 2016.

25. INVESTMENTS IN ASSOCIATES (continued)

Particulars of material associates

Particulars of material associates as at 31 December 2017 and 2016 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		Measurement method	Principal activities
			2017	2016		
PICC Life Insurance Company Limited ("PICC Life")	Beijing	25,761	8.615%	8.615%	Equity method	Provision of life insurance products
China Aerospace Investment Holdings Limited ("Aerospace Investment")	Beijing	7,425	16.835%	16.835%	Equity method	Investment holding
Sinopec Marketing Plan	Shanghai	9,490	29.399%	29.399%	Equity method	Equity investment
Hua Xia Bank	Beijing	10,686	19.990%	19.990%	Equity method	Commercial banking
PICC Health	Beijing	8,568	24.726%	24.726%	Equity method	Provision of health insurance products

Management has assessed the level of influence that the Group has on certain associates, with a total carrying amount of RMB34,834 million as at 31 December 2017 (2016: RMB31,411 million), 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, these investments have been classified as associates.

Except for Hua Xia Bank, all the associates 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 2017 was RMB23,069 million.

As at 31 December 2017, the carrying amount of Hua Xia Bank exceeded its fair value for more than one year. Management performed impairment test accordingly considering such impairment indicator. The recoverable amount of the interest in Hua Xia Bank is determined by value-in-use. The calculation used pre-tax cash flow projections for the five years ending 31 December 2022 with subsequent extrapolation to perpetuity. The discount rate used was based on a cost of capital used to evaluate investments in Mainland China. Management judgement is required in estimating the future cash flows of Hua Xia Bank. The key assumptions are determined with reference to external sources of information. Based on management's assessment results, there was no impairment as at 31 December 2017. Reasonably possible changes in key assumptions will not lead to the impairment loss.

25. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associates' 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.

PICC Life

	31 December 2017 <i>RMB million</i>	31 December 2016 <i>RMB million</i>
Total assets	381,801	375,490
Total liabilities	350,242	342,427
Equity attributable to		
Equity holders of PICC Life	31,551	33,051
Non-controlling interests	8	12
Total equity	31,559	33,063

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

PICC Life (continued)

	2017 RMB million	2016 RMB million
Revenue	126,937	125,533
(Loss)/profit attributable to Equity holders of PICC Life	(22)	529
Non-controlling interests	4	6
(Loss)/profit for the year	(18)	535
Other comprehensive expense attributable to equity holders of PICC Life	(1,345)	(1,827)
Other comprehensive expense for the year	(1,345)	(1,827)
Total comprehensive expense attributable to Equity holders of PICC Life	(1,367)	(1,298)
Non-controlling interests	4	6
Total comprehensive expense for the year	(1,363)	(1,292)
Dividends received from the associate during the year	11	74

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

PICC Life (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interests in PICC Life recognised in the consolidated financial statements:

	31 December 2017 RMB million	31 December 2016 RMB million
Net assets attributable to equity holders of PICC Life	31,551	33,051
Proportion of the Group's ownership interests in PICC Life	8.615%	8.615%
The Group's ownership interests in net assets of PICC Life	2,718	2,847
Goodwill	16	16
Carrying amount of the Group's interests in PICC Life	2,734	2,863

Aerospace Investment

	30 September 2017 RMB million	30 September 2016 RMB million
Total assets	17,256	13,382
Total liabilities	4,669	1,172
Equity attributable to		
Equity holders of Aerospace Investment	12,185	11,992
Non-controlling interests	402	218
Total equity	12,587	12,210

25. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Aerospace Investment (continued)

	Period from 1 October 2016 to 30 September 2017 RMB million	Period from 1 October 2015 to 30 September 2016 RMB million
Revenue	269	136
Profit attributable to		
Equity holders of Aerospace Investment	1,393	1,178
Non-controlling interests	565	19
Profit for the period	1,958	1,197
Other comprehensive (expense)/income attributable to equity holders of Aerospace Investment	(558)	45
Other comprehensive (expense)/income for the period	(558)	45
Total comprehensive income attributable to		
Equity holders of Aerospace Investment	835	1,223
Non-controlling interests	565	19
Total comprehensive income for the period	1,400	1,242
Dividends received from the associate during the period	108	94

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Aerospace Investment (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interests in Aerospace Investment recognised in the consolidated financial statements:

	30 September 2017 RMB million	30 September 2016 RMB million
Net assets attributable to equity holders of Aerospace Investment	12,185	11,992
Proportion of the Group's ownership interests in Aerospace Investment	16.835%	16.835%
The Group's ownership interests in net assets of Aerospace Investment	2,051	2,019
Effect of fair value adjustments at acquisition	269	269
Others	169	169
Carrying amount of the Group's interests in Aerospace Investment	2,489	2,457

Since the audited financial statements of Aerospace Investment for the year ended 31 December 2017 were not available at the date of approving these consolidated financial statements, the Group had recognised its share of Aerospace Investment's result for the period from 1 October 2016 to 30 September 2017 based on the unaudited management accounts. For the year ended 31 December 2016, the Group had recognised its share of Aerospace Investment's result for the period from 1 October 2015 to 30 September 2016 based on the unaudited management accounts.

25. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Sinopec Marketing Plan

	31 December 2017 RMB million	31 December 2016 RMB million
Total assets	9,545	9,490
Total liabilities	3	10
Equity attributable to Plan holders of Sinopec Marketing Plan	9,542	9,480
Non-controlling interests	–	–
Total equity	9,542	9,480

	2017 RMB million	2016 RMB million
Revenue	495	253
Profit and total comprehensive income attributable to Plan holders of Sinopec Marketing Plan	476	234
Non-controlling interests	–	–
Dividends received from the associate during the year	122	67

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Sinopec Marketing Plan (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interests in Sinopec Marketing Plan recognised in the consolidated financial statements:

	31 December 2017 RMB million	31 December 2016 RMB million
Net assets attributable to plan holders of Sinopec Marketing Plan	9,542	9,480
Proportion of the Group's interests in Sinopec Marketing Plan	29.399%	29.399%
The Group's interests in net assets of Sinopec Marketing Plan	2,805	2,787
Carrying amount of the Group's interests in Sinopec Marketing Plan	2,805	2,787

Hua Xia Bank

	31 December 2017 RMB million
Total assets	2,508,413
Total liabilities	2,338,916
Attributable to	
Equity holders of Hua Xia Bank	168,055
Non-controlling interests	1,442
Total equity	169,497

25. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Hua Xia Bank (continued)

	2017 RMB million
Revenue	66,350
Profit attributable to	
Equity holders of Hua Xia Bank	19,819
Non-controlling interests	114
Profit for the year	19,933
Other comprehensive expense attributable to	
Equity holders of Hua Xia Bank	(1,174)
Non-controlling interests	–
Other comprehensive expense for the year	(1,174)
Total comprehensive income attributable to	
Equity holders of Hua Xia Bank	18,645
Non-controlling interests	114
Total comprehensive income for the year	18,759
Dividends received from the associate during the year	387

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Hua Xia Bank (continued)

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

	31 December 2017 RMB million	17 November 2016 RMB million
Net assets of Hua Xia Bank attributable to equity holders of Hua Xia Bank	168,055	150,889
Total preference shares issued by Hua Xia Bank	(19,979)	(19,979)
Net assets attributable to ordinary share holders of Hua Xia Bank	148,076	130,910
Proportion of the Group's ownership interest in Hua Xia Bank	19.990%	19.990%
The Group's ownership interest in net assets of Hua Xia Bank	29,600	26,169
Net fair value adjustment to the investee's identifiable assets and liabilities	(78)	(78)
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	89	–
Carrying amount of the Group's interest in Hua Xia Bank	29,611	26,091
Fair value of shares listed in Mainland China	23,069	23,176

Hua Xia Bank is a listed company in the PRC and its annual results are only publicly available after the results announcement of the Group. During the year 2016, the Group was of the opinion that its share of the profit and other comprehensive income of Hua Xia Bank for the period from 17 November 2016 (the date at which point the Group had significant influence on Hua Xia Bank) to 31 December 2016 was not material to the Group's operating results for the year ended 31 December 2016 and financial position as at 31 December 2016. Therefore, the Group had not applied equity accounting for its share of profit or other comprehensive income since Hua Xia Bank became its associate till 31 December 2016.

25. INVESTMENTS IN ASSOCIATES (*continued*)

Summarised financial information of material associates (*continued*)

PICC Health

	31 December 2017 RMB million	31 December 2016 RMB million
Total assets	43,095	45,227
Total liabilities	37,463	39,548
Equity attributable to		
Equity holders of PICC Health	5,632	5,679
Non-controlling interests	–	–
Total equity	5,632	5,679

25. INVESTMENTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

PICC Health (continued)

	2017 RMB million	Period from 1 July 2016 to 31 December 2016 RMB million
Revenue	20,199	5,187
Profit attributable to		
Equity holders of PICC Health	7	206
Non-controlling interests	–	–
Profit for the year/period	7	206
Other comprehensive expense attributable to equity holders of PICC Health	(73)	(192)
Other comprehensive expense for the year/period	(73)	(192)
Total comprehensive (expense)/income attributable to		
Equity holders of PICC Health	(66)	14
Non-controlling interests	–	–
Total comprehensive (expense)/income for the year/period	(66)	14
Dividends received from the associate during the year/period	–	–

25. INVESTMENTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

PICC Health (continued)

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interests in PICC Health recognised in the consolidated financial statements:

	31 December 2017 <i>RMB million</i>	31 December 2016 <i>RMB million</i>
Net assets attributable to equity holders of PICC Health	5,632	5,679
Proportion of the Group's ownership interests in PICC Health	24.726%	24.726%
The Group's ownership interests in net assets of PICC Health	1,393	1,404
Net fair value adjustment to the investee's identifiable assets and liabilities	521	521
Amortisation of the investee's identifiable assets and liabilities recognised in fair value adjustments	(137)	(45)
Goodwill	578	578
Carrying amount of the Group's interests in PICC Health	2,355	2,458

26. SUBSIDIARIES

	Company	
	31 December	31 December
	2017	2016
	RMB million	RMB million
Unlisted shares, at cost	96	96

Particulars of the subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Equity interest and voting right held by the Group as at 31 December		Share capital registered/ paid-up capital	Principal activities
		2017	2016		
PICC Community Sales Service Company Limited*	PRC	100%	100%	50	Provision of insurance agency services
PICC Motor Insurance Sales Services Company Limited*	PRC	90%	90%	50	Provision of insurance agency services
PICC Haikou Training Center Company Limited*	PRC	100%	100%	0.1	Provision of training services

* Registered as limited companies under the PRC Company Law

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

	2017 RMB million	2016 RMB million
At 1 January	4,902	4,783
Transfers from property and equipment and prepaid land premiums (<i>notes 28 and 29</i>)	208	113
Fair value gain on revaluation of investment properties transferred from property and equipment and prepaid land premiums	184	275
Increase in fair value of investment properties during the year (<i>note 9</i>)	59	148
Transfer to property and equipment (<i>note 28</i>)	(377)	(417)
At 31 December	4,976	4,902
Hierarchy of fair value:		
Level 3	4,976	4,902

The Group is still in the process of applying for title certificates for investment properties with a carrying value of RMB203 million as at 31 December 2017 (31 December 2016: RMB136 million).

As at 31 December 2017 and 31 December 2016, none of the Group's investment properties were pledged to secure general banking facilities granted to the Group.

On 31 December 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.

27. INVESTMENT PROPERTIES (*continued*)

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.

On 31 December 2016, the fair values were determined based on the valuation carried out by an external independent valuer, DTZ DEBENHAM TIE LEUNG Ltd.. Valuations were carried out by the following two approaches:

- (i) The direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market; or
- (ii) Capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainties in the amount and timing of the cash flows.

The independent valuer usually determines the fair value of the investment properties as a weighted average of valuations produced by these two approaches according to his professional judgment. Therefore, these fair values were categorised as Level 3.

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 2017 (31 December 2016: 4% to 8%). 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. 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 RMB273 million (2016: RMB256 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 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)
Charge 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 AMOUNT					
At 31 December 2017	11,186	928	1,194	2,223	15,531
COST					
At 1 January 2016	14,630	1,526	6,392	2,025	24,573
Additions	199	365	663	920	2,147
Transfers	960	–	4	(964)	–
Transfers from investment properties (note 27)	417	–	–	–	417
Transfers to investment properties (note 27)	(159)	–	–	–	(159)
Disposals	(42)	(163)	(316)	(7)	(528)
At 31 December 2016	16,005	1,728	6,743	1,974	26,450
ACCUMULATED DEPRECIATION					
At 1 January 2016	(4,462)	(966)	(5,035)	–	(10,463)
Charge for the year (note 11)	(566)	(223)	(784)	–	(1,573)
Transfers to investment properties (note 27)	85	–	–	–	85
Disposals	21	151	306	–	478
At 31 December 2016	(4,922)	(1,038)	(5,513)	–	(11,473)
NET BOOK AMOUNT					
At 31 December 2016	11,083	690	1,230	1,974	14,977

As at 31 December 2017, certain acquired buildings of the Group with a net book amount of RMB443 million (31 December 2016: RMB516 million) were still in the process of title registration.

29. PREPAID LAND PREMIUMS

	2017 RMB million	2016 RMB million
At 1 January	3,185	3,351
Additions	27	50
Amortisation recognised during the year (note 11)	(149)	(147)
Transfers to investment properties (note 27)	(30)	(39)
Disposal	(10)	(30)
At 31 December	3,023	3,185

30. DEFERRED TAX

The movements in deferred tax assets and liabilities are as follows:

	Impairment losses on financial assets RMB million	Revaluation of available- for-sale investments 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 the income statement during the year (note 14)	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 the income statement during the year (note 14)	-	-	-	-	-	(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

30. DEFERRED TAX (continued)

	Impairment losses on financial assets <i>RMB million</i>	Revaluation of available- for-sale investments <i>RMB million</i>	Cash flow hedging <i>RMB million</i>	Insurance contract liabilities <i>RMB million</i>	Salaries and staff welfare payables <i>RMB million</i>	Revaluation of investment properties <i>RMB million</i>	Others <i>RMB million</i>	Total <i>RMB million</i>
Deferred tax assets								
At 1 January 2016	890	-	-	2,284	1,075	-	538	4,787
Deferred tax credited/ (charged) to the income statement during the year (note 14)	134	-	-	2,683	(104)	-	185	2,898
Gross deferred tax assets at 31 December 2016	1,024	-	-	4,967	971	-	723	7,685
Deferred tax liabilities								
At 1 January 2016	-	(3,393)	(2)	-	-	(1,210)	(220)	(4,825)
Deferred tax (charged)/ credited to the income statement during the year (note 14)	-	-	-	-	-	(37)	73	36
Deferred tax credited/ (charged) to other comprehensive income during the year	-	1,050	1	-	-	(69)	-	982
Gross deferred tax liabilities at 31 December 2016	-	(2,343)	(1)	-	-	(1,316)	(147)	(3,807)
Net deferred tax assets at 31 December 2016								3,878

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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 2017, term deposits containing an amount of RMB1,483 million (31 December 2016: RMB1,216 million) were subject to various restrictions. These deposits are managed in specific bank accounts according to requirements of certain local government 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 2017 RMB million	31 December 2016 RMB million
Reinsurance payables	17,319	16,443

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 RMB303 million (31 December 2016: RMB131 million) and an associate of RMB1,081 million (31 December 2016: Nil), respectively. Please refer to note 48(c) for details.

33. ACCRUED INSURANCE SECURITY FUND

	2017 RMB million	2016 RMB million
At 1 January	834	741
Accrued during the year (note 7)	2,683	2,398
Paid during the year	(2,559)	(2,305)
At 31 December	958	834

33. ACCRUED INSURANCE SECURITY FUND *(continued)*

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% (2016: 6%) of the Group's total assets as determined in accordance with PRC accounting standards. CISF was established to provide protection for policyholders when an insurance company in China was in financial troubles.

Insurance companies are required to deposit their insurance security fund in bank accounts designated by the CIRC on a quarterly basis.

34. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2017 RMB million	31 December 2016 RMB million
Transactions by market places:		
Stock exchange	11,953	11,924
Inter-bank market	11,168	9,106
	23,121	21,030

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 2017, the carrying amount and fair value of securities deposited in the collateral pool was RMB26,205 million and RMB26,166 million (31 December 2016: RMB17,354 million and RMB17,426 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 exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

As at 31 December 2017, bonds with carrying amount and fair value of RMB11,555 million and RMB11,528 million (31 December 2016: RMB9,539 million and RMB10,034 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 transaction.

35. OTHER LIABILITIES AND ACCRUALS

	31 December 2017 RMB million	31 December 2016 RMB million
Premiums received in advance (note)	18,135	13,854
Salaries and staff welfare payables	9,711	9,551
Commission payable	7,342	6,843
Claims payable	3,066	3,529
Premium payable	3,005	2,170
Interest payable	164	163
Accrued capital expenditure	772	395
Amounts due to fellow subsidiaries (note 48(c))	102	91
Others	13,055	11,519
	55,352	48,115

Note:

Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2017 and 31 December 2016, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

36. INSURANCE CONTRACT LIABILITIES

	31 December 2017 RMB million	31 December 2016 RMB million
Unearned premium reserves	126,110	114,275
Loss and loss adjustment expense reserves	138,638	127,818
	264,748	242,093

36. INSURANCE CONTRACT LIABILITIES *(continued)*

The movements in insurance contract liabilities and their corresponding reinsurance assets are set out below:

	2017			2016		
	Gross amount <i>RMB million</i>	Reinsurers' share <i>RMB million</i> <i>(note 21)</i>	Net amount <i>RMB million</i>	Gross amount <i>RMB million</i>	Reinsurers' share <i>RMB million</i> <i>(note 21)</i>	Net amount <i>RMB million</i>
Unearned premium reserves						
At 1 January	114,275	(10,154)	104,121	102,915	(9,307)	93,608
Increase during the year	266,011	(19,151)	246,860	238,846	(20,726)	218,120
Release during the year	(254,176)	19,558	(234,618)	(227,486)	19,879	(207,607)
At 31 December	126,110	(9,747)	116,363	114,275	(10,154)	104,121
Loss and loss adjustment expense reserves						
At 1 January	127,818	(20,553)	107,265	114,373	(17,119)	97,254
Increase during the year	210,573	(18,077)	192,496	193,926	(22,183)	171,743
Release during the year	(199,753)	18,967	(180,786)	(180,481)	18,749	(161,732)
At 31 December	138,638	(19,663)	118,975	127,818	(20,553)	107,265
Total insurance contract liabilities	264,748	(29,410)	235,338	242,093	(30,707)	211,386

37. POLICYHOLDERS' DEPOSITS

As at 31 December 2017, 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 2017 RMB million	31 December 2016 RMB million
Interest-bearing deposits	598	625
Non-interest-bearing deposits	1,698	1,705
	2,296	2,330

For the years ended 31 December 2017 and 2016, 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 of three or five years, 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

As at 31 December 2017, bonds payable comprised of subordinated debts and capital supplementary bonds.

	31 December 2017 RMB million	31 December 2016 RMB million
Subordinated debts:		
Carrying amount repayable		
More than five years	8,213	8,133
Capital supplementary bonds:		
Carrying amount repayable		
More than five years	15,049	14,979
	23,262	23,112

38. BONDS PAYABLE (continued)

On 24 October 2014, the Company issued subordinated debts of RMB8,000 million.

On 3 June 2016, the Company exercised the redemption rights of subordinated debts of RMB5,000 million issued on 3 June 2011 and fully redeemed the subordinated debts.

On 23 November 2016, the Company issued capital supplementary bonds of RMB15,000 million.

On 19 December 2016, the subordinated debts of RMB3,000 million issued by the Company became due on 19 December 2006.

Terms of the subordinated debts of the Company are ten years. With proper notice to the counterparties, the Group 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% in the first five years and 7.75% in the second five years.

Terms of the capital supplementary bonds of the Company are ten years. With proper notice to the counterparties, the Group 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 second five years.

39. ISSUED CAPITAL

	31 December 2017 RMB million	31 December 2016 RMB million
Issued and fully paid:		
Domestic shares of RMB1.00 each	10,229	10,229
H shares of RMB1.00 each	4,599	4,599
	14,828	14,828

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, derivative financial assets, 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 2017 RMB million	31 December 2016 RMB million	31 December 2017 RMB million	31 December 2016 RMB million
Financial Assets				
Derivative financial assets	–	3	–	3
Held-for-trading				
– Equity securities and mutual funds	5,792	10,543	5,792	10,543
– Debt securities	1,847	3,251	1,847	3,251
Available-for-sale				
– Equity securities and mutual funds	58,909	56,495	58,909	56,495
– Debt securities	109,973	65,743	109,973	65,743
Held-to-maturity investment				
– Debt securities	41,908	41,651	42,272	44,465
Loans and receivables				
– Cash and cash equivalents	34,688	25,144	34,688	25,144
– Term deposits	61,300	68,286	61,300	68,286
– Investments classified as loans and receivables	51,180	63,855	52,001	67,086
– Insurance receivables, net	37,845	30,479	37,845	30,479
– Other assets	13,536	13,108	13,536	13,108
Total financial assets	416,978	378,558	418,163	384,603
Financial liabilities				
Other financial liabilities, at amortised cost				
– Payables to reinsurers	17,319	16,443	17,319	16,443
– Accrued insurance security fund	958	834	958	834
– Securities sold under agreements to repurchase	23,121	21,030	23,121	21,030
– Policyholders' deposits	2,296	2,330	2,296	2,330
– Bonds payable	23,262	23,112	22,012	23,986
– Other liabilities	20,995	19,297	20,995	19,297
Total financial liabilities	87,951	83,046	86,701	83,920

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.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(a) Fair value of 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 2017 and 31 December 2016 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

31 December 2017	Fair value hierarchy			Total RMB million
	Level 1 RMB million	Level 2 RMB million	Level 3 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

40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(2) Determination of fair value and the fair value hierarchy of financial instruments (continued)

(a) Fair value of financial assets and financial liabilities not measured at fair value (continued)

31 December 2016	Fair value hierarchy			Total RMB million
	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	
Financial assets				
– Held-to-maturity investments	407	44,058	–	44,465
– Investments classified as loans and receivables	–	67,086	–	67,086
Financial liabilities				
– Bonds payable	–	23,986	–	23,986

The fair values of the financial assets and financial liabilities classified under Level 2 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

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 and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, their fair value hierarchy, valuation technique(s) and key input(s) used).

Financial assets/financial liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)
	2017	2016		
	RMB million	RMB million		
Trading debt securities	505	131	Level 1	Quoted bid prices in an active market.
Trading debt securities	1,342	3,120	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	5,792	10,543	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	7,181	7,576	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	102,792	58,167	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	41,475	45,388	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	10,147	5,322	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	3,060	3,064	Level 3	The fair value is determined with reference to the quoted market price or latest transaction price.
Available-for-sale equity securities and mutual funds	2,485	1,021	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	1,742	1,700	Level 3	Fair value of the investments is based on the use of internal valuation models.
Derivative financial assets-interest rate swaps	-	3	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contractual interest rates, discounted at a rate that reflects the credit risk of the Group.

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 and financial liabilities that are measured at fair value on a recurring basis (continued)

31 December 2017	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Financial assets held for trading				
– 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

31 December 2016	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Derivative financial assets				
– Interest rate swaps	–	3	–	3
Financial assets held for trading				
– Equity securities and mutual funds	10,543	–	–	10,543
– Debt securities	131	3,120	–	3,251
Available-for-sale financial assets				
– Equity securities and mutual funds	45,388	5,322	5,785	56,495
– Debt securities	7,576	58,167	–	65,743
	63,638	66,612	5,785	136,035

For the year ended 31 December 2017, available-for-sale debt securities with a carrying amount of RMB2,365 million (2016: RMB960 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 RMB1,154 million (2016: RMB1,565 million) were transferred from Level 2 to Level 1 because quoted prices in active markets were available as at 31 December 2017.

There were no transfers into Level 3 in 2017 and 2016.

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 and financial liabilities 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 reasonable possible changes in unobservable inputs used in the sensitivity analysis.

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale financial assets	
	2017 RMB million	2016 RMB million
At 1 January	5,785	19,977
Addition	998	827
Transfer out of Level 3 (note)	(205)	(15,851)
Unrealised gains recognised in other comprehensive income	710	832
At 31 December	7,288	5,785

Note:

During the year ended 31 December 2017, 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 RMB205 million from Level 3 to Level 1.

On 7 January 2016, the lock-up period of Industrial Bank Co., Ltd. ("IBC") shares expired, and consequently the Group transferred the IBC shares with a carrying amount of RMB15,851 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 insurance 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:

(in RMB million)	31 December 2017	31 December 2016
Actual capital	154,590	140,793
Core capital	127,326	113,864
Minimum capital	55,552	49,071
Comprehensive solvency margin ratio (%)	278%	287%
Core solvency margin ratio (%)	229%	232%

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the CIRC. These capital requirements are generally known as solvency requirements in the insurance industry and specifically known as C-ROSS in China.

Insurance companies comply with requirements on both the core capital and actual capital (sum of core and supplementary capital). Under C-ROSS, the minimum capital is calculated by formula prescribed by the CIRC. The minimum capital requirements is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For 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 core capital and actual capital divided by the minimum capital requirements, respectively. Comprehensive and core solvency margin ratio have to be higher than 100% and 50% for compliance with the solvency requirements.

CIRC can take a number of regulatory measures against any insurance company non-compliant with the solvency requirements. These regulatory measures include restriction on business scope, dividend distributions, investment strategy; order to transfer business or place reinsurance; removal of senior executives of the insurance companies.

42. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of SARs for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H shares). 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.

SARs will be granted in units with each unit representing one H share. SARs granted in aggregate may not exceed 10% of the issued share capital at any time, and SARs granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of SARs units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

Under the SARs scheme, all SARs are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversaries of the date of grant, the total number of units of SARs exercised may not, in aggregate, exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SARs granted to such person. Thereafter, SARs which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her SAR will be fully vested immediately.

The exercise price of the SARs initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SARs subsequently granted is equal to the higher of (i) the closing price of the H shares on the date of grant; and (ii) the average closing price of the H shares on the five consecutive trading days before the date of grant. Upon exercise of the SARs, the person will receive cash payment, subject to any applicable withholding tax, equal to the sum of the number of units of SARs exercised and the difference between the exercise price and market price of H shares at the time of exercise.

In compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CIRC, the Company decided to suspend the scheme in 2008 except for SARs granted to anyone who is not a Mainland Chinese resident.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

(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

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:

	2017		2016	
	Gross written premiums RMB million	Net written premiums RMB million	Gross written premiums RMB million	Net written premiums RMB million
Coastal and developed provinces/cities	156,727	141,985	141,930	126,894
Western China	76,344	70,479	66,927	60,695
Northern China	44,743	42,044	40,178	36,928
Central China	51,032	47,808	42,620	39,119
North-eastern China	21,468	19,002	19,505	17,138
Total	350,314	321,318	311,160	280,774

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(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	Case estimates of individual large claims multiplied by an IBNR ratio
Other treaties	Incurred claims loss development method and Bornhuetter-Ferguson 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 affect the estimates. The rates used for discounting long-tailed liabilities were 3.6% – 3.9% and 3.6% – 4.0% for 2017 and 2016, 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.

The sensitivity of certain variables like legislative change and uncertainty in the estimation process is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the loss and loss adjustment expense reserves are not quantifiable with certainty at the end of the reporting period.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (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 gross basis:

	Accident year-gross					Total
	2013	2014	2015	2016	2017	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Estimated cumulative claims paid as of:						
End of current year	138,282	150,767	168,697	191,668	210,232	859,646
One year later	138,263	149,790	167,879	192,274		648,206
Two years later	139,879	148,778	167,467			456,124
Three years later	139,842	149,249				289,091
Four years later	139,019					139,019
Estimated cumulative claims	139,019	149,249	167,467	192,274	210,232	858,241
Cumulative claims paid	(136,772)	(141,927)	(157,875)	(172,831)	(129,776)	(739,181)
Sub-total						119,060
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						19,578
Unpaid claim expenses						138,638

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (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					Total
	2013	2014	2015	2016	2017	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Estimated cumulative claims paid as of:						
End of current year	120,084	131,379	150,312	170,712	192,690	765,177
One year later	119,921	130,993	149,618	170,727		571,259
Two years later	119,959	130,218	148,973			399,150
Three years later	119,775	130,626				250,401
Four years later	118,980					118,980
Estimated cumulative claims	118,980	130,626	148,973	170,727	192,690	761,996
Cumulative claims paid	(117,172)	(124,387)	(141,196)	(156,229)	(121,944)	(660,928)
Sub-total						101,068
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						17,907
Unpaid claim expenses						118,975

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 OBJECTIVES AND POLICIES (*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 ended 31 December 2017, the Group's premiums ceded to the top three reinsurance companies amounted to RMB12,084 million (2016: RMB14,217 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

(b) Financial risks

(1) *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause 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 of credit risk.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (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 and 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 2017, the top three reinsurance companies owed an aggregate amount of RMB7,546 million (31 December 2016: RMB7,870 million) to the Group.

The carrying amounts of financial assets included on the consolidated statement of financial position best represent the maximum credit risk exposure at the reporting date without taking account of any collaterals held or other credit enhancements.

An aged analysis of the financial assets past due but not impaired and impaired financial assets is shown as follows:

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
Total	362,885	1,617	3,599	8,857	14,073	8,807	385,765
Less: Impairment provision	-	-	-	-	-	(4,078)	(4,078)
Net	362,885	1,617	3,599	8,857	14,073	4,729	381,687

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Financial risks (continued)

(1) Credit risk (continued)

31 December 2016	Not past due RMB million	Past due but not impaired			Sub- total RMB million	Past due and impaired RMB million	Total RMB million
		Less than 30 days RMB million	31 to 90 days RMB million	More than 90 days RMB million			
Cash and cash equivalents	25,144	-	-	-	-	-	25,144
Term deposits	68,286	-	-	-	-	-	68,286
Derivative financial assets	3	-	-	-	-	-	3
Debt securities	110,645	-	-	-	-	-	110,645
Insurance receivables	18,996	1,418	3,305	3,962	8,685	6,016	33,697
Reinsurance assets	30,707	-	-	-	-	-	30,707
Investments classified as							
loans and receivables	63,855	-	-	-	-	-	63,855
Other financial assets	9,498	1,350	478	1,782	3,610	558	13,666
Total	327,134	2,768	3,783	5,744	12,295	6,574	346,003
Less: Impairment provision	-	-	-	-	-	(3,776)	(3,776)
Net	327,134	2,768	3,783	5,744	12,295	2,798	342,227

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds, and most of the debt securities are guaranteed by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2017, 100% (31 December 2016: 100%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2017, 98.82% (31 December 2016: 98.59%) 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 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 2017 and 2016.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk *(continued)*

Collateral and other credit enhancements

The amount and type of collateral required depends 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 an impairment valuation 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 2017, the Group maintained demand deposits and term deposits with original maturity of no more than three months at 3% of total assets (31 December 2016: 4%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

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 liabilities are prepared using the contractual collection or repayment dates.

All amounts are based on undiscounted contractual cash flows.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (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	13,664	21,059	-	-	-	-	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	17,135	9,091	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	32,846	46,573	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

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Financial risks (continued)

(2) Liquidity or funding risk (continued)

Maturity profiles of financial assets and financial liabilities (continued)

31 December 2016	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	18,598	6,549	–	–	–	–	25,147
Derivative financial assets	–	–	1	1	–	–	2
Debt securities							
– Available- for- sale	–	4,132	16,813	36,908	17,730	–	75,583
– Held- for- trading	–	1,480	598	964	332	–	3,374
– Held- to- maturity	–	125	1,264	10,801	57,999	–	70,189
Equity securities and mutual funds	–	–	–	–	–	67,038	67,038
Insurance receivables, net	11,840	10,394	5,120	3,037	88	–	30,479
Term deposits	–	7,967	7,663	51,904	12,009	–	79,543
Investments classified as loans and receivables	–	11,535	22,224	21,205	22,595	–	77,559
Other financial assets	1,574	3,746	4,303	3,666	307	–	13,596
Total financial assets	32,012	45,928	57,986	128,486	111,060	67,038	442,510
Financial liabilities:							
Payables to reinsurers	9,028	6,332	700	363	20	–	16,443
Accrued insurance security fund	–	834	–	–	–	–	834
Securities sold under agreements to repurchase	–	21,046	–	–	–	–	21,046
Policyholders' deposits	1,766	–	–	567	–	–	2,333
Bonds payable	–	–	859	4,350	28,247	–	33,456
Other financial liabilities	2,212	13,116	2,327	1,578	65	–	19,298
Total financial liabilities	13,006	41,328	3,886	6,858	28,332	–	93,410

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Financial risks (continued)

(2) Liquidity or funding risk (continued)

Maturity profiles of reinsurance assets and insurance 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 can deviate from the analysis presented below.

The table below summarises maturity profiles of reinsurance assets and insurance liabilities of the Group.

All amounts are based on undiscounted contractual cash flows.

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

31 December 2016	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	-	5,800	14,523	7,658	3,021	-	31,002
Insurance contract liabilities	-	41,040	143,708	20,009	38,005	-	242,762

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (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 2017			31 December 2016		
	Current*	Non-current	Total	Current*	Non-current	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and cash equivalents	34,688	-	34,688	25,144	-	25,144
Derivative financial assets	-	-	-	-	3	3
Debt securities	94,620	59,108	153,728	68,994	41,651	110,645
Equity securities and mutual funds	56,122	8,579	64,701	61,458	5,580	67,038
Insurance receivables, net	32,367	5,478	37,845	27,354	3,125	30,479
Reinsurance assets	19,140	10,270	29,410	20,160	10,547	30,707
Term deposits	166	61,134	61,300	12,846	55,440	68,286
Investments classified as loans and receivables	2,238	48,942	51,180	30,570	33,285	63,855
Prepayments and other assets	14,101	5,011	19,112	10,921	4,884	15,805
Investments in associates	-	41,832	41,832	-	37,045	37,045
Investment properties	-	4,976	4,976	-	4,902	4,902
Property and equipment	-	15,531	15,531	-	14,977	14,977
Prepaid land premiums	-	3,023	3,023	-	3,185	3,185
Deferred tax assets	-	7,240	7,240	-	3,878	3,878
Total assets	253,442	271,124	524,566	257,447	218,502	475,949
Payables to reinsurers	16,890	429	17,319	16,060	383	16,443
Accrued insurance security fund	958	-	958	834	-	834
Securities sold under agreements to repurchase	23,121	-	23,121	21,030	-	21,030
Income tax payable	4,396	-	4,396	2,680	-	2,680
Other liabilities and accruals	49,971	5,381	55,352	45,142	2,973	48,115
Insurance contract liabilities	205,095	59,653	264,748	184,429	57,664	242,093
Policyholders' deposits	2,144	152	2,296	1,766	564	2,330
Bonds payable	-	23,262	23,262	-	23,112	23,112
Total liabilities	302,575	88,877	391,452	271,941	84,696	356,637

* Expected recovery or settlement within 12 months from the end of each reporting period.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (*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) and 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 OBJECTIVES AND POLICIES (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 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
Term deposits	61,161	139	-	-	61,300
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
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

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2016	RMB in million	USD in million	HKD in million	Others in million	Total in million
Cash and cash equivalents	21,652	3,308	178	6	25,144
Term deposits	68,216	70	–	–	68,286
Derivative financial assets	3	–	–	–	3
Debt securities	109,792	853	–	–	110,645
Equity securities and mutual funds	65,388	632	1,018	–	67,038
Insurance receivables, net	25,980	4,406	17	76	30,479
Reinsurance assets	29,547	1,133	5	22	30,707
Investments classified as loans and receivables	63,855	–	–	–	63,855
Other financial assets	12,985	120	2	1	13,108
Total assets	397,418	10,522	1,220	105	409,265
Payables to reinsurers	14,437	1,959	7	40	16,443
Accrued insurance security fund	834	–	–	–	834
Securities sold under agreements to repurchase	21,030	–	–	–	21,030
Insurance contract liabilities	240,211	1,803	22	57	242,093
Policyholders' deposits	2,330	–	–	–	2,330
Bonds payable	23,112	–	–	–	23,112
Other financial liabilities	18,473	801	29	(5)	19,298
Total liabilities	320,427	4,563	58	92	325,140

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(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 2017		31 December 2016	
		Impact on profit	Impact on equity	Impact on profit	Impact on equity
		RMB million	RMB million	RMB million	RMB million
USD	5%	200	272	224	298
USD	(5%)	(200)	(272)	(224)	(298)

(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.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Financial risks (continued)

(3) Market risk (continued)

(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 listing equity securities and mutual fund whose values will fluctuate as a result of changes in market prices.

The Group holds a diversified portfolio of equity instruments and therefore do not have significant concentration risk in any particular individual instrument. However, the Group principally invest in the stock markets of Hong Kong and Mainland China and is subject to price risk arising from volatilities of these two markets.

The Group's price risk policy requires 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.

The Group uses VaR methodology to measure the expected maximum loss in respect of interest rate risk for bond investments measured at fair value and 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 (2016: 10 trading days) at a confidence level of 99% (2016: 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 in 10 days. The said assumption may not be correct in reality, especially via market which lacks liquidity.

	31 December 2017 RMB million	31 December 2016 RMB million
Interest rate VaR	446	557
Equity price VaR	2,005	1,944

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 <i>RMB million</i> <i>(note 34)</i>	Interest payable <i>RMB million</i> <i>(note 35)</i>	Policyholders' deposits <i>RMB million</i> <i>(note 37)</i>	Bonds payable <i>RMB million</i> <i>(note 38)</i>	Total <i>RMB million</i>
At 1 January 2017	21,030	163	2,330	23,112	46,635
Financing cash flows	2,091	(1,849)	(34)	–	208
Finance costs	–	1,848	–	150	1,998
Interest expenses credited to policyholders' deposits	–	2	–	–	2
At 31 December 2017	23,121	164	2,296	23,262	48,843

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.

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

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 (2016: 2 to 20 years).

Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
Within one year	215	228
In the second to fifth years, inclusive	302	381
After five years	67	153
	584	762

(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 2017 RMB million	31 December 2016 RMB million
Within one year	296	294
In the second to fifth years, inclusive	962	767
After five years	259	349
	1,517	1,410

47. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 46 above, the Group had the following capital commitments at the end of the year:

	31 December 2017 RMB million	31 December 2016 RMB million
Contracted, but not provided for: Property and equipment	1,889	2,303

48. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	2017 RMB million	2016 RMB million
Transactions with the holding company:			
2016 Final dividend distribution	(i)	3,161	–
2015 Final dividend distribution	(i)	–	3,110
Rental expense and WAN service fees	(ii)	94	92
Transactions with fellow subsidiaries:			
Management fee	(iii)	183	168
Subscription amount of financial products set up and managed by fellow subsidiaries	(iii)	2,946	1,054
Premiums ceded	(iv)	415	481
Reinsurance commission income	(iv)	213	203
Paid losses recoverable from reinsurers	(iv)	252	274
Reinsurance premiums assumed	(iv)	6	6
Commission expenses – reinsurance	(iv)	1	1
Gross claims paid – reinsurance	(iv)	7	1
Brokerage commission expense	(v)	188	96
Transactions with associates:			
Agency services commission received	(vi), (vii)	207	128
Agency services commission paid	(vi), (vii)	435	258
Premiums paid	(viii)	59	3
Interest income	(x)	356	58
Premiums ceded	(xi)	3,170	–
Reinsurance commission income	(xi)	1,039	–
Paid losses recoverable from reinsurers	(xi)	405	–
Premium income	(x)	2	–
Claims paid	(x)	34	–
Commission expense	(x)	1	–
Dividend income	(x)	387	–
Transactions with an associate of PICC Group:			
Interest income	(ix)	614	115
Dividend income	(ix)	775	775
Interest expense	(ix)	30	30
Premium income	(ix)	12	11
Claims paid	(ix)	11	82
Commission expense	(ix)	13	7

48. RELATED PARTY TRANSACTIONS (*continued*)

(a) Material transactions with related parties (*continued*)

Notes:

- (i) 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.

On 24 June 2016, the shareholders of the Company at a general meeting approved a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million for the year ended 31 December 2015. As PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB3,110 million to PICC Group.

- (ii) On 1 January 2016, the Company and PICC Group entered into an 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. Pursuant to the agreement, the Company uses the WAN services provided by PICC Group in South Information Center and the services include renting out, check-up and maintenance services on the WAN equipment as well as the WAN technical support services fixed by the two parties. The Company paid the WAN service fees to PICC Group, by reference to the relevant costs of PICC Group for renting out the 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 19 December 2015 and 23 June 2016, the Company and PICC AMC renewed the asset management agreement for 6 months, effective from 1 January 2016 to 30 June 2016, and for 3 years, effective from 1 July 2016 to 30 June 2019, respectively. 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 Investment Management Company Limited and PICC Investment Holding Company Limited, 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)*

(a) Material transactions with related parties *(continued)*

Notes: *(continued)*

- (iv) On 28 March 2016, the Company and PICC HK renewed the Framework Agreement on Reinsurance Business Cooperation ("Framework Agreement") for a term of one year, effective from 1 January 2016 to 31 December 2016. On 7 March 2017, the Company and PICC HK further renewed the Framework Agreement for one year, effective from 1 January 2017 to 31 December 2017. 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 2013, the Company and Zhongsheng International Insurance Brokers Co., Ltd. ("ZSIB") entered into an agreement for a term of three years, effective from 17 June 2013 to 16 June 2016. 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 17 June 2016, the Company and ZSIB further renewed the agreement for three years, effective from 17 June 2016 to 16 June 2019.
- (vi) On 30 August 2013, the Company and PICC Health entered into a renewed mutual insurance agency agreement for a term of three years, effective from 31 August 2013 to 30 August 2016. 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. On 30 August 2016, the Company and PICC Health further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019.

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".

- (vii) On 30 August 2013, the Company and PICC Life entered into a renewed mutual insurance agency agreement for a term of three years, effective from 31 August 2013 to 30 August 2016. 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. On 30 August 2016, the Company and PICC Life further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2016 to 30 August 2019.

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".

48. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes: *(continued)*

- (viii) On 5 December 2013, the Company and PICC Life entered into a Framework Agreement pursuant to which the Company agreed to purchase life insurance products from PICC Life for the employees of the Company. The said agreement commenced from 1 January 2013 to 31 December 2015 for a term of three years.
- (ix) 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 Company Limited ("China Merchant Securities") are related party transactions as China Merchant Securities is an associate of PICC Group since 26 May 2017.
- (x) The transactions with Hua Xia Bank are related party transactions as Hua Xia Bank is an associate of the Company since 17 November 2016.
- (xi) On 16 May 2017, the Company and PICC Reinsurance Company Limited ("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 (xi) above constitute continuing connected transactions.

(b) 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.

48. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

	31 December 2017 RMB million	31 December 2016 RMB million
Cash and cash equivalents:		
An associate	56	2
An associate of PICC Group	797	41
Term deposits:		
An associate	6,500	8,500
An associate of PICC Group	10,544	10,927
Debt securities:		
An associate of PICC Group	3,158	1,870
Equity securities:		
An associate of PICC Group	21,558	20,279
Receivables from reinsurers:		
A fellow subsidiary (note 20)	349	117
An associate (note 20)	588	–
Loans and receivables:		
An associate of PICC Group	–	2,900
Due from related parties:		
PICC Group (note 24)	53	64
Fellow subsidiaries (note 24)	57	11
An associate	1,125	208
An associate of PICC Group	560	107
Payables to reinsurers:		
A fellow subsidiary (note 32)	303	131
An associate (note 32)	1,081	–
Due to related parties:		
Fellow subsidiaries (note 35)	102	91
An associate of PICC Group	5	5
Bonds payable issued to:		
An associate of PICC Group	462	457

48. RELATED PARTY TRANSACTIONS (continued)

(c) 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.

(d) Compensation of key management

	2017 RMB'000	2016 (Restated) RMB'000
Fees, salaries and allowances	14,636	9,397
Performance related bonuses	–	11,290
Retirement benefits	2,812	2,382
Housing fund and other benefits	964	742
	18,412	23,811

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 2017 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 emoluments 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 2016 were restated based on the finalised amounts determined during 2017. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2016 amounting to RMB17 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 2017, interests in these consolidated structured entities held by the Company amounted to RMB338 million (31 December 2016: Nil).

The financial impact of these debt schemes on the Group's financial position as at 31 December 2017, 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 interest holders with consolidated structured entities are presented as investment income, investment related expenses and 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 RMB829 million as at 31 December 2017 (31 December 2016: Nil). The investment income, investment related expenses and finance costs amounted to RMB23 million, RMB17 million and RMB1 million for the year ended 31 December 2017 (31 December 2016: Nil).

(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 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.

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	

49. STRUCTURED ENTITIES *(continued)*

(b) Interests in unconsolidated structured entities *(continued)*

	31 December 2016		
	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	19,609	19,609	Investment income
Wealth management products	2,900	2,900	Investment income
Asset management products	2,100	2,100	Investment income
Equity schemes	1,325	1,325	Investment income
Managed by third parties:			
Long-term debt investment schemes	8,730	8,730	Investment income
Wealth management products	25,500	25,500	Investment income
Asset management products	1,516	1,516	Investment income
Equity schemes	2,502	2,502	Investment income
Mutual funds	28,805	28,805	Investment income
Trust plans	3,000	3,000	Investment income
Total	95,987	95,987	

50. EVENTS AFTER THE REPORTING PERIOD

On 23 March 2018, the Board of Directors of the Company proposed a final dividend of RMB0.338 per ordinary share for the year ended 31 December 2017, an amount of RMB6 billion to be appropriated to discretionary surplus reserve, and a conversion from share premium account to issued capital in a proportion of 5 shares for every 10 shares held.

All the events above are subject to the approval of shareholders' general meeting of the Company.

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) The Company's statement of financial position

	Notes	31 December 2017 RMB million	31 December 2016 RMB million
ASSETS			
Cash and cash equivalents		34,565	25,032
Term deposits		61,300	68,286
Derivative financial assets		–	3
Debt securities		153,728	110,645
Equity securities and mutual funds		64,701	67,038
Insurance receivables, net		37,845	30,479
Reinsurance assets		29,410	30,707
Investments classified as loans and receivables		50,346	63,855
Prepayments and other assets		19,112	15,805
Investments in associates		34,984	33,417
Subsidiaries	26	96	96
Investment properties		5,140	5,062
Property and equipment		15,491	14,935
Prepaid land premiums		3,022	3,184
Deferred tax assets		7,211	3,850
TOTAL ASSETS		516,951	472,394
LIABILITIES			
Payables to reinsurers		17,319	16,443
Accrued insurance security fund		958	834
Securities sold under agreements to repurchase		23,121	21,030
Income tax payable		4,403	2,685
Other liabilities and accruals		54,520	48,114
Insurance contract liabilities		264,719	242,074
Policyholders' deposits		2,296	2,330
Bonds payable		23,262	23,112
TOTAL LIABILITIES		390,598	356,622
EQUITY			
Issued capital		14,828	14,828
Reserves	51(b)	111,525	100,944
TOTAL EQUITY		126,353	115,772
TOTAL EQUITY AND LIABILITIES		516,951	472,394

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	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

	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 2016	18,986	2,737	10,174	6	30,804	7,527	1,885	20,959	93,078
Total comprehensive income/ (expense) for the year	-	206	(3,151)	(4)	-	-	-	15,323	12,374
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	1,810	1,810	-	(3,620)	-
2015 final dividend	-	-	-	-	-	-	-	(4,508)	(4,508)
At 31 December 2016	18,986	2,943	7,023	2	32,614	9,337	1,885	28,154	100,944

52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 23 March 2018.

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
“CIRC”	China Insurance Regulatory Commission
“Company”	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 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 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
“the People’s Bank of China, the CBRC, the CSRC and the CIRC”	The People’s Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission
“Year”	the year ended 31 December 2017
“ZSIB”	Zhongsheng International Insurance Brokers Co., Ltd.
“%”	per cent
“1+4”	“1” refers to the Notice of the China Insurance Regulatory Commission on Further Strengthening Insurance Regulation and Maintaining the Stable and Healthy Development of the Insurance Industry; and “4” refers to the Notice of the China Insurance Regulatory Commission on Further Strengthening the Risk Prevention and Control of the Insurance Industry, the Notice of the China Insurance Regulatory Commission on Enhancing Insurance Regulation, Cracking Down on Violations of Laws and Regulations and Addressing Market Irregularities, the Notice of the China Insurance Regulatory Commission on Fixing Weakness in Regulation and Developing a Rigorous, Effective Insurance Regulatory System and the Guiding Opinions of the China Insurance Regulatory Commission on the Support of the Insurance Industry for the Development of the Real Economy

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

Tower 2, No. 2 Jianguomenwai Avenue
Chaoyang District, Beijing 100022, the PRC

SECRETARY OF THE BOARD OF DIRECTORS

Zou Zhihong

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

Secretariat of the Board of Directors

Tel: (8610) 85176084

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WEBSITE

www.epicc.com.cn

AUDITORS

International Auditor

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

