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PICC

中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

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

(Stock Code: 2328)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board of Directors of PICC Property and Casualty Company Limited (the "Company") announces the audited results of the Company and its subsidiaries for the year ended 31 December 2020. This announcement sets out the full text of the 2020 Annual Report of the Company and fulfils the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

By Order of the Board
PICC Property and Casualty Company Limited
Luo Xi
Chairman

Beijing, the PRC, 23 March 2021

As at the date of this announcement, the Chairman of the Board is Mr. Luo Xi (non-executive director), the Vice Chairman of the Board is Mr. Xie Yiqun (executive director), Mr. Li Tao is a non-executive director, Mr. Jiang Caishi is an executive director, and the independent non-executive directors are Mr. Lin Hanchuan, Mr. Lo Chung Hing, Mr. Ma Yusheng, Mr. Chu Bende and Ms. Qu Xiaohui.

Company Profile

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

PRINCIPAL ACTIVITIES

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

Contents

* 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					
	2020	2019	Change	2018	2017	2016
	RMB million	*RMB million*	*%*	*RMB million*	*RMB million* *(Restated)*	*RMB million*
Gross written premiums	**433,187**	433,175	–	388,769	350,314	311,160
Underwriting profit	**4,177**	3,177	31.5	5,304	8,705	5,024
Investment income	**17,709**	16,986	4.3	16,635	15,382	15,073
Net realised and unrealised gains/ (losses) on investments	**1,520**	733	107.4	(1,226)	1,136	922
Share of profits or losses of associates and joint venture	**3,951**	4,250	-7.0	4,482	4,575	2,945
Profit before tax	**24,676**	23,783	3.8	23,428	27,161	22,451
Income tax (expense)/credit	**(3,808)**	496	–	(7,942)	(7,353)	(4,430)
Profit for the year	**20,868**	24,279	-14.0	15,486	19,808	18,021

In 2018, the Company and its subsidiaries amended its compositions of underwriting profit based on industry practice. The Company and its subsidiaries reclassified certain other income and other expenses which will no longer be eligible for inclusion in underwriting profit. Prior year comparative figures have been revised accordingly, resulting in a reduction in underwriting profit of RMB590 million for the year ended 31 December 2017. Figures of 2016 have not been restated.

ASSETS AND LIABILITIES

	At 31 December					
	2020	2019	Change	2018	2017	2016
	RMB million	*RMB million*	*%*	*RMB million*	*RMB million*	*RMB million*
Total assets	**646,801**	596,081	8.5	550,619	524,566	475,949
Total liabilities	**456,770**	426,127	7.2	409,116	391,452	356,637
Total equity	**190,031**	169,954	11.8	141,503	133,114	119,312

Business Development Achieved Positive Growth

RMB 433,187 million
Gross written premiums

31.8%
Market share

Underwriting Profitability Improved

RMB 4,177 million
Underwriting profit

98.9%
Combined ratio

Total Investment Income Hit a New High

RMB 23,180 million
Total investment income

4.8%
Total investment yield

Overall Profitability Maintained Stable

RMB 24,676 million
Profit before tax

RMB 20,868 million
Profit for the year

Financial Strength Enhanced Steadily

RMB 646,801 million
Total assets

RMB 190,031 million
Total equity

Dividend Payout Ratio Remained Stable

RMB 0.375
Proposed dividend per share

40%
Dividend payout ratio

Company Honours

BUSINESS DEVELOPMENT STRENGTHS

21st Century Business Herald

Best Property Insurance Company of the Year 2020 in Asia

the property insurance company ranking the 1st for 12 consecutive years

BUSINESS DEVELOPMENT STRENGTHS

Top 100 Hong Kong Listed Companies Research Centre, Finet

Ranked 31st in the main list of "Top 100 in Comprehensive Strengths" of "HONG KONG STOCKS – TOP 100"

On list for 8 consecutive years

Moody's Investors Service

A1 Insurance financial strength rating (Stable Outlook)

the highest level among the domestic insurance companies

The Paper

Insurance Company of the Year (Property Insurance)

Financial Times

Best Insurance Company in Serving "Six Priorities" and Stability in Six Areas for the Year

the only awarded company in insurance industry

Shanghai Securities News

Excellent Insurance Protection Brand of the Year

CORPORATE SOCIAL RESPONSIBILITY

A Grand Gathering Marking the Nation's Poverty Alleviation Accomplishments

Anti-poverty Role Models

were awarded to "Jiangxi Le'an County-level Branch and Division of Insurance Poverty Alleviation of Department of Agriculture Insurance and Insurance Poverty Alleviation of the headquarter"

China Association for Disaster Prevention

Outstanding Contribution Award for Fighting against the Pandemic

the only awarded insurance company

Economic Media Association of China, China Times

Contribution Award for Targeted Poverty Alleviation of the Year 2020

the only awarded company in insurance industry

SERVICE AND TECHNOLOGY INNOVATION

China Banking and Insurance News

2019-2020 Golden Medal Service Institution
2019-2020 Model Medal Case of Service Innovation

was awarded to "Traffic Police and Insurer Joint Work"

Securities Times

2020 China Insurance Industry Innovation Ark Award

was awarded to "Traffic Police and Insurer Joint Work"

China Business News

Insurance Technology Innovation of the Year

IDC Financial Insights

Technology Application Scenario Innovation Award in China Financial Industry

was awarded to "Integrated Project of Agriculture Insurance Digital Transformation"

The Data Management Community (DAMA)

Data Governance Best Practice Award

was awarded to "The Construction of Data Resource Management System Based on Big Data Resource Centre"

Chairman's Statement

Mr. Luo Xi
Chairman

DEAR SHAREHOLDERS,

We pursue excellence in providing warm insurance services. The new era bestows new mission upon the people's insurance. In the face of tests and challenges, the Company has demonstrated resilience and perseverance and proceeded with the pursuit of excellent insurance with more prudence and stronger momentum.

The year of 2020 is an extraordinary year, and also marks the conclusion of the "Thirteenth Five-Year Plan". This year has witnessed the global outbreak of COVID-19, the severe recession in the world economy, and the accelerated transformation of the international landscape, while China's economy takes the lead in recovering and moving forward against the trend, showing strong resilience. The Company has worked with the people across the whole country to fight against the pandemic, stabilise the operation and prevent risks by firmly facilitating the capability construction, overcoming hardships and challenges brought by COVID-19, responding to the comprehensive reform of motor vehicle insurance business and solving all kinds of risk challenges, taking solid steps in high-quality development. In 2020, the original premium income of the Company has reached RMB432,019 million, representing a positive growth year-on-year, and maintaining the first position in terms of market share. The underwriting profit recorded a year-on-year increase of 31.5%; the net profit has exceeded the target set by the Board; and the return on equity (ROE) was 11.6%. In the context of the increasingly downward pressure on the economy, the Company proposed cash dividends of RMB0.375 per share to the shareholders. The Company was listed on the "Top 100 Companies in Comprehensive Strength" of "Hong Kong Stocks – Top 100" for 8 consecutive years, ranked the first among property insurance companies in the "Asian Insurance Competitiveness" for 12 consecutive years, and maintained the A1 Moody's credit rating, which is the highest rating among insurance companies in Chinese mainland.

Showing consolidarity in fighting against the pandemic, demonstrating the mission and responsibility of a central state-owned enterprise. In the face of the sudden pandemic of COVID-19, the Company rallied under the guide of the CPC Central Committee and devoted to the prevention and control of the pandemic. We promoted online services, upgraded insurance supply and expanded insurance coverage; organised donations and voluntary services; and supported the resumption of work and production with uninterrupted insurance services, shouldering the mission and responsibilities as a financial central state-owned enterprise with perseverance and warm-hearted services. The Company has received wide compliments from local governments and customers, nearly 50 provincial government leaders across the country giving affirmations to us for the non-reserved support for local governments to win the fight against the pandemic and the help on the resumption of work and production.

Serving the national significant strategies and providing guarantees for people's enjoyable life. In terms of serving the new development paradigm featuring the domestic and international dual circulations, the Company explored and developed the industrial insurance, expanded the coverages of the short-term export credit insurance and domestic trading credit insurance, and improved the first set of major technical equipment, technology insurance, patent insurance and other product systems. The Company has been awarded the "Best Insurance Company in Serving Six Priorities and Stability in Six Areas for the Year". **In terms of serving the rural rejuvenation and poverty alleviation,** the Company spurred the development of agriculture insurance by expanding the coverage, raising the standards and diversifying the products, and innovated the "Insurance +" poverty alleviation mode. The original premium income of agriculture insurance exceeded RMB35 billion. The Company was awarded the "Model Case of Financial Inclusion for Poverty Alleviation", becoming the only central state-owned enterprise in the industry which has been awarded the highest rating by the State Council Leading Group Office of Poverty Alleviation and Development for two consecutive years. **In terms of serving the public health,** the Company expanded the coverage of critical illness insurance, proactively developed the "urban insurance" business which contributes to both of the scale and profitability, and fostered a comprehensive health service pattern, with social medical insurance business covering 731 million people on a cumulative basis. **In terms of serving the social governance,** the Company promoted the construction of catastrophe insurance mechanism for public health emergencies, initially created the public health emergency assistance insurance, upgraded the "Insurance + Service" model, and launched the first domestic catastrophe insurance product covering typhoon and flood. **In terms of serving the consumption upgrades,** the Company established individual non-motor vehicle insurance department and developed a "worry-free" product system of individual non-motor vehicle insurance. The number of individual non-motor vehicle customers increased by 19.2% on a yearly basis.

Responding to the challenges of the comprehensive motor vehicle insurance reform and achieving excellence in both development and profitability of the motor vehicle insurance. In light of the logic of the comprehensive motor vehicle insurance reform, the Company built an industry-leading actuarial pricing model for motor vehicle insurance, strengthened the construction of online and offline direct sales teams, promoted the innovative "AI + Marketing" model to foster a low-cost business acquisition model, upgraded the "Traffic Police and Insurer Joint Work" model, and further facilitated convenient measures for customers, such as fast claim settlement and "Vehicle + Driver's Licence Management", realising excellence in the development and profitability with a low cost and service upgrades.

Promoting the business management upgrades and enhancing regional competitiveness. The Company innovatively introduced underwriting portfolio management to optimise resource allocation and improve scientific management, implemented differentiated regional strategies based on regional operating models to enhance regional operating capabilities. The Company implemented the "Robust Plan" to prop up weak branches through "one-on-one" assistance. In 2020, the development of household automobile insurance in central cities has outperformed the market, and the business growth in county areas surpass that of the Company by 7.7 percentage points; over 120 branches were removed as scheduled from the list of weak branches. The Company also aligned with the national major regional strategies in Beijing-Tianjin-Hebei region, Yangtze River region, the Guangdong-Hong Kong-Macao region and other regions, and established a branch in Xiong'an New Area, serving the regional development of economy and society in depth.

Implementing the "Warmth Project" based on technology empowerment. Committed to the customer-centric principle, the Company steadily implemented the "Warmth Project" and enhance the efficiency of sales, underwriting, claim settlement, services and operation based on technology empowerment to improve the customer experience. Through employment of the integrated online customer contact platform and the all-round promotion of smart policy issue, remote loss adjustment and online claim settlement, the Company accelerated the online migration of customers in all aspects, with the online claim service usage rate of household automobile insurance reaching 93.2% and the online customer migration rate of household automobile insurance reaching 89.0%. With accelerated application of technologies such as intelligent robots and voiceprint recognition, the three-in-one online service system, namely "Manual + Self-service + Robot", has been initially established. The Company speeded up the application of new management tools such as the "Motor Vehicle Insurance Manager" and the "Seven Platforms" for claim settlement, and accelerated the reconstruction of the core business system, gradually forming an autonomous and controllable technical system, which marks a step forward in digital transformation.

Optimising the business structure, reinforcing the management and control of profit leakage in claim settlement, and promoting the value creation capability. The loss-reduction plan was put in place to get rid of the long term loss-making businesses and optimise the business structure, significantly improving the profitability of businesses. The Company enhanced the management and control of profit leakage in claim settlement of motor vehicle insurance, and implemented the "Lean Project" of commercial non-motor vehicle insurance claim settlement. The framework of emergency command and dispatch platform was built to upgrade the disaster prevention and loss reduction services. The Company strengthened the management of overall budgets to reduce the management costs and improve the efficiency of resource utilisation, constantly increasing the Company's ability in value creation. In 2020, the Company has maintained a leading position in the market in terms of profitability, continuously achieving a better-than-industry combined ratio.

Handling hidden risks in an orderly manner and ensuring safe and sound operation. The Company actively adjusted financing credit and surety insurance businesses, accelerated the clearing of existing risks, effectively addressed the major risky cases, and resolved the historical investment risks. The Company drew a panorama of the Company's risks, strengthened the underwriting authorisation management, constructed "Product Center" platform, realising online migration and centralised management of all product terms. The Company also improved the internal control and compliance rules, accelerated the building of digitalised comprehensive risk management mode, strengthened the risk prevention and control in key areas and points, and reinforced the "Three Tiers" of internal control and compliance, upholding the bottom line of no systematic risk.

Despite the far-reaching impact of the global pandemic, and the increasing instability and uncertainty in the still complex world economy, the positive fundamentals of China's long-term economy remains unchanged. With the accelerated establishment of the new development paradigm featuring domestic and international dual circulations, the coordination of the supply-side structural reform and demand-side management, and the value chain of the insurance industry being reshaped by technology, insurance demand and supply upgrades speeded up, and the industry moved faster towards high-quality development, bringing new challenges and new opportunities to the Company.

2021 is the beginning year of the "Fourteenth Five-year Plan", and is also a crucial year for the implementation of the "Excellent Insurance Strategy" of PICC Group. Under the guidance of the "Excellent Insurance Strategy", it is our goal to build a world leading property insurance company and lead the development of the world property insurance market. To achieve this, we will foster a new development pattern under the guidance of the new development concept in the new development stage; we will focus on supply enhancement and quality improvement to speed up the transformation and underscore market advantage driven by innovation, providing warm insurance service. We will serve the national strategies and promote the materialisation of major strategic projects, fostering new business development pattern; remain customer-centric and reform the system and mechanism to galvanise inner growth vitality; accelerate digitalisation and enhance the modern management level through technology, improving the operation efficiency; insist on prioritising quality, deepen loss reduction and enhance profitability; improve differentiated regional strategy, enhance regional operating capabilities and promote coordinated regional development; further implement the "Warmth Project", innovate and upgrade services, providing more warm insurance services; adhere to compliance operations, forestall risks and uphold the bottom line of no systemic risk. The Company will pursue high-quality development to create new and greater value for customers, society and shareholders, and make contributions to building a modern socialist country.

Luo Xi
Chairman

Beijing, the PRC
23 March 2021

Warm 2020

Showing consolidarity in fighting against the pandemic

- Organised immediate donations for the fight against the pandemic and donated exclusive insurance to the frontier medical staff, disease control personnel and their families with an insured amount of over RMB9.5 billion.
- Launched “contact-free” and “easy stay at home” online service modes, customers can enjoy all-round insurance services without leaving home.
- Upgraded insurance supply, launched business interruption insurance, “Work Resumption Protector”, “Safe and Easy Trip” and other insurances, fully supported resumption of work and production.
- Arranged green channels for claim settlement, launched the “Ten Warm-hearted Services” of claim settlement for the fight against the pandemic.

Serving the rural rejuvenation and poverty alleviation

- Promoted "the expansion of coverage, the raising of standards and the diversification of products" of agriculture insurance, and provided risk protection with an insured amount of RMB2.4 trillion for 86.07 million rural households on a cumulative basis.
- Innovated the "Insurance +" poverty alleviation mode and the exclusive poverty alleviation product "Poverty Prevention Insurance", and two teams and one individual were awarded as "Anti-poverty Role Models" at the Grand Gathering Marking the Nation's Poverty Alleviation Accomplishments.

Implementing the "Warmth Project"

- Implemented the "Warmth Project", and established a warm PICC.
- Upgraded "Traffic Police and Insurer Joint Work" and further facilitated fast claim settlement, "Vehicle + Driver's Licence Management" and service stations, achieving a full coverage of 4 municipalities and 332 cities and serving around 4.68 million people on a cumulative basis.
- Provided uninterrupted services on weekends and holidays, continuously promoted the claim settlement with "warm-hearted services", and upgraded the heart-warming actions, with 906 service stations nationwide providing warm-hearted services to more than 150 thousand customers on a cumulative basis.

Discussion and Analysis of Operating Results and Financial Conditions

I. PERFORMANCE HIGHLIGHTS

In 2020, the outbreak of COVID-19 has brought significant impact on the world economy; the upgraded competition in the industry and the commencement of the comprehensive reform of motor vehicle insurance have made new requirements to the operation and management of market players. Faced with volatile domestic and international environment and the complicated market situation, the Company and its subsidiaries worked on the dual tasks of prevention and control of the pandemic as well as operation and development, and improved the capacities to promote the Company's transformation to high-quality development. The Company actively responded to the comprehensive reform of motor vehicle insurance, continuously refined the motor vehicle insurance risk pricing model and increased the market share of motor vehicle insurance; actively served national major projects and significant strategies and enhanced the product innovation to boost the development of the individual non-motor vehicle insurance business; actively adjusted the business structure, continuously promoted loss reductions and lowered the management costs; reinforced regional capacity construction and accelerated digital transformation and online conversion; and firmly tackled potential risks and focused on the risk prevention and control of key areas and process. The Company achieved an all-round improvement in motor vehicle insurance operation capabilities as well as non-motor vehicle insurance development, profitability, management and compliance operation, taking solid steps toward high-quality development.

ACTIVELY RISING TO CHALLENGES AND ACHIEVING STABLE AND ORDERLY BUSINESS DEVELOPMENT

In 2020, faced with the impact of the pandemic and the challenges of the comprehensive motor vehicle insurance reform, the Company and its subsidiaries rose to challenges, actively created online contact-free service mode, actively adjusted business structure, fully resolved and prevented the business risks, and realised gross written premiums of RMB433,187 million, representing a positive year-on-year growth. Among such, under the background of overall premium decrease in the motor vehicle insurance market and the pandemic-related premium deductions made by the Company, the gross written premiums of motor vehicle insurance recorded RMB265,651 million, representing a year-on-year increase of 1.0%; in terms of non-motor vehicle insurance business, the Company proactively optimised business structure, exited from high-risk business and long-term loss-making business and recorded gross written premiums of RMB167,536 million, representing a year-on-year increase of 10.0% with the business of credit and surety insurance excluded. The Company's market share was 31.8% *(Note)* in the property and casualty insurance market of the PRC, maintaining the first in the industry.

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

Gross written premiums

433,187
RMB million

Market share

31.8%

MAINTAINING STEADY PROFITABILITY GROWTH AND LAYING A MORE SOLID OPERATION FOUNDATION

Profit before tax
RMB **24,676** million
A year-on-year increase of **3.8**%

In 2020, the Company and its subsidiaries adhered to prioritising the profitability and high-quality development, and realised a profit before tax of RMB24,676 million, representing a year-on-year increase of 3.8%. Among such, the insurance business achieved an underwriting profit of RMB4,177 million, representing a year-on-year increase of 31.5%; the combined ratio was 98.9%, representing a year-on-year decrease of 0.3 percentage point; the operating results maintained stable with a moderate growth. The profit for the Year was RMB20,868 million and return on equity was 11.6%. After excluding the impact of changes in the tax policy of commission expenses in 2019, the profit for the Year recorded a year-on-year increase of 4.1%. The total assets amounted to RMB646,801 million; the net assets amounted to RMB190,031 million, representing an increase of RMB50,720 million and RMB20,077 million respectively compared with the beginning of 2020. The comprehensive solvency margin ratio was 289%, representing an increase of 7 percentage points compared with the beginning of 2020. Due to the Company's outstanding industry position and continuously increasing comprehensive strengths, Moody's Investors Service continually maintained the A1 rating granted to the Company in terms of insurance financial strength, which is the highest rating in Chinese mainland.

FULLY UPGRADING THE ONLINE SERVICE CAPABILITY AND ACCELERATING THE IMPLEMENTATION OF DIGITALISATION

In 2020, the Company and its subsidiaries accelerated online migration of customers and the process of digitalisation, and enhanced the application of technology in the risk management, significantly improving the online conversion and digitalisation. As at the end of 2020, the online customer migration rate of household automobile insurance was 89.0%, representing an increase of 29.5 percentage points compared to the end of 2019; the online claim service usage rate of household automobile insurance was 93.2%, representing an increase of 26.5 percentage points compared to the end of 2019. The "PICC" APP served more than 53 million people on a cumulative basis, and "PICC e-Tong" realised a premium income of RMB64.75 billion. Technologies such as intelligent robots and voiceprint recognition were implemented at an accelerated pace, and the "Manual + Self-service + Robot" three-in-one online service system was established initially. As "Motor Vehicle Insurance Manager", "Seven Platforms" of claim settlement and other new management tools were applied and the core system of business was reconstructed at an accelerated pace, an independent and controllable technology system was gradually established, achieving new results in digital transformation.

Online customer migration rate of household automobile insurance **89.0**%
29.5pp

Online claim service usage rate of household automobile insurance **93.2**%
26.5pp

FULLY SERVING THE NATIONAL ECONOMY AND PEOPLE'S LIVELIHOOD AND DEMONSTRATING CORPORATE RESPONSIBILITIES

In 2020, the Company and its subsidiaries continued to serve national strategies, people's livelihood and social governance, undertaking insurance liability of RMB1,275 trillion, up by 60.0%. The coverage of critical illness insurance was continuously expanded, and the social medical insurance covered 731 million people on a cumulative basis. The Company successfully completed the mission of targeted poverty alleviation, and was the only central state-owned enterprise in the industry that has been awarded the highest rating by the State Council Leading Group Office of Poverty Alleviation and Development for two consecutive years. The Company promoted the building of catastrophe insurance mechanism for public health emergencies, and created the public health emergency assistance insurance, covering 78,598 thousand people. The Company refined the first set of major technical equipment, technology insurance and intellectual property insurance product systems with an insured amount of RMB453.6 billion in aggregate. The Company escorted "Tianwen No. 1", "China's Eye of Heaven" (China's Five-hundred-meter Aperture Spherical Telescope, or FAST) and other national major projects, served 2022 Beijing Winter Olympics, and underwrote 626 projects in relation to the "Belt and Road" with 118 countries involved. The Company actively promoted the "Warmth Project", launched the "Ten Warm-hearted Services" of claim settlement for the fight against the pandemic, and handled 72,438 thousand claims in total throughout the year of 2020, fully demonstrating the fulfillment of responsibilities as the people's insurance. In the face of the sudden COVID-19, the Company and its subsidiaries organised immediate donations for fighting the pandemic, expanded the insurance liabilities, extended the terms of insurance, lowered the premium rates, upgraded the insurance supply, provided green channels for claim settlements, and fully supported resumption of work and production, receiving wide compliments from local governments and customers. The Company was granted "Outstanding Contribution Award for Fighting against Pandemic" by China Association for Disaster Prevention, being the only insurance company receiving this award.

II. PRINCIPAL ACTIVITIES AND OPERATION ANALYSIS

(I) INSURANCE BUSINESS

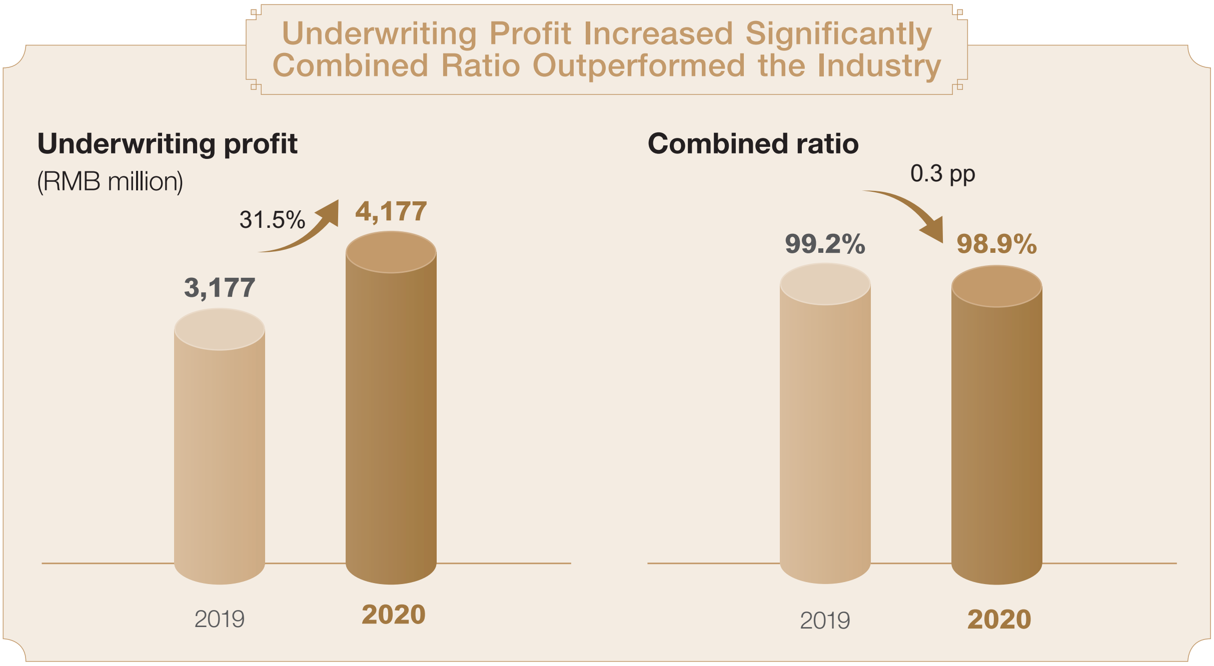
1. Business overview

Underwriting results

In 2020, the gross written premiums of the Company and its subsidiaries reached RMB433,187 million, and the business scales of the accidental injury and health insurance, agriculture insurance, motor vehicle insurance and liability insurance were in constant increase. The Company and its subsidiaries continuously improved service capability of claim settlement and focused on "cost reduction and profitability improvement", achieving a combined ratio of 98.9% with a year-on-year decrease of 0.3 percentage point. The loss ratio was 66.2%, remaining stable as compared to last year; and expense ratio was 32.7%, representing a year-on-year decrease of 0.3 percentage point.

The following table sets forth the major operating results and financial indicators of the insurance business of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**433,187**	433,175	–
Net earned premiums	**393,127**	380,683	3.3
Net claims incurred	**(260,320)**	(251,822)	3.4
Total expenses	**(128,630)**	(125,684)	2.3
Underwriting profit	**4,177**	3,177	31.5
Loss ratio (%)	**(66.2)**	(66.2)	Remain the same
Expense ratio (%)	**(32.7)**	(33.0)	Decrease by 0.3 pp
Combined ratio (%)	**(98.9)**	(99.2)	Decrease by 0.3 pp



Distribution channels

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

	Year ended 31 December				
	2020			2019	
	Amount	Percentage	Change	Amount	Percentage
	RMB million	%	%	*RMB million*	%
Insurance agents	**285,328**	**66.0**	**-4.2**	297,891	69.0
Among which:					
Individual insurance agents	**148,438**	**34.4**	**6.6**	139,254	32.3
Ancillary insurance agents	**42,933**	**9.9**	**-14.2**	50,037	11.5
Professional insurance agents	**93,957**	**21.7**	**-13.5**	108,600	25.2
Direct sales	**113,033**	**26.2**	**14.7**	98,579	22.8
Insurance brokers	**33,658**	**7.8**	**-4.5**	35,254	8.2
Total	**432,019**	**100.0**	**0.1**	431,724	100.0

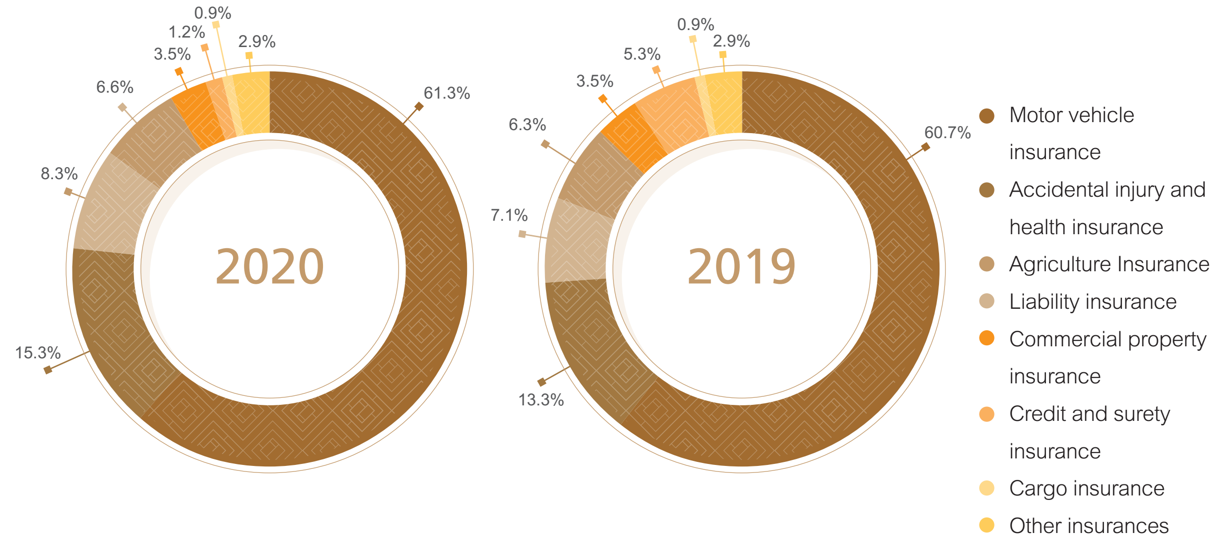
Geographical segments

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

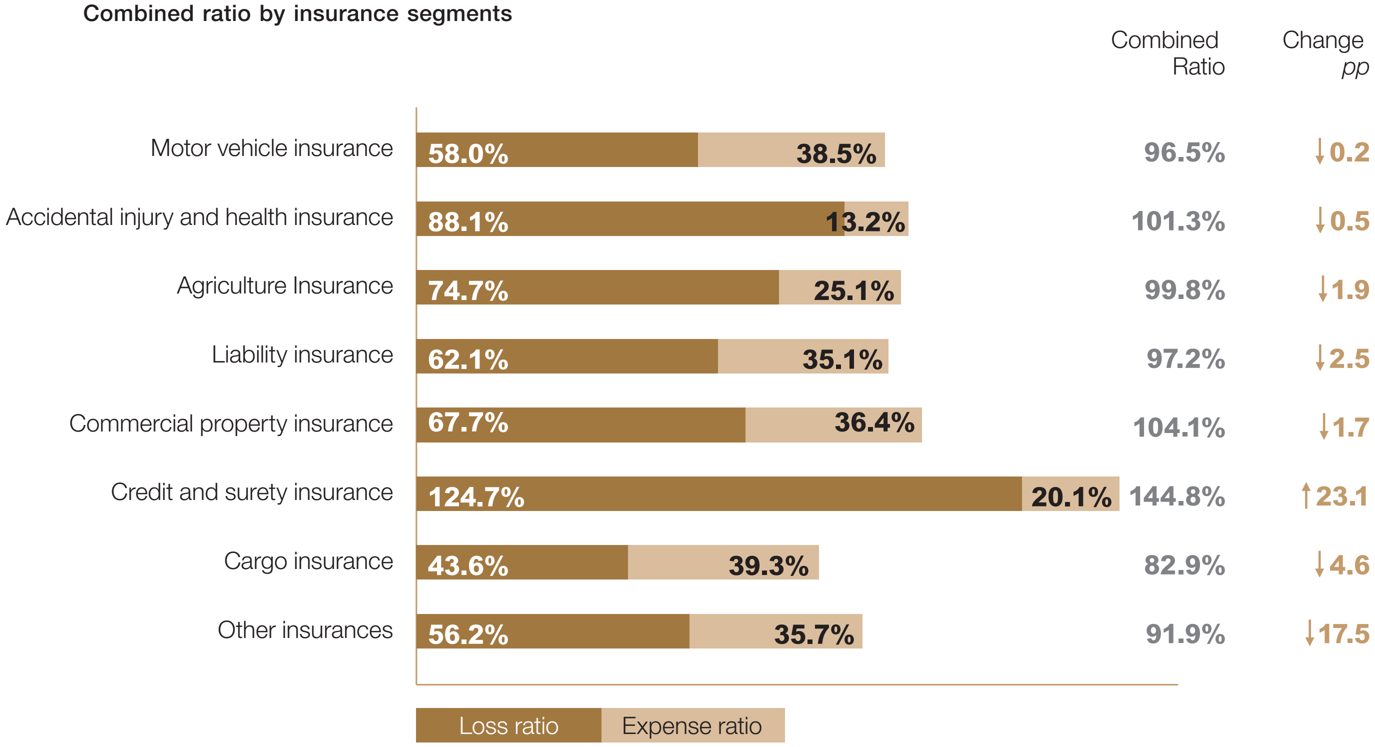
	Year ended 31 December		
	2020 *RMB million*	2019 *RMB million*	Change %
Jiangsu Province	**42,343**	40,156	5.4
Guangdong Province	**41,522**	50,181	-17.3
Zhejiang Province	**34,213**	31,201	9.7
Shandong Province	**25,860**	24,349	6.2
Hebei Province	**24,252**	23,849	1.7
Sichuan Province	**21,362**	20,313	5.2
Hunan Province	**17,983**	16,180	11.1
Hubei Province	**17,473**	18,646	-6.3
Anhui Province	**17,381**	16,845	3.2
Fujian Province	**16,576**	16,748	-1.0
Other regions	**173,054**	173,256	-0.1
Total	**432,019**	431,724	0.1

2. *Operating results by insurance segments*

Composition of gross written premiums



Combined ratio by insurance segments



(1) Motor vehicle insurance

The following table sets forth the key operating results and financial indicators of the motor vehicle insurance business of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	%
Gross written premiums	**265,651**	262,927	1.0
Net earned premiums	**254,249**	251,653	1.0
Net claims incurred	**(147,573)**	(150,560)	-2.0
Total expenses	**(97,867)**	(92,893)	5.4
Underwriting profit	**8,809**	8,200	7.4
Loss ratio (%)	**(58.0)**	(59.8)	Decrease by 1.8 pp
Expense ratio (%)	**(38.5)**	(36.9)	Increase by 1.6 pp
Combined ratio (%)	**(96.5)**	(96.7)	Decrease by 0.2 pp

In 2020, the gross written premiums of the motor vehicle insurance business recorded RMB265,651 million, representing a year-on-year increase of RMB2,724 million (or 1.0%). In face of the impact of decline in production and sales volume of motor vehicles and the impact of COVID-19 on motor vehicle insurance business, as well as the challenges brought by the comprehensive motor vehicle insurance reform, the Company and its subsidiaries further exploited the market potential, continuously boosted the building of direct sales team, accelerated the integrated development of channels, and maintained the premium scale stable with a moderate growth.

As to the profitability of motor vehicle insurance business, in terms of underwriting, the Company and its subsidiaries continuously adjusted and optimised the business structure, achieved an industry-leading growth rate in household automobile insurance business, and continuously improved the quality of the motor vehicle insurance business; refined the risk-based pricing model of motor vehicle insurance, improved the precise pricing capabilities and continuously enhanced operating efficiency. In terms of claim settlement, the Company and its subsidiaries proactively promoted the "Traffic Police and Insurer Joint Work" and "Yuhang Model" and introduced "contact-free" claim settlement service during the pandemic, continuously improving the claim settlement service capability; continued to promote cost reduction and profitability improvement, and effectively offset the adverse impact of the rise in prices of auto parts and working hours and the higher compensation standard for personal injury by taking loss-reduction measures including payment recovery, technology-based claim settlement and "Jia'anpei" order-and-supply platform. Such efforts, combined with the decline in claim frequency, led to a decrease in loss ratio by 1.8 percentage points as compared to last year. The combined ratio decreased by 0.2 percentage point as compared to last year and the underwriting profit increased by RMB609 million (or 7.4%) as compared to last year.

(2) *Accidental injury and health insurance*

The following table sets forth the key operating results and financial indicators of the accidental injury and health insurance business of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020 *RMB million*	2019 *RMB million*	Change *%*
Gross written premiums	**66,187**	57,633	14.8
Net earned premiums	**63,428**	53,806	17.9
Net claims incurred	**(55,900)**	(47,635)	17.4
Total expenses	**(8,346)**	(7,153)	16.7
Underwriting loss	**(818)**	(982)	–
Loss ratio (%)	**(88.1)**	(88.5)	Decrease by 0.4 pp
Expense ratio (%)	**(13.2)**	(13.3)	Decrease by 0.1 pp
Combined ratio (%)	**(101.3)**	(101.8)	Decrease by 0.5 pp

In 2020, the gross written premiums of the accidental injury and health insurance business achieved RMB66,187 million, representing a year-on-year increase of RMB8,554 million (or 14.8%). In terms of social medical insurance business, the Company and its subsidiaries continued to serve the "Healthy China" strategy, actively participated in the construction of multi-layer medical security system and the pilot work of national long-term nursing insurance, and drove the significant growth of the social medical insurance business including the critical illness insurance, supplementary medical insurance and nursing insurance. In terms of commercial accidental injury and health insurance, the Company and its subsidiaries further facilitated the innovation of products and business model, promoted the integration of policy-oriented businesses and commercial businesses, and made efforts to achieve balanced layout of online and offline channels, realising rapid development of individual businesses, especially the driver accidental insurance, million-coverage medical insurance and the integrated business of social medical insurance and commercial health insurance.

Meanwhile, the Company and its subsidiaries enhanced centralised and refined management and control of underwriting, and launched intelligent risk control platform of health insurance for sound risk monitoring and control; reinforced the joint work with claim settlement and the management and control of claim settlement quality, and carried out the risk reduction management; and applied stringent management and control over expenses and optimised resource allocation. The loss ratio of accidental injury and health insurance as a whole decreased by 0.4 percentage point to 88.1% year-on-year; the expense ratio decreased by 0.1 percentage point to 13.2% year-on-year. However, as social medical insurance, which had a higher insurance obligation, accounted for a relatively high percentage, the underwriting of overall accidental injury and health insurance businesses recorded a loss of RMB818 million, representing a year-on-year decrease in loss of RMB164 million.

(3) Agriculture Insurance

The following table sets forth the key operating results and financial indicators of the agriculture insurance business of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**36,121**	30,772	17.4
Net earned premiums	**25,966**	24,632	5.4
Net claims incurred	**(19,405)**	(19,984)	-2.9
Total expenses	**(6,505)**	(5,060)	28.6
Underwriting profit/(loss)	**56**	(412)	–
Loss ratio (%)	**(74.7)**	(81.1)	Decrease by 6.4 pp
Expense ratio (%)	**(25.1)**	(20.6)	Increase by 4.5 pp
Combined ratio (%)	**(99.8)**	(101.7)	Decrease by 1.9 pp

In 2020, the gross written premiums of the agriculture insurance achieved RMB36,121 million, representing a year-on-year increase of RMB5,349 million (or 17.4%). Adhering to the implementation of the national strategy of rural rejuvenation, the Company and its subsidiaries, based on the agriculture supply-side structural reform, made solid progress in raising protection standards and expanding business scope of traditional business to continuously reinforce safeguards provided by agriculture insurance. Meanwhile, the Company and its subsidiaries boosted product innovation, developed business with local features, and made breakthroughs in the rising business areas. Improved agriculture insurance service capability enabled the Company and its subsidiaries to meet the increasing need of insurance protection with regards to "agriculture, rural areas, and farmers", reinforced its leading advantages in the agriculture insurance market, and effectively promoted the rapid development of the agriculture insurance business.

In the face of natural disasters including floods, hail and frost, the Company and its subsidiaries further enhanced the claim settlement response capabilities to catastrophes by deploying the emergency response to catastrophes in advance and properly handling catastrophes, achieving a decrease in the loss ratio of agriculture insurance of 6.4 percentage points year-on-year. Due to changes in ceding conditions, there was a decline in the generation rate of net earned premiums and a year-on-year decrease in reinsurance commission income of agriculture insurance, thus the expense ratio of agriculture insurance increased by 4.5 percentage points year-on-year.

(4) Liability insurance

The following table sets forth the key operating results and financial indicators of the liability insurance business of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020 *RMB million*	2019 *RMB million*	Change %
Gross written premiums	**28,467**	27,223	4.6
Net earned premiums	**19,697**	18,926	4.1
Net claims incurred	**(12,236)**	(11,420)	7.1
Total expenses	**(6,918)**	(7,446)	-7.1
Underwriting profit	**543**	60	805.0
Loss ratio (%)	**(62.1)**	(60.3)	Increase by 1.8 pp
Expense ratio (%)	**(35.1)**	(39.4)	Decrease by 4.3 pp
Combined ratio (%)	**(97.2)**	(99.7)	Decrease by 2.5 pp

In 2020, the gross written premiums of the liability insurance achieved RMB28,467 million, representing a year-on-year increase of RMB1,244 million (or 4.6%). The Company and its subsidiaries focused on four aspects, namely serving the real economy, serving the national key strategies, participating in the social governance and securing the new economy; continuously enhanced the product innovation and development, assisted in the fight against the pandemic and the resumption of work, production and school, responded to the compulsory work safety liability insurance system, and tapped into areas of people's livelihood assistance and public health, benefiting the society and achieving profitability. In the meantime, the Company and its subsidiaries actively built a new model of "Insurance + Risk Control + Technology + Service", and created competitive strengths of business development, realising growth in the business scales of work safety liability insurance, the first set of major technical equipment insurance, new material insurance, inherent defects insurance (IDI), government assistance insurance (including public health emergencies), and campus comprehensive insurance.

In 2020, with the higher personal injury compensation standard echoing the increase in the average income of the society, the claim costs of personal injury involved insurances increased, leading to a year-on-year increase of 1.8 percentage points in the loss ratio of liability insurance as a whole. Meanwhile, the Company and its subsidiaries adjusted the channel layout, resulting in a year-on-year decrease of 4.3 percentage points in expense ratio. The underwriting profit was RMB543 million, representing a year-on-year increase of RMB483 million (or 805.0%).

(5) Commercial property insurance

The following table sets forth the key operating results and financial indicators of the commercial property insurance of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**14,957**	15,167	-1.4
Net earned premiums	**8,548**	8,679	-1.5
Net claims incurred	**(5,784)**	(5,727)	1.0
Total expenses	**(3,108)**	(3,454)	-10.0
Underwriting loss	**(344)**	(502)	–
Loss ratio (%)	**(67.7)**	(66.0)	Increase by 1.7 pp
Expense ratio (%)	**(36.4)**	(39.8)	Decrease by 3.4 pp
Combined ratio (%)	**(104.1)**	(105.8)	Decrease by 1.7 pp

In 2020, the gross written premiums of the commercial property insurance achieved RMB14,957 million, representing a year-on-year decrease of RMB210 million (or -1.4%). The Company and its subsidiaries actively responded to the negative impact of the pandemic and the increasingly intensive market competition, quickly refined the business development plan, devoted more efforts in the development of new products, continuously improved services to the existing customers, and developed and refined the insurance source map system to assist the business expansion at the basic level, realising a year-on-year increase in the original premium income of the commercial property insurance. Meanwhile, the Company and its subsidiaries actively carried out risk management and control and reduced the high-risk ceded-in businesses, recording a year-on-year decrease in the gross written premiums of commercial property insurance.

The Company and its subsidiaries strengthened the expense management and control, and adjusted the reinsurance arrangement when appropriate. The expense ratio realised a year-on-year decrease of 3.4 percentage points. Due to impacts of the pandemic and major claims arising from floods and fires, the loss ratio of the commercial property insurance increased by 1.7 percentage points year-on-year. The underwriting loss was RMB344 million, representing a year-on-year decrease in loss of RMB158 million.

(6) Credit and surety insurance

The following table sets forth the key operating results and financial indicators of the credit and surety insurance of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**5,283**	22,767	-76.8
Net earned premiums	**11,409**	13,271	-14.0
Net claims incurred	**(14,225)**	(10,364)	37.3
Total expenses	**(2,288)**	(5,791)	-60.5
Underwriting loss	**(5,104)**	(2,884)	–
Loss ratio (%)	**(124.7)**	(78.1)	Increase by 46.6 pp
Expense ratio (%)	**(20.1)**	(43.6)	Decrease by 23.5 pp
Combined ratio (%)	**(144.8)**	(121.7)	Increase by 23.1 pp

In 2020, the gross written premiums of the credit and surety insurance achieved RMB5,283 million, representing a year-on-year decrease of RMB17,484 million (or -76.8%). The Company and its subsidiaries continuously reinforced business risk management and control, actively adjusted the business structure, and accelerated the clearance of the risks of existing businesses. In terms of the new business, the Company and its subsidiaries adhered to prioritising the profitability, and strictly controlled the quality of new business. The scale of overall credit and surety insurance decreased year-on-year.

Due to the pandemic-induced increase in social credit risk level, the delinquency rate of existing businesses amounted, leading to higher claim payments compared to last year. Besides, curbs placed on the scale of financing credit and surety insurance business brought in less premium income. Thus, the overall loss ratio of the credit and surety insurance increased by 46.6 percentage points, the expense ratio dropped by 23.5 percentage points, and the combined ratio increased by 23.1 percentage points compared to last year with an underwriting loss of RMB5,104 million. The Company and its subsidiaries will take further steps to reinforce the collection, subrogation and process control after loan originations, and increase the subrogation income.

(7) Cargo insurance

The following table sets forth the key operating results and financial indicators of the cargo insurance of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**3,807**	3,972	-4.2
Net earned premiums	**2,566**	2,782	-7.8
Net claims incurred	**(1,118)**	(1,339)	-16.5
Total expenses	**(1,008)**	(1,095)	-7.9
Underwriting profit	**440**	348	26.4
Loss ratio (%)	**(43.6)**	(48.1)	Decrease by 4.5 pp
Expense ratio (%)	**(39.3)**	(39.4)	Decrease by 0.1 pp
Combined ratio (%)	**(82.9)**	(87.5)	Decrease by 4.6 pp

In 2020, the gross written premiums of the cargo insurance of the Company and its subsidiaries achieved RMB3,807 million, representing a year-on-year decrease of RMB165 million (or -4.2%). Due to the pandemic and intensified market competition, the traditional cargo insurance market scale shrank, and the average premium rate decreased year-on-year. Meanwhile, the Company and its subsidiaries decreased exposure to high-risk businesses, leading to a year-on-year decline in the gross written premiums of the cargo insurance.

The Company and its subsidiaries actively corresponded to the adversities, refined cargo insurance automatic quoting tools and reinforced business risk management and control, thereby further improving the business quality. Besides, due to the restriction and control of transportation and logistics inflicted by the pandemic in the first half of 2020, there was a decline in the claim frequency of cargo insurance, and the loss ratio of the cargo insurance declined by 4.5 percentage points compared to last year, leading to a year-on-year improvement in business profitability.

(8) Other insurances

The following table sets forth the key operating results and financial indicators of other insurances of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Gross written premiums	**12,714**	12,714	–
Net earned premiums	**7,264**	6,934	4.8
Net claims incurred	**(4,079)**	(4,793)	-14.9
Total expenses	**(2,590)**	(2,792)	-7.2
Underwriting profit/(loss)	**595**	(651)	–
Loss ratio (%)	**(56.2)**	(69.1)	Decrease by 12.9 pp
Expense ratio (%)	**(35.7)**	(40.3)	Decrease by 4.6 pp
Combined ratio (%)	**(91.9)**	(109.4)	Decrease by 17.5 pp

In 2020, the gross written premiums of other insurances achieved RMB12,714 million, remaining stable year-on-year. The Company and its subsidiaries gave full play to their advantages in professional operation and professional services, escorted “Tianwen No. 1”, “China’s Eye of Heaven” and other national major projects, served 2022 Beijing Winter Olympics, the Belt and Road and other national key projects and strategies, seized the opportunities as the infrastructure investment growth recovered and realised a year-on-year increase of the business scale of special risk insurance and project insurance.

While exploring the market, the Company and its subsidiaries insisted on the principle of prioritising profitability, developed high-quality business, improved risk identification capability in underwriting, reinforced the process management and control of business risk, and enhanced the disaster and loss prevention. The loss ratio of other insurances decreased by 12.9 percentage points year-on-year; the expense ratio decreased by 4.6 percentage points year-on-year. Except that the project insurance recorded an underwriting loss, each type of other insurances recorded underwriting profit. Other insurances recorded an underwriting profit of RMB595 million in 2020 as compared to an underwriting loss of RMB651 million for the previous year.

(II) INSURANCE FUNDS INVESTMENT BUSINESS

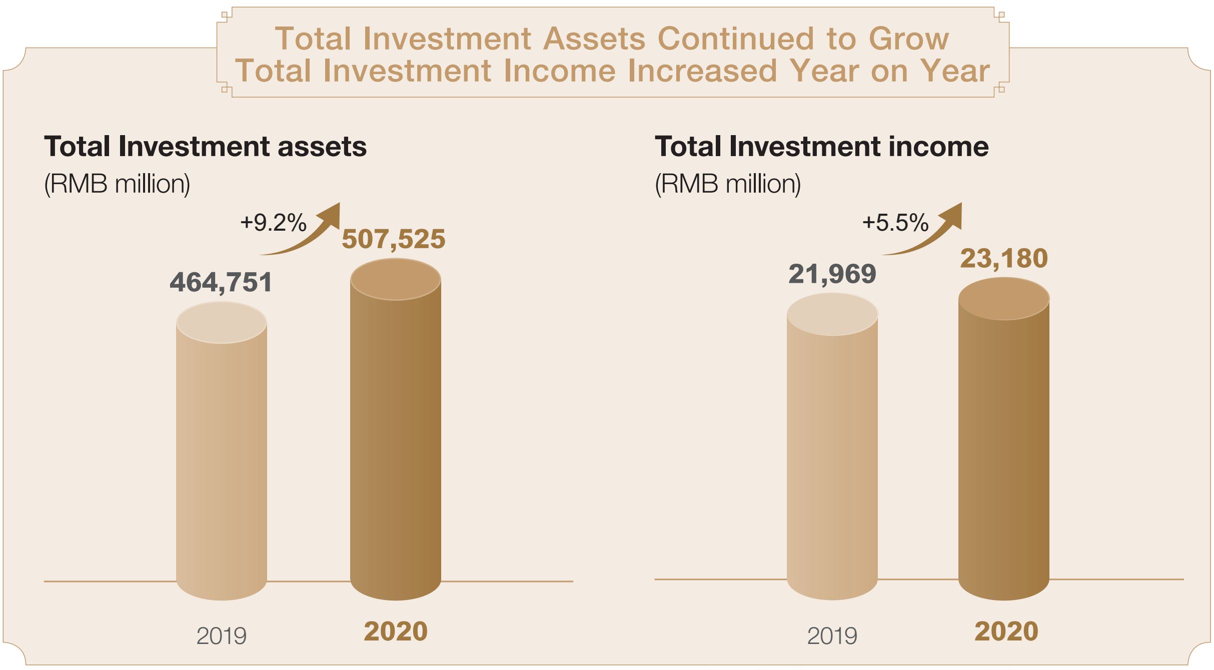
1. Investment results

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Interest, dividends and lease income	**17,709**	16,986	4.3
Net investment income	**17,709**	16,986	4.3
Net realised and unrealised gains on investments	**1,520**	733	107.4
Share of profits or losses of associates and joint venture	**3,951**	4,250	-7.0
Total investment income	**23,180**	21,969	5.5
Net investment yield* (%)	**3.6**	3.8	Decrease by 0.2 pp
Total investment yield** (%)	**4.8**	4.9	Decrease by 0.1 pp
Total investment assets***	**507,525**	464,751	9.2

* Net investment yield = Net investment income/(balance of the total investment assets at the beginning of the year + balance of the total investment assets at the end of the year) *2

** Total investment yield = Total investment income/(balance of the total investment assets at the beginning of the year + balance of the total investment assets at the end of the year) *2

*** Based on the data as at 31 December 2020 and 31 December 2019.



2. *Interest, dividends and lease income*

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	%
Operating lease income from investment properties	**259**	275	-5.8
Interest income	**14,447**	14,027	3.0
Dividend income	**3,003**	2,684	11.9
Total of interest, dividends and lease income	**17,709**	16,986	4.3

In 2020, the interest, dividends and lease income of the Company and its subsidiaries was RMB17,709 million, representing an increase of RMB723 million (or 4.3%) from RMB16,986 million in 2019, which was primarily due to an increase in bonds, fixed income financial products and perpetual financial products by the Company, resulting in a year-on-year increase of RMB420 million (or 3.0%) in the interest income and a year-on-year increase of RMB319 million (or 11.9%) in dividend income.

3. *Net realised and unrealised gains on investments*

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	%
Realised gains on investments	**4,583**	1,403	226.7
Unrealised (losses)/gains on investments	**(72)**	112	–
Impairment losses	**(3,031)**	(706)	329.3
Fair value gains/(losses) on investment properties	**40**	(76)	–
Total of net realised and unrealised gains on investments	**1,520**	733	107.4

In 2020, the Company and its subsidiaries seized market opportunities, optimised the structure of equity assets, and reduced the positions in partial mutual funds and stocks when appropriate, and realised a year-on-year increase in spread income. The realised gains on investments increased by RMB3,180 million to RMB4,583 million from RMB1,403 million in 2019. Meanwhile, due to impact of provisions on risk events involved in certain equity project and provisions on financing project, there was an increase of RMB2,325 million in the impairment losses of the Company and its subsidiaries as compared to last year.

4. *Share of profits or losses of associates and joint venture*

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Share of profits or losses of associates and joint venture	**3,951**	4,250	-7.0

In 2020, the share of profits or losses of associates and joint venture of the Company and its subsidiaries amounted to RMB3,951 million, representing a year-on-year decrease of RMB299 million (or -7.0%), mainly due to a decline in operating results of the major associate of the Company as compared to last year, which resulted in a decrease in the share of profits as held by the Company and its subsidiaries.

5. *Composition of investment assets*

	31 December 2020			31 December 2019	
	Balance	Percentage	Change	Balance	Percentage
	RMB million	*%*	*%*	*RMB million*	*%*
By category:					
Cash and cash equivalents	**26,192**	**5.2**	**-19.5**	32,520	7.0
Term deposits	**70,943**	**13.9**	**10.2**	64,398	13.8
Debt securities	**168,511**	**33.2**	**13.0**	149,072	32.1
Equity securities and mutual funds	**110,734**	**21.8**	**20.7**	91,728	19.7
Investments classified as loans and receivables	**67,944**	**13.4**	**0.8**	67,391	14.5
Investment properties	**4,603**	**0.9**	**0.1**	4,598	1.0
Investments in associates and joint venture	**53,262**	**10.5**	**5.5**	50,477	10.9
Other investment assets *(Note)*	**5,336**	**1.1**	**16.8**	4,567	1.0
Total investment assets	**507,525**	**100.0**	**9.2**	464,751	100.0

Note: Other investment assets mainly included capital security fund.

As at 31 December 2020, the investment assets of the Company and its subsidiaries were RMB507,525 million, representing an increase of RMB42,774 million (or 9.2%) as compared to the beginning of this year. The development of the underwriting business provided sufficient working capital for the Company and pushed forward the steady growth of the investment assets. Meanwhile, the Company consistently adhered to the philosophy of making long-term and prudent investments, and based on the situation of currency market and capital market, proactively conducted risk management and control and continuously optimised the investment assets structure, so as to improve the quality of investment portfolios and achieve a balance between returns and risks.

6. Investments in associates and joint venture

As at 31 December 2020, the investments in associates and joint venture of the Company and its subsidiaries was RMB53,262 million, representing an increase of RMB2,785 million (or 5.5%) as compared to the beginning of this year. For detailed information, please refer to note 24 of the consolidated financial statements.

7. Asset pledge

The Company conducted repurchase transactions in the market due to the liquidity management requirements. The securities held by the Company were pledged as collateral during the process of repurchase transactions.

(III) OVERALL RESULTS

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

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*%*
Profit before tax	**24,676**	23,783	3.8
Income tax (expense)/credit	**(3,808)**	496	–
Profit for the year	**20,868**	24,279	-14.0
Total assets *(Note)*	**646,801**	596,081	8.5
Net assets *(Note)*	**190,031**	169,954	11.8

Note: Based on the data as at 31 December 2020 and 31 December 2019.

Profit before Tax

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB24,676 million in 2020, representing an increase of RMB893 million (or 3.8%) from RMB23,783 million in 2019.

Income Tax (Expense)/Credit

In 2020, the income tax expense of the Company and its subsidiaries was RMB3,808 million, as opposed to the income tax credit of RMB496 million in 2019. The increase of income tax expense was mainly due to application of the new policy on pre-tax deduction for commission expenses in 2019 which resulted in a decrease in the income tax expense of RMB4,230 million in 2019.

Profit for the Year

As a result of the foregoing, the profit for the Year decreased by RMB3,411 million (or -14.0%) to RMB20,868 million from RMB24,279 million in 2019. Basic earnings per share attributable to owners of the Company in 2020 was RMB0.938.

III. SPECIFIC ANALYSIS

(I) ANALYSIS OF LIQUIDITY AND CAPITAL ADEQUACY

Cash Flow Analysis

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

	Year ended 31 December		
	2020	2019	Change
	RMB million	*RMB million*	*RMB million*
Net cash flows from operating activities	**12,811**	25,805	-12,994
Net cash flows (used in)/from investing activities	**(29,390)**	941	-30,331
Net cash flows from/(used in) financing activities	**10,409**	(28,063)	38,472
Net foreign exchange differences	**(158)**	40	-198
Net decrease in cash and cash equivalents	**(6,328)**	(1,277)	-5,051

In 2020, the net cash flows from operating activities of the Company and its subsidiaries were RMB12,811 million, representing a year-on-year decrease of RMB12,994 million (or -50.4%). In 2020, due to the significant decrease in the premium scale of financing credit and surety insurance business and the accelerated clearance of existing business risks, the growth of cash premiums was less than the growth of cash payments and operating expenses, which resulted in a year-on-year decrease of net cash flow from operating activities.

In 2020, the net cash flows used in investing activities of the Company and its subsidiaries amounted to RMB29,390 million, and the net cash flows from investing activities in 2019 was RMB941 million. In 2020, the Company and its subsidiaries increased its investment scale in bonds, fixed income financial products and perpetual financial products, which resulted in a year-on-year increase in net cash flows used in investing activities.

In 2020, the net cash flows of the Company and its subsidiaries from financing activities amounted to RMB10,409 million, and the net cash flows of the Company and its subsidiaries used in financing activities in 2019 was RMB28,063 million. In 2020, the Company and its subsidiaries received an amount of RMB8 billion in cash by issuing bonds, and paid an amount of RMB8 billion for redemption of bonds in 2019; and received a net amount of RMB12,269 million in cash from the securities sold under agreements to repurchase, as compared to a net payment of RMB11,240 million in 2019.

As of 31 December 2020, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB26,192 million.

Gearing Ratio

As of 31 December 2020, the gearing ratio *(Note)* of the Company and its subsidiaries was 67.0%, representing a decrease of 1.9 percentage points from 68.9% as of 31 December 2019.

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

Source of Working Capital

The cash flows of the Company and its subsidiaries are primarily derived from cash generated from operating activities, which are principally insurance premiums received. In addition, sources of liquidity include interest and dividend income, proceeds from matured investments, disposal of assets and financing activities. The liquidity needs 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.

The Company issued capital supplementary bonds of RMB15 billion in November 2016 and capital supplementary bonds of RMB8 billion in March 2020, each with a term of 10 years.

Save for the capital supplementary bonds 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 expenditures for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. In 2020, the capital expenditure of the Company and its subsidiaries was RMB9,780 million.

Solvency Margin

	31 December 2020 RMB million	31 December 2019 RMB million	Change %
Actual capital	**207,246**	181,721	14.0
Core capital	**179,290**	162,136	10.6
Minimum capital	**71,757**	64,414	11.4
Comprehensive solvency margin ratio (%)	**289**	282	Increase by 7.0 pp
Core solvency margin ratio (%)	**250**	252	Decrease by 2.0 pp

(II) RISK MANAGEMENT

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 principally concentrated on insurance receivables, reinsurance assets, debt securities and deposits with commercial banks.

The Company and its subsidiaries are only committed to credit sales to corporate customers or individual customers who purchase certain insurance policies through insurance intermediaries. The capability 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 the 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 granted 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 CBIRC 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. Certain businesses of the Company and its subsidiaries (including certain 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 policy adopted by 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.

(III) OTHER SPECIFIC ANALYSES

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, acting as 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 as at 31 December 2020 and 31 December 2019 or operating results of the Company and its subsidiaries for the years ended 31 December 2020 and 2019.

As of 31 December 2020, there were certain pending legal proceedings of the Company and its subsidiaries. After taking into account professional opinions, the management of the Company believes that such legal proceedings will not induce significant impact on the operation of the Company and its subsidiaries.

Events after the Reporting Period

On 23 March 2021, the Board of Directors proposed a final dividend of RMB0.375 per ordinary share for the year ended 31 December 2020 totaling RMB8,341 million, and approved an amount of RMB15,000 million 10-year capital supplementary bonds to be issued. The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

Development of New Products

In 2020, the Company focused on hot spots of the market and customers' demand, and developed a total of 1,387 new insurance provisions, among which, 388 national provisions, 999 regional provisions, 1,070 main insurance provisions and 317 rider provisions. Among these new provisions, the Company registered 466 insurance provisions on the self-help registration platform of the Insurance Association of China and 8 insurance provisions on the platform of Shanghai Institute of Marine Insurance, filed 868 agriculture insurance provisions and agriculture-related provisions with the CBIRC's Insurance Provisions Electronic Filing System, submitted 1 provision to the CBIRC for approval, and filed 44 commercial motor vehicle insurance model provisions.

Employees

As of 31 December 2020, the Company had 180,616 employees. In 2020, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB32,530 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.

IV. LOOKING FORWARD

2021 is the first year of the "Fourteenth Five-year Plan", and a crucial year for the new journey of PICC to launch the "Excellent Insurance Strategy". The Company and its subsidiaries will follow the guidance of "Excellent Insurance Strategy", perform the mission endowed by the new era, forge ahead, take responsibilities, strive for innovation, and serve the people. We will lead and promote high-quality development to ensure a great start for the "Fourteenth Five-year Plan".

(I) TO UPGRADE THE INSURANCE SUPPLY AND IMPROVE BUSINESS DEVELOPMENT CAPABILITY

Efforts will be made to facilitate the transformation of insurance operation logic from "Underwriting + Claim Settlement" to "Underwriting + Loss Reduction + Empowerment + Claim Settlement". In terms of motor vehicle insurance, the Company will optimise the motor vehicle insurance operation model, implement differentiated market strategies, improve risk pricing capability, establish a leading motor vehicle insurance operation framework, accelerate the high-quality business development, keep a leading position in the motor vehicle insurance with high-quality development, and show the achievements of comprehensive motor vehicle insurance reform. In terms of non-motor vehicle insurance, the Company will focus on the needs of individual, corporate and government customers, innovate products and services, upgrade the insurance supply, construct development platform, explore the potential demand of traditional customers, accelerate the expansion of new markets and new areas, strategically develop individual non-motor vehicle insurance, and transform from providing insurance products to risk solutions, to create greater value for customers.

(II) TO DEEPEN COST REDUCTION AND EFFICIENCY ENHANCEMENT TO IMPROVE PROFITABILITY

We will reinforce the positive results of business structure adjustment and further optimise the business structure to enhance the underwriting quality; implement the lean cost management of claim settlement, upgrade the technology-based claim settlement tools, and enhance claim settlement team building to improve claim settlement quality; innovate loss reduction and empower services, promote the normalisation of disaster and loss prevention, and carry out risk reduction management through joint work of underwriting and claim settlement; refine the overall budget management and further reduce the management costs; and improve management of premiums receivable to ensure the cash flow at a reasonable level.

(III) TO ACCELERATE THE TECHNOLOGY EMPOWERMENT AND PROMOTE DIGITALISED OPERATION CAPABILITY

Efforts will be made to deepen the online migration of customers and build an integrated customer operation mode with a focus on customers as individuals, corporates and government; optimise the channel layout, build an online and offline integrated sales and service platform, and implement intelligent and accurate marketing to create a low-cost business acquisition mode; upgrade the business processing platform to create a digitalised and intelligent underwriting and claim settlement model; optimise the working process to create a man-machine collaborative operation model; and enhance the digital infrastructure construction, upgrade core system, and support the digital transformation of the Company.

(IV) TO INNOVATE REGIONAL OPERATION MODEL AND IMPROVE COMPETITIVENESS IN REGIONAL MARKETS

Efforts will be made to seize the opportunity arising from national major regional strategies, implement city revitalisation plan, duplicate the best practice of the Company, promote the technology empowerment and innovative breakthroughs and overcome the operating disadvantages in urban areas to enhance the operating capability in urban markets; seize the opportunities arising from new urbanisation and rural revitalisation, implement county-level market consolidation plan and optimise county-level business model to strengthen the leading position in the county-level market; and seize the opportunity arising from the "Belt and Road" construction, implement overseas expansion plans, deepen strategic cooperation, optimise overseas business expansion model to explore new development space.

(V) TO ADJUST ASSET ALLOCATION FLEXIBLY AND STEADILY IMPROVE INVESTMENT INCOME

Efforts will be made to strictly control the size of equity assets, adjust the positions in secondary market equities according to the market and optimise the structure of equity assets; under the precondition of strict control over credit risk, flexibly allocate fixed income assets for a stable yield; and reinforce the bond between investment and underwriting, further improve the efficiency of fund utilisation and steadily increase the investment income.

(VI) TO UPHOLD THE BOTTOM LINE OF RISK AND IMPROVE COMPLIANCE OPERATION CAPABILITIES

Efforts will be made to deepen the overall risk management, establish a full-cycle and full-coverage risk management system, accelerate the construction of an intelligent risk control platform, and promote the development of a new digital overall risk management model; refine the internal control and compliance system, implement the risk preference system level by level, and consolidate the responsibilities of “Three Tiers of Defence”; and enhance risk management over key areas and critical process, conduct risk identification, improve the rules and system, refine operational rules and emergency plans for significant risk events, and uphold the bottom line of zero occurrence of systematic risk.

Service 2020

Serving the national significant strategies

- Escorted “Tianwen No. 1”, “China’s Eye of Heaven” and other pillars of the great power, served 2022 Beijing Winter Olympics and other national major projects and strategies.
- Underwrote 626 projects in relation to the “Belt and Road” with 118 countries involved.

Serving the public health

- The social medical insurance business covered 31 provinces (including municipalities and autonomous regions) and 296 cities, serving over 700 million people on a cumulative basis.
- Launched 31 urban-customised commercial medical insurance (the “urban insurance”) projects, with a total number of 9.41 million people insured.

Serving the social governance

- Initially created the public health emergency assistance insurance, covering 78.6 million people.
- Vigorously developed comprehensive governance insurance, safe production liability insurance and other social governance insurance, upgraded the “Insurance + Service” model.

Serving the innovation-driven development

- Refined the first set of major technical equipment, technology insurance and intellectual property insurance product systems with an insured amount of RMB453.6 billion in aggregate.

Serving the consumption upgrades

- Developed the “Enjoying Life” platform and built the system consisting of eight “worry-free” portfolio products covering all aspects of life and consumption scenarios of individual customers.


人民医疗数据中心惠民补充医疗险
河北“冀惠保”产品上市
中国·河北


PICC
中国人保
查勘理赔

Biographical Details of Directors, Supervisors and Other Senior Management

DIRECTORS

Luo Xi, aged 60, a senior economist, a Non-executive Director and the Chairman of the Board of Directors of the Company. Mr. Luo worked in Agricultural Bank of China* from December 1987 to December 2009, during which, he was appointed as an Assistant to President and the General Manager of International Business Department in January 2002, Vice President in March 2004, and an Executive Director and Vice President in December 2008. From December 2009 to November 2013, he served as an Executive Director and Vice President of Industrial and Commercial Bank of China Limited*. From November 2013 to January 2016, he served as the Vice Chairman and the General Manager of China Export & Credit Insurance Corporation. From January 2016 to August 2018, he served as the Vice Chairman and General Manager of China Resources (Holdings) Company Limited. From August 2018 to September 2020, he was the Chairman of China Taiping Insurance Group Ltd. (China Taiping Insurance Group (HK) Company Limited), and also served as the Chairman of China Taiping Insurance Holdings Company Limited**, Taiping Life Insurance Company Limited and Taiping Asset Management Company Limited. Mr. Luo was appointed as an Executive Director and the Chairman of The People's Insurance Company (Group) of China Limited* since October 2020. Mr. Luo also served as a Non-executive Director and the Chairman of PICC Asset Management Company Limited since January 2021, and he was proposed to be appointed as a Non-executive Director and the Chairman of the Board of Directors of The People's Insurance Company of China (Hong Kong), Limited. Since May 2019, he has served as the Honorary President of Insurance Association of China. Mr. Luo graduated from the Postgraduate Department of Financial Chairman Institute of People's Bank of China (currently known as The PBC School of Finance of Tsinghua University) in December 1987 and received a master's degree in economics.

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Xie Yiqun, aged 59, a postgraduate, a senior economist, the Deputy Chairman, an Executive Director of the Company. Mr. Xie joined the People's Insurance Company of China (the "PICC") in April 1980 and was the Deputy General Manager of Wenzhou Branch, the General Manager of the International Business Department of Zhejiang Provincial Branch and the Manager of Insurance Claim Settlement Agency in Marseille, France until January 1995. From January 1995 to December 2001, he was the General Manager of China Insurance Company S.A. Luxembourg, the General Manager of China Insurance Company (UK) Limited, the General Manager of China Insurance Singapore Branch and China Taiping Insurance Group Singapore Branch and the Director of the Singaporean Institutional Reorganisation Preparatory Committee. Mr. Xie was the Chairman of Taiping Life Insurance Co., Ltd. From December 2001 to November 2004. From August 2004 to May 2009, Mr. Xie was the Managing Director and Deputy General Manager of China Insurance (Holdings) Company Limited and China Insurance H.K. (Holdings) Company Limited. From May 2009 to March 2015, Mr. Xie was Deputy General Manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he was the Managing Director from May 2009 to March 2012 and an Executive Director from June 2013 to March 2015. Meanwhile, he was also an Executive Director and Deputy General Manager of China Taiping Insurance Holdings Company Limited*, Chairman of Taiping Assets Management (HK) Company Limited, Chairman of CIC Holdings (Europe) Limited, Chairman of Taiping Pension Co., Ltd., Chairman of Taiping Asset Management Company Limited, Chairman of Taiping Securities (HK) Company Limited, an Executive Director and the General Manager of Taiping Senior Living Investments Company Limited, Chairman of Taiping Financial Holdings Company Limited, Chairman of Taiping Investment Holdings Company Limited and Chairman of Shenzhen Taiping Investment Company Limited. Mr. Xie has served as the Vice President and as an Executive Director of The People's Insurance Company (Group) of China Limited** since March 2015 and October 2017 respectively and he was the Secretary of the Board of Directors from August 2018 to March 2019. He has also been a Director and the Chairman of The People's Insurance Company of China (Hong Kong), Ltd. since June 2015 (and ceased to be the Chairman since May 2019), Chairman of PICC Financial Services Company Limited from January 2017 to March 2019 and Chairman of PICC Investment Holding Company Limited from March 2018 to March 2019. Mr. Xie has been a Vice Chairman of National Internet Finance Association of China since September 2016 and Vice Chairman of the Asian Financial Cooperation Association from July 2017 to May 2019 and a Vice Chairman of the Insurance Association of China since May 2019. Mr. Xie graduated from Nankai University in July 1988 and graduated from Middlesex University, United Kingdom in June 2001 and obtained a degree of Master of Arts. Mr. Xie has 40 years of substantial experience in operation and management in the PRC insurance industry.

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Li Tao, aged 55, Ph.D., a senior economist, a Non-executive Director of the Company. Mr. Li is currently the Deputy Secretary of the Party Committee and the Chairman of the Supervisory Committee of PICC Life Insurance Company Limited. Mr. Li began his career in 1985 and previously taught at Beijing University of Aeronautics and Astronautics. He joined PICC in 1998 and was previously the Deputy General Manager of the Research and Development Center and the Planning and Statistics Department of PICC, Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company, and the General Manager of the Development and Reform Department, General Manager of the Policy Research Office, a Senior Specialist of The People's Insurance Company (Group) of China and the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited*. Mr. Li graduated from Renmin University of China with a master's degree in philosophy in 1993 and graduated from the Party School of the Central Committee of the Communist Party of China with a doctorate degree in economics in 1998. He has 36 years of substantial experience in research and management.

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Jiang Caishi, aged 55, Ph.D., a senior economist, an Executive Director and an Executive Vice President of the Company. Mr. Jiang currently is also the President of the Shanghai Institute of Marine Insurance and Vice President of China Classification Society. Mr. Jiang joined PICC in 1988 and was seconded to New York, U.S.A. for 2 years. Mr. Jiang was previously the General Manager of the International Insurance Department of PICC Tianjin Branch, Deputy General Manager of PICC Tianjin Branch, General Manager of the Property Insurance Department of PICC, General Manager of the Group Insurance Marketing and Management Department and General Manager of the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of Shenzhen Branch of the Company, General Manager of the Agriculture Insurance Department of the Company, a Senior Specialist and concurrently the General Manager of the Business Development Department of The People's Insurance Company (Group) of China, an Executive Vice President, the Chairman of the Supervisory Committee and a Supervisor of the Company. Mr. Jiang once served as the first General Conference Chairman of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool and Chairman on Duty of China Agriculture Insurance and Reinsurance Community. Mr. Jiang resigned as the Chairman of the Supervisory Committee and a Supervisor of the Company on 12 March 2020. Mr. Jiang has 33 years of substantial experience in operation and management in the PRC insurance industry.

Lin Hanchuan, aged 72, 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 the Honorary Dean of the Chinese SME Research Institute of Zhejiang University of Technology and the Chief Expert of the New and Core Professional Think Tank of Zhejiang Province for Transformation and Upgrading of SME. Mr. Lin was formerly the Dean of the School of Economics of Zhongnan University of Economics and Law, 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, an Independent Director of Hubei Kaile Science and Technology Co., Ltd.* and an Independent Non-executive Director of Shengang Securities 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 69, an Independent Non-executive Director of the Company. Mr. Lo was a member of the Selection Committee of the 1st and the 2nd Government of Hong Kong, a member of the Election Meeting of the 9th to the 13th National People's Congress of Hong Kong, a member of the 9th National People's Congress of China and a member of the Executive Officer Election Committee of Hong Kong in 2007 and 2012. Mr. Lo was previously an Independent Non-executive Director and the Vice Chairman of the Airport Authority of Hong Kong, an Independent Non-executive Director of Mass Transit Railway Corporation Limited (now known as "MTR Corporation Limited"*) and MTR Corporation Limited* (now known as "MTR Corporation Limited"*), a member of the Hospital Authority of Hong Kong, an Independent Non-executive Director of the Urban Renewal Authority of Hong Kong, a member of the Financial Services Advisory Committee of the Trade Development Council of Hong Kong, 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 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 the bank, 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.

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

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

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

Ma Yusheng, aged 60, an Independent Non-executive Director of the Company. Mr. Ma is currently the Consultant 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 and was the Assistant President and the Chief Representative in Beijing of China Europe International Business School. 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 enterprise management.

Chu Bende, aged 67, a postgraduate of the Party School of the Central Committee of Communist Party of China, a senior economist, and an Independent Non-executive Director of the Company. Mr. Chu is currently a Consultant of the National Internet Finance Association of China, the Chairman of the Financial Consumer Protection and Training Committee, the Deputy Director Member of the China Digital Economy Investment and Financing Alliance, an adjunct professor of University of International Business and Economics and an external adjunct tutor of postgraduate students majored in finance of Zhejiang University, and was previously the Deputy Director of the Office of the State Administration of Foreign Exchange ("SAFE"), Director-General of the General Affairs Department and Director-General of the Supervision and Inspection Department of SAFE, Deputy Secretary of the Party Committee and Vice President of Shenyang Branch of the People's Bank of China and concurrently Deputy President of Liaoning Branch of SAFE, and Executive Deputy Director (department or bureau level) of Staff Union Work Committee of the People's Bank of China, the Chairman and the Secretary-General of the China Foundation for Development of Financial Education, and he has published, edited and compiled 8 books, and published dozens of byline articles on newspapers and periodicals such as *People's Daily*, *Financial News* and *China Finance Journal*. Mr. Chu graduated from Chinese Academy of Social Sciences and afterwards graduated from the Party School of the Central Committee of Communist Party of China, respectively majoring in currency banking and history of the Communist Party of China. Mr. Chu has substantial experience in public management and financial industry.

Qu Xiaohui, aged 66, Ph.D., an Independent Non-executive Director of the Company. Ms. Qu is a member of the Department of Social Sciences, a retired professor and Doctoral Supervisor of Xiamen University, and is currently a professor, a Doctoral Supervisor and the leader of the Accounting Discipline of Harbin Institute of Technology, Shenzhen, and an expert 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 Master of Professional 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.**, Guangzhou Baiyun Electric Equipment Co., Ltd.*** and SDIC Essence Co., Ltd.***. Ms. Qu is currently a consultant to the China National Steering Committee of Professional Accounting Degree Education, and a member of the Social Sciences Committee of the Ministry of Education, a Vice Chairman of China Cost Research Society, the Chairman of the Accounting Education Committee of the Chinese Accounting Association, the Director of the Standing Committee of Guangdong-Hong Kong-Macao University Accounting Union and an Independent Non-executive Director of SKSHU Paint Co., Ltd.***, Xiamen Meiya Pico Information Co., Ltd.** and Qingdao Doublestar Co., LTD**. Ms. Qu graduated from Xiamen University with a doctorate degree in economics and has substantial experience in the areas of accounting research and financial management.

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SUPERVISORS

Zhang Xiaoli, aged 56, a postgraduate, a Master, the Chairman of the Supervisory Committee of the Company. Mr. Zhang was a troop leader of the Chinese People's Liberation Army from 1980 to 2000. He joined PICC in 2000 and was previously the Manager of the Disciplinary and Supervisory Office of PICC, Deputy General Manager of the Monitoring Department of the Company, General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited, and Secretary of the Commission for Discipline Inspection, an Executive Vice President, Secretary of the Board of Directors, the Responsible Compliance Officer, the Responsible Auditing Officer 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 21 years of substantial management experience in the PRC insurance industry.

Wang Yadong, aged 50, a Master, an economist, a Shareholder Representative Supervisor of the Company since March 2019. Mr. Wang is currently the General Manager of the Audit Department and an Employee Representative Supervisor of The People's Insurance Company (Group) of China Limited*. Mr. Wang joined PICC in 1995, and was previously the Deputy Manager of the Property Insurance Division, General Manager of the Underwriting Management Department, General Manager of the Property Insurance Business Department, the Large-scale Commercial Risk Insurance Department, the Marine Hull and Cargo Insurance Business Department and the Reinsurance Department of PICC Hubei Branch, and the Senior Manager of the Business Coordination Division of Business Development Department, Senior Manager of the Infrastructure Office, Deputy General Manager of the Infrastructure Office of the South Information Centre (Phase II) and General Manager of the Infrastructure Office of The People's Insurance Company (Group) of China Limited*. Mr. Wang graduated from Hunan Institute of Finance with a bachelor's degree in management and afterwards graduated from Huazhong University of Science and Technology with a master's degree in business management. Mr. Wang has 26 years of substantial experience in operation and management in the PRC Insurance Industry.

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Lu Zhengfei, aged 57, Ph.D., a professor, a doctoral supervisor, an Independent Supervisor of the Company since January 2011. Mr. Lu is currently a Professor of Accounting and Doctoral Supervisor of Guanghua School of Management of Peking University, the Director of the Research Center for Financial Analysis and Financial Investment of Peking University, an Executive Director and concurrently the Deputy Director of the Professional Committee for Financial Management of the Chinese Accounting Association. Mr. Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sino Biopharmaceutical Limited*, Zhejiang Tailong Commercial Bank Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd and an Independent Director of China Cinda Asset Management Co., Ltd.* and CMB International Capital Corporation Limited. Mr. Lu was previously an Independent Non-executive Director of the Company, Bank of China Limited** and China Nuclear Engineering & Construction Corporation Limited***, Lian Life Insurance Co., Ltd. and Beijing Turen Urban Planning and Design Co., Ltd. Mr. Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005, the "Accountant Specialist Training Project" of the Ministry of Finance of the PRC in 2013, and as a Cheung Kong Chair Professor of the Ministry of Education of the PRC in 2014. Mr. Lu graduated from Nanjing University with a doctorate degree in economics and completed the post-doctoral research on economics (accounting) at Renmin University of China.

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Gao Hong, aged 54, a university graduate, an engineer, an Employee Representative Supervisor of the Company since February 2017. Ms. Gao is currently the Deputy Chairman of the Staff Union Committee and General Manager of the Staff Union Work Department of the Company. Ms. Gao joined PICC in 1996 and was previously the Deputy Manager of the Education and Training Division of the Human Resources Department of PICC, Manager of the Training Division of the Human Resources Department, Assistant General Manager, Deputy General Manager of the Education and Training Department, Deputy General Manager of the Education and Training Department and concurrently Director of the Exam Center (department manager level) and Deputy General Manager of the Trade Union Work Department (in charge, department manager level) of the Company. Ms. Gao has 25 years of operation and management experience in the PRC insurance industry.

Wang Xiaoli, aged 58, a full-time university graduate, a bachelor of agriculture, a senior accountant and an Employee Representative Supervisor of the Company since 12 May 2020. Ms. Wang is currently the General Manager of the Audit Department/Office of the Board of Supervisors of the Company. Ms. Wang started work in 1983 and has engaged in the economic management work for many years. She joined The People's Insurance Company (Group) of China Limited* in March 2016, and was previously the Deputy General Manager (in charge) of the Audit Department of PICC Capital Investment Management Co., Ltd., the Deputy General Manager (manager level) of the Supervision Department/Audit Department of the Company and the Senior Expert and Deputy General Manager of the Audit Department/Office of the Board of Supervisors of the Company. Ms. Wang has 28 years of substantial management experience in economic and insurance industries.

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OTHER SENIOR MANAGEMENT

Yu Ze, aged 49, a university graduate, the Secretary of the Party Committee of the Company. Mr. Yu joined PICC in July 1994 and worked until July 2003. From July 2003 to October 2006, Mr. Yu served in the Company and was the Deputy General Manager of the Motor Vehicle Insurance Department of Tianjin Branch of the Company. He worked at The Tai Ping Insurance Company Limited (Taiping General Insurance Co., Ltd.) from October 2006 to December 2019 and served as the General Manager of the Tianjin Branch in February 2007, Marketing Director in May 2009, Assistant General Manager in April 2010, Deputy General Manager in October 2012, Deputy General Manager (in charge) in October 2015, and the General Manager in September 2016. He also served as a Director of Taiping Reinsurance Brokers Limited, the Chairman of Taiping Science and Technology Insurance Co., Ltd., Director of Taiping-Starr Holdings, LLC and Director of Taiping-Starr Insurance Agency, Inc. Mr. Yu was appointed as the Vice President of The People's Insurance Company (Group) of China Limited* since December 2019 and he was appointed as the Responsible Compliance Officer and Chief Risk Officer since April 2020. Mr. Yu also served as the Chairman of PICC Investment Holding Company Limited from April 2020 to March 2021 and a Non-executive Director and the Chairman of PICC Financial Services Company Limited since December 2020. Mr. Yu has served as an Executive Director of China Foreign Trade Council since September 2019. Mr. Yu graduated from Nankai University in July 1994 with a bachelor's degree in Economics. Mr. Yu has 27 years of substantial experience in operation and management in the PRC insurance industry.

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Feng Xianguo, aged 58, 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 Motor Vehicles Insurance Division and General Manager of the Motor 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 37 years of substantial experience in operation and management in the PRC insurance industry.

Shen Dong, aged 52, 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 29 years of substantial experience in operation and management in the PRC insurance industry.

Wu Jianlin, aged 58, a university graduate, a senior economist, an Executive Vice President of the Company. Mr. Wu is also a member of the 11th Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference and a Model Worker of the Inner Mongolia Autonomous Region in 2010. Mr. Wu began his career in 1979 and joined PICC in 1984. He was previously the Deputy Director, Deputy Manager and Director of the General Office and the Business Publicity Division of PICC Hangzhou Branch, the Chief Responsible Officer and Manager of Hangzhou Xihu Sub-branch and Manager of the General Office of Zhejiang Provincial Branch of PICC Property Insurance Company, Assistant General Manager and Deputy General Manager of PICC Zhejiang Provincial Branch, Deputy General Manager of Zhejiang Provincial Branch and concurrently General Manager of Hangzhou Branch of the Company, the Chief Responsible Officer and General Manager of Inner Mongolia Branch of the Company, the Chief Responsible Officer and General Manager of Zhejiang Provincial Branch of the Company, and an Assistant to the President of the Company. Mr. Wu graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management. Mr. Wu has 36 years of substantial experience in operation and management in the PRC insurance industry.

Shao Liduo, aged 54, Ph.D., a senior engineer, an Executive Vice President, the Chief Information Technology Officer of the Company. Mr. Shao began his career in 1985 and joined PICC Property Insurance Company in 1998. He was previously the Deputy Manager and Manager of the Software Development Division of the Information & Technology Department of PICC, and Manager of the Software Development Division of the Information & Technology Department, Deputy General Manager of the Vehicles Insurance Department, Deputy General Manager (in charge) and General Manager of the Information & Technology Department and an Assistant to the President of the Company. Mr. Shao enjoyed the special government allowance from 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 31 years of substantial experience in operation and management in the PRC insurance industry and the information and technology sector.

Fu Lianghua, aged 54, a postgraduate, a Master of Military Science, the Secretary of the Discipline Inspection Commission of the Company. Mr. Fu served the People's Liberation Army from October 1983 to December 2016. He joined China Life Insurance Company Limited* in December 2016, successively serving as the Deputy General Manager of the Audit and Supervision Department, the Secretary of the Discipline Inspection Commission of Jilin Branch, a member of the Party Committee and the Director of the Trade Union (headquarters department general manager level). Mr. Fu joined The People's Insurance Company (Group) of China Limited* since April 2018, successively serving as the Deputy General Manager of General Office (department manager level), the Deputy Director of the Party Committee Office, the Deputy General Manager of General Office (in charge, department manager level), the Deputy Director of the Party Committee Office (in charge), the General Manger of General Office and the Director of the Party Committee Office. Mr. Fu graduated successively from China People's Liberation Army Sports College and China People's Liberation Army National Defence University. Mr. Fu has 29 years of substantial management experience.

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

Zhang Daoming, aged 45, a postgraduate, a Master of Business Administration, an economist, an Assistant to the President of the Company and the Secretary of Party Committee and General Manager of Guangdong Provincial Branch of the Company. Mr. Zhang was the Deputy Division Chief of the Comprehensive Planning Division of the Human Resources Department and the Deputy Division Chief of the Market Research Division of the Strategic Development Department of the Company, the Deputy General Manager of the Human Resources Department of Anbang Property & Casualty Insurance co., LTD, the Assistant to the General Manager, the Deputy General Manager, the Deputy General Manager (in charge) of the Market Research Department/Channel Management Department of the Company, a member of party committee and the Deputy General Manager of Zhejiang Provincial Branch of the Company and the General Manager of Compliance Department/Risk Management Department of the Company, the Secretary of party committee and the General Manager of Jiangxi Provincial Branch and Guangdong Provincial Branch of the Company. Mr. Zhang graduated from the School of Economics and Management of Tsinghua University with a master's degree in business administration. Mr. Zhang has 22 years of substantial management experience in the PRC insurance industry.

Xia Yuyang, aged 58, a postgraduate of party school of the Communist Party of China, a senior economist, an Assistant to the President of the Company, the Secretary of party committee and the General Manager of Jiangsu Provincial Branch of the Company. Mr. Xia served as a member of party committee, the Assistant to General Manager, the Deputy General Manager of Yangzhou Branch of the Company, the Secretary of party committee and the General Manager of Lianyungang Branch of the Company, the Assistant to General Manager, a member of party committee and the Deputy General Manager of Jiangsu Provincial Branch of the Company, the Director of Nanjing Supervision and Audit Center, the Secretary of party committee and the General Manager of Anhui Provincial Branch and Jiangsu Provincial Branch of the Company. Mr. Xia graduated from the Jiangsu Provincial Party School. Mr. Xia has 38 years of substantial management experience in the PRC insurance industry.

Zou Zhihong, aged 50, a full-time Ph.D., a senior economist, Secretary of the Board of Directors, 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 and General Manager of the Legal Department of the Company. Mr. Zou graduated from Wuhan University with a doctorate degree in law. Mr. Zou has 22 years of substantial experience in the field of legal compliance.

Report of the Board of Directors

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

BUSINESS REVIEW

PRINCIPAL ACTIVITIES

The Company is engaged in motor vehicle insurance, commercial property insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, agriculture insurance, credit insurance, surety insurance, homeowners insurance, marine hull insurance and other insurance businesses in Chinese mainland, 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, training services, IT services, property management services, etc. Details of the Company's subsidiaries are set out in note 25 to the consolidated financial statements.

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

The Company has adopted a prudent risk management strategy, and the risk management service is guided by the overall business strategy of the Company. The Company has maintained the underwriting ability and solvency compatible to the business scale and development speed. In 2020, the Company has maintained its business stable, achieved adequate solvency, maintained the comprehensive risk rating at a relatively good level, and the overall risk is under control.

In 2020, the business development of insurance industry was impacted by the COVID-19 at the beginning of the Year. However, as the normalisation of epidemic prevention and control, the resumption of work and production of enterprises, and the issuance of various national supporting policies, the overall insurance industry has shown a stable performance. At present and in the near future, we still need to focus on and take countermeasures with respect to certain risks and uncertainties, which mainly include the following aspects. **Firstly, in terms of credit risk,** due to the pandemic, the social credit environment is grim with a relatively high default risk. The risks of capital utilisation and financing credit and surety insurance increase, and collecting the premiums receivable gets more difficult. **Secondly, in terms of market risk,** the monetary easing policy featuring a low interest rate remains, whilst the high-quality financial products supply under the new asset management regulations is limited, leading to the increasing difficulty in insurance fund allocation and the downward pressure of the holding yield. The global stock markets, including the A-share market in the PRC, are gradually experiencing structural overvaluation pressure, which will increase the difficulty and risk exposure of equity investments in the secondary market. **Thirdly, in terms of regulatory policies,** the implementation of the motor vehicle insurance comprehensive reform in 2020 will further open up the room for pricing. The decrease of average premium per car and increase of insurance liability limitation have brought challenges to the Company in respect of product design, pricing capabilities, risk management capabilities, and future business operations.

The Company will continually adhere to the general keynote of seeking progress while maintaining stability, base on the new development stage of the "14th Five-Year Plan", take PICC Group's "Excellent Insurance Strategy" as its guideline, focus on "building a comprehensive risk management platform", continue to facilitate the construction of "rules, systems and assessment", promote the implementation of the second-phase results of the "C-ROSS" project, and comprehensively improve risk management capabilities. **In terms of investment risk management and control,** the Company will continuously adhere to prudent investment strategy and relatively low tolerance of credit risks, set relatively high standards for entry standard of counterparties and investment assets, conduct categorised assessments of risk assets regularly, keep track of principals and interests payment of non-standard financial products, and strengthen post-investment management. The Company will continually optimise the position structure, reasonably control the scale of equity investment assets and the volatility of investment assets through stop-profit and stop-loss mechanisms. **In terms of risk management and control of premiums receivable,** the Company continually enhances refined process management of premiums receivable, formulates differentiated management and control goals based on the characteristics of different insurance types, conducts regular monitoring analysis and risk warnings, establishes an accountability mechanism for premiums receivable, and incorporates such accountability results into financial inspection and auditing. In addition, the Company is developing a management platform for premiums receivable to achieve full-process management for the monitoring and analysis of premiums receivable, collection warnings, impairment accrual, written-off, accountability and other procedures. **In terms of risk management and control of financing credit and surety insurance,** the Company adopts prudent underwriting principle, optimises and adjusts business structure, strictly controls risk exposure, introduces third-party credit data, improves risk control models, strengthens information system construction, improves post-loan (financing) asset monitoring and collection and recovery system, and constantly consolidates business operation capabilities. **In terms of improvement of operating capabilities of motor vehicle insurance,** the Company will stick to the philosophy of profitable underwriting, continue to optimise business structure, implement differentiated pricing and cost allocation, increase the penetration rate and renewal rate of advantageous businesses, strictly control claim settlement process, accelerate direct sales channel construction, and enhance the profitability of motor vehicle insurance business. Meanwhile, the Company will proactively seize opportunities to promote product innovation, to achieve a new leap in motor vehicle insurance business with new products and in new fields.

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 "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 "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

SOCIAL RESPONSIBILITY REPORT

For details of the implementation of social responsibilities of the Company during the Year, please refer to the Corporate Social Responsibility Report, the full text of which will be separately disclosed by the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

The Company strictly complied with all relevant national environmental laws and regulations, actively put its philosophy of green development into practice by implementing a mechanism for green operation and striving to reduce consumption of resources and energy. As water and papers are the primary resources consumed by the Company, in order to continuously reduce the consumption of resources, the Company continued to improve paperless operation at all levels of the Company through the promotion of digital operation, and imposed reasonable control over water consumption. The primary energies consumed by the Company include electricity, gasoline and natural gas. By adopting specific measures such as staggering the operation hours of central air-conditioning, public lighting, elevators and other public energy-consuming facilities, introducing energy conservation signs and increasing employees' awareness about energy conservation, the Company strived to reduce energy consumption and continued to increase efficiency in order to reduce the emission of greenhouse gases.

Following the principle of classified treatments of wastes and in strict compliance with the relevant national environmental protection standards, the Company applied specialised treatments to all kinds of wastes based on the principle of classified treatments and relied on third parties' professional treatments.

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

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

In 2020, the Company actively adapted to the insurance industry development and reform trends, researched the impacts of various newly promulgated laws and regulations on the Company's business operation, and proactively took measures to ensure the effective implementation of various reform initiatives. The Company continuously strengthened compliance culture promotion by introducing innovative means and methods and expanding coverage of promotion and training so as to promote the philosophy of carrying out business in accordance with laws and regulations throughout the Company. According to the requirements of the CBIRC, the Company continuously promoted review of rectification throughout the Company, rectified problems identified by the CBIRC during on-site inspection, effectively strengthened consumers' right and interest protection and ensured the risks were overall controllable. The Company made great efforts in improving risk prevention and control capabilities in key areas, improving overall risk management system, establishing comprehensive risk prevention and control framework, upgrading risk management technologies and enhancing risk prevention and control at the branch level. With the "Three Tiers of Defence" each playing its role and continuous strengthening of the operation mechanism based on closed-loop management, the Company upheld the bottom line of zero occurrence of systematic risk. Through formulating and improving internal rules and systems, the Company carried out various legal and regulatory requirements, improved internal control and management of the Company and facilitated the establishment of a long-term mechanism of operation in compliance with laws and regulations, with a view to providing solid support for the high-quality development of the Company.

In 2020, the overall compliance status of the Company's operation and management was good and the compliance risk management system was in normal operation. There was no material systematic compliance risk.

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. The Company is not aware of any significant relationships with its employees, which have a significant impact on the Company and are the basis of its success.

RELATIONSHIP BETWEEN THE COMPANY AND CUSTOMERS

In 2020, the Company, guided by "Excellent Insurance Strategy", solidly carried out the "Warmth Project" and strived to improve customer service capabilities and consistent customer experience. **Firstly**, the Company strengthened the implementation of traditional core work functions such as customer service management, customers' right and interest protection and customer resources application. The "95518" customer service hotline of the Company received the "Best Customer Contact Center in China" award for 12 years consecutively. The Company was accredited as one of the top ten excellent organisers of the "3.15" consumers' rights and interest protection promotion week and comprehensive financial knowledge education and promotion activity in 2020, which has been praised by regulatory authorities. **Secondly**, the Company adhered to the customer-centric principle and promoted the customer perspective-oriented optimisation of the Company's operational process based on the technology empowerment and digitisation, through innovative measures such as strengthening innovation and overall promotion, making efforts to attract customers online, carrying out customer journey and NPS (Net Promoter Score) management, and deepening the big data management applications; and strengthened operational collaboration and resource sharing among various functional sections such as underwriting, claim settlement, and sales. The customer visits of WeChat official account of the Company, PICC APP, and website totaled more than 1 billion, and the accumulated following users exceeded 100 million, and provided 7*24 uninterrupted warm service during the epidemic. **Thirdly**, the technology empowerment and innovative drive gradually took effect. As the sole representative of the insurance industry, the innovative project of the Company, SME Innovation and Entrepreneurship Service Guarantee Plan, was historically shortlisted in the National Mass Entrepreneurship and Innovation Week for the first time in the industry. The Company's service model innovations such as "Traffic Police and Insurer Joint Work" won three awards including "2019-2020 Service Innovation Gold Medal Case" by China Banking and Insurance News.

The Company is not aware of any significant relationships with its customers, which have a significant impact on the Company and are the basis of its success.

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTRATION FOR H SHARE MEMBERS

The Board proposed the distribution of a final dividend of RMB0.375 per share (inclusive of applicable tax) for the year ended 31 December 2020. The total amount of dividend was approximately RMB8,341 million. The above proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The specific arrangement regarding announcement and distribution of the final dividend, the closure of registration for H share members, etc. will be disclosed separately in the circular for the annual general meeting. If approved at the annual general meeting, the final dividend will be paid around 9 July 2021 by the Company. To the knowledge of the Company, there was no arrangement under which the shareholders waived or agreed to waive any dividend.

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

WITHHOLDING AND PAYMENT OF DIVIDEND INCOME TAX

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

SHARE CAPITAL

During the Year, there was no change in the share capital of the Company.

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 2020, according to the PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB48,342 million and the distributable reserves of the Company were RMB48,594 million.

CAPITAL SUPPLEMENTATRY BONDS

On 23 March 2020, the Company issued capital supplementary bonds of RMB8 billion in the national inter-bank bond market. Term of the capital supplementary bonds is 10 years. The coupon rate is 3.59% per annum for the first five years. The Company has the option to redeem the capital supplementary bonds at the end of the fifth year. If the Company does not exercise the redemption right, the coupon rate will be 4.59% per annum for the remaining five years. Proceeds from the capital supplementary bonds were used for supplementing the capital and raising the solvency margin of the Company.

INVESTMENT PROPERTIES, PROPERTY AND EQUIPMENT

Details of the investment properties, property and equipment of the Company are set out in note 26 and 27 to the consolidated financial statements. As at 31 December 2020, the Company did not own any properties for investment purposes or held for development and/or sale where one or more percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed 5%.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB76.59 million, of which RMB51.53 million were donations for public benefits.

MAJOR CUSTOMERS

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

DIRECTORS AND SUPERVISORS

The Directors and Supervisors in office during the Year, and the changes in the members of the Board of Directors and the members of the Supervisory Committee as well as the reasons for resignation of Directors and Supervisors from 1 January 2020 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.

The Company confirms that none of the Directors or Supervisors have waived or agreed to waive any remuneration, nor has the Company nor the Company's subsidiaries paid any remuneration to any Director or Supervisor as an inducement to join or upon joining the Company or the Company's subsidiaries or as compensation for loss of office.

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

HIGHEST PAID INDIVIDUALS

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life, PICC Health and PICC Pension, subsidiaries of PICC Group, the controlling shareholder of the Company, are also engaged in accidental injury insurance and short-term health insurance businesses. Mr. Li Tao, a Non-executive Director of the Company, is also the Chairman of the Supervisory Committee of PICC Life. Mr. Miao Jianmin, the former Chairman of the Company, was also the Chairman of PICC Life, PICC Health and PICC Pension. Mr. Tang Zhigang, a former Non-executive Director of the Company, was the Chairman of PICC Pension.

Save as disclosed above, none of the Directors 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 2020 to the date of this report.

EQUITY-LINKED AGREEMENTS

During the Year, the Company and its subsidiaries did not enter into and did not have any equity-linked agreements.

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 or its associates.

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

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

The Directors, Supervisors and President 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 2020 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 THE SFO

As at 31 December 2020, the following persons held interests or short positions in the shares or underlying shares of the Company that were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO, or notified to the Company and the Hong Kong Stock Exchange by other means:

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

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue *(Note 1)*	Percentage of total number of shares in issue *(Note 1)*
The Capital Group Companies, Inc.	Interest of controlled corporations	622,713,994 *(Note 2)*	Long position	9.03%	2.79%
JPMorgan Chase & Co.	Interest of controlled corporations, investment manager, person having a security interest in shares, trustee, approved lending agent	458,389,328 *(Note 3)*	Long position	6.64%	2.06%
	Interest of controlled corporations	49,381,139 *(Note 3)*	Short position	0.71%	0.22%
	Approved lending agent	311,449,264	Lending pool	4.51%	1.40%
Citigroup Inc.	Person having a security interest in shares, interest of controlled corporations, approved lending agent	436,927,260 *(Note 4)*	Long position	6.33%	1.96%
	Interest of controlled corporations	18,181,489 *(Note 4)*	Short position	0.26%	0.08%
	Approved lending agent	401,403,920	Lending pool	5.81%	1.80%
BlackRock, Inc.	Interest of controlled corporations	410,057,301 *(Note 5)*	Long position	5.94%	1.84%
	Interest of controlled corporations	752,000 *(Note 5)*	Short position	0.01%	0.00%
Schroders Plc	Investment manager	353,373,287	Long position	5.12%	1.59%

Notes:

1. As of 31 December 2020, the Company has issued a total of 15,343,471,470 domestic shares and 6,899,293,833 H shares. Combined, the Company has issued a total of 22,242,765,303 shares as of 31 December 2020.

2. Among which, 825,125 H shares (Long position) were held through derivatives, categorised as held through physically settled unlisted derivatives.

3. Among which, 2,753,000 H shares (Short position) were held through derivatives, categorised as held through cash settled listed derivatives; 7,487,936 H shares (Short position) were held through derivatives, categorised as held through physically settled unlisted derivatives; 21,264,000 H shares (Long position) and 37,921,364 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives; and 3 H shares (Short position) were held through derivatives, categorised as held through convertible instruments listed derivatives.

4. Among which, 153,850 H shares (Long position) were held through derivatives, categorised as held through physically settled listed derivatives; 168,000 H shares (Short position) were held through derivatives, categorised as held through physically settled unlisted derivatives; 959,000 H shares (Long position) and 13,154,992 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

5. Among which, 124,000 H shares (Long position) and 396,000 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company that were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept under Section 336 of the SFO, or being substantial shareholders of the Company as at 31 December 2020.

PUBLIC FLOAT

For the period from 1 January 2020 to the date of this report, 31.02% of the total number of issued shares of the Company is held by the public and therefore the Company continues to comply with the minimum public float requirement under the Listing Rules.

MANAGEMENT CONTRACT

Pursuant to the Asset Management Agreement and the Supplemental Agreement to Asset Management Agreement entered into between the Company and PICC AMC (a subsidiary of PICC Group, the Company's controlling shareholder), PICC AMC provides the Company with investment management services in respect of certain investment assets entrusted by the Company. The Company pays PICC AMC entrusted asset management fees. Pursuant to the Asset Management Agreement and the Supplemental Agreement to Asset Management Agreement entered into between the Company and PICC Investment and PICC Capital (subsidiaries of PICC Group, the Company's controlling shareholder), respectively, the Company entrusts PICC Investment and PICC Capital to manage certain investment assets, and PICC Investment and PICC Capital use the assets entrusted by the Company to subscribe for the debt financial products and equity financial products sponsored and managed by them. The Company pays PICC Investment and PICC Capital product management fees. The particulars of such agreements are set forth in "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 "Connected Transaction" and "Continuing Connected Transactions" below.

CONNECTED TRANSACTIONS

The connected transactions of the Company in the Year that were subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules include: (I) the South Information Center Package Service Agreement with PICC Group; (II) the Promoters' Agreement with PICC Life, PICC Health and other promoters who are not connected persons of the Company to jointly establish the National SME Development Fund Co. Ltd.; (III) the joint establishment of PICC Real Estate (Shenzhen) Company Limited with PICC Life and PICC Health; (IV) the Capital Increase Agreement with PICC Life, PICC Health and North Information Center to increase the capital of North Information Center; and (V) the Capital Increase Agreement with PICC Group, PICC Life and PICC Financial Services to increase the capital of PICC Financial Services. As PICC Group is the controlling shareholder of the Company, PICC Group is a connected person of the Company according to the Listing Rules. As PICC Life, PICC Health and PICC Financial Services are subsidiaries of PICC Group, the controlling shareholder of the Company, such companies are connected persons of the Company under the Listing Rules. North Information Center is a non-wholly owned subsidiary of the Company, 30% equity interest of which is collectively held by PICC Life and PICC Health. Accordingly, North Information Center constitutes a connected subsidiary of the Company.

(I) THE SOUTH INFORMATION CENTER PACKAGE SERVICE AGREEMENT WITH PICC GROUP

In order to lead the strategic synergy within the group into further play and reduce the costs arising from repeated construction and usage, the Company entered into the South Information Center Package Service Agreement with PICC Group on 18 March 2020, with a term commencing from 1 January 2020 to 31 December 2021. Pursuant to the agreement, PICC Group shall provide the Company with, among others, the service of leasing workplaces, meeting rooms and server installation positions in the server building. The lease service charge consists of the rents of workplaces, the rents of meeting rooms and the rents of server installation positions in the server building, and shall be calculated on the basis of the areas of workplaces actually rented, usage of meeting rooms and the number of server installation positions actually rented as well as the corresponding rental per unit. Pursuant to the agreement, the Company estimates the maximum lease service charges to be paid to PICC Group in 2020 and 2021 to be RMB88.33 million (exclusive of tax) and RMB97.17 million (exclusive of tax) respectively. In accordance with HKFRSs 16 – Lease, the Company is required to recognise the property use right of the South Information Center under the agreement as a right-of-use asset with an approximate amount of RMB176.27 million.

(II) PARTICIPATION IN THE INVESTMENT IN NATIONAL SME DEVELOPMENT FUND CO., LTD.

On 19 June 2020, the Company entered into the Promoters' Agreement with PICC Life, PICC Health and other promoters who are not connected persons of the Company, pursuant to which all parties agreed to jointly establish the National SME Development Fund Co., Ltd. (國家中小企業發展基金有限公司). The Company shall subscribe for RMB200 million of the registered capital of the National SME Development Fund Co., Ltd., with a shareholding of 0.56%. This transaction was funded by the monetary assets of the Company entrusted to PICC AMC. The investment in the National SME Development Fund Co., Ltd. has relatively high strategic investment value to the Company. In the meantime, as the investment strategy of the National SME Development Fund Co., Ltd. is mainly based on the equity participation in sub-funds, the investment is fully dispersed, the overall risk is controllable, and the benefit distribution is relevantly beneficial to social capital such as the Company.

(III) JOINT ESTABLISHMENT OF PICC REAL ESTATE (SHENZHEN) COMPANY LIMITED

On 26 June 2020, the Company entered into the Shareholders' Capital Contribution Agreement with PICC Life and PICC Health, pursuant to which all parties agreed to jointly establish PICC Real Estate. The Company will subscribe for approximately RMB2.47 billion of the registered capital of PICC Real Estate, with a shareholding of 50%. In addition to the abovementioned capital contributions made to the registered capital, the Company will make further contributions of RMB7.5 million to the capital reserve of PICC Real Estate in proportion to its shareholding of 50%. Pursuant to the Agreement, the capital contributions shall be paid by all investors in cash. PICC Real Estate, to be jointly established by the Company, PICC Life and PICC Health, will purchase the Target Property. The Target Property proposed to be purchased is at reasonable price, can be rented in the future and has certain property investment value considering the economic development prospects of such area.

The financial results of PICC Real Estate has been consolidated into the financial statements of the Company since the financial year of 2020, details of which are set out in the announcement of the Company dated 29 January 2021.

(IV) CAPITAL INCREASE IN NORTH INFORMATION CENTER

With the aim of constructing an integrated information management platform, pushing forward the digitalisation transformation and enhancing the overall competitiveness of the Company, the Company entered into the Capital Increase Agreement with PICC Life, PICC Health and North Information Center on 16 July 2020. Pursuant to the agreement, North Information Center's registered capital will be increased by RMB2,397.39 million, which shall be contributed by the Company, PICC Life and PICC Health in proportion to their share of equity interest. The Company shall contribute RMB1,678.173 million to the increased registered capital of North Information Center. Upon completion of the capital increase in North Information Center, the percentage of equity interest held by the Company remains at 70% of the registered capital of North Information Center.

(V) CAPITAL INCREASE IN PICC FINANCIAL SERVICES

On 15 December 2020, the Company entered into the Capital Increase Agreement with PICC Group, PICC Life and PICC Financial Services. Pursuant to the capital increase agreement, the amount of the capital increase in PICC Financial Services shall be RMB500 million, among which RMB300 million shall be contributed by the Company and RMB200 million shall be contributed by PICC Life. The net assets per RMB1 of registered capital of PICC Financial Services in the capital increase was determined based on the appraised value of its net assets at RMB1,205,208,300. Accordingly, the Company shall make the capital contribution of RMB300 million to PICC Financial Services, among which RMB248,919,626.59 shall be the registered capital contribution and the remaining RMB51,080,373.41 shall be a premium recorded as capital reserve. Upon completion of the capital increase, PICC Financial Services will be held as to approximately 70.68%, 17.59% and 11.73% by PICC Group, the Company and PICC Life, respectively. Entering into the Agreement to participate in the capital increase in PICC Financial Services will drive PICC Financial Services to respond more efficiently to the Company's needs of business development in respect of relevant financial insurance technology, push forward relevant business segments of the Company to improve scientific and technological elements, and enhance and improve the overall competitiveness of the Company.

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 reinsurance framework agreement with PICC HK; (II) the reinsurance framework agreement with PICC Re; (III) the asset management agreement and the supplemental agreement to the asset management agreement entered into between the Company and PICC AMC; (IV) the asset management agreements and the supplemental agreements to the asset management agreements entered into between the Company and PICC Investment and PICC Capital respectively, as well as the memorandum on connected transaction entered into between the Company and PICC AMC; (V) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively; (VI) the goods procurement contract entered into between the Company and Bangbang Auto Sales & Services; (VII) the framework agreement on occupational annuity fund management business and corporate annuity fund management business cooperation entered into between the Company and PICC Pension; and (VIII) business cooperation agreement with PIB. As all of PICC HK, PICC Re, PICC AMC, PICC Investment, PICC Capital, PICC Life, PICC Health, PICC Pension and PIB are subsidiaries of PICC Group, the controlling shareholder of the Company, these companies are connected persons of the Company according to the Listing Rules. As the Company and PICC Financial Services, a wholly-owned subsidiary of PICC Group (the controlling shareholder of the Company) each holds 24.5% of the registered capital in Bangbang Auto Sales & Services, pursuant to the Listing Rules, Bangbang Auto Sales & Services is a connected person of the Company.

(I) THE REINSURANCE FRAMEWORK AGREEMENT WITH PICC HK

On 21 January 2020, the Company and PICC HK entered into the 2020 Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2020 and expiring on 31 December 2020. 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 framework 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 acted as reinsurer accepted the risks of and paid commissions to the other party to the agreement in return for the agreed insurance premiums received from such other party. Under the framework agreement, the parties to the agreement would 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 to PICC HK by the Company and the commissions expected to be received by the Company from PICC HK for the Year were RMB800 million and RMB360 million, respectively. Such transactions constitute de minimis exempted continuing connected transactions 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 for the Year were RMB615 million and RMB234 million, respectively. The actual insurance premiums ceded to the Company by PICC HK and the commissions received by PICC HK from the Company for the Year were RMB10 million and RMB2 million, respectively.

On 20 January 2021, the Company and PICC HK entered into the 2021 Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2021 and expiring on 31 December 2021. For relevant details please refer to the Company's announcement dated 20 January 2021.

(II) THE REINSURANCE FRAMEWORK AGREEMENT WITH PICC RE

On 21 January 2020, the Company and PICC Re entered into the 2020 Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2020 and expiring on 31 December 2020. PICC Re is the fourth Chinese-funded corporate reinsurance company in the PRC. The Company entered into the Framework Agreement on Reinsurance Business Cooperation with PICC Re in order to achieve risk diversification and stabilisation of operation. Pursuant to the framework agreement, the Company agreed to cede insurance premiums to PICC Re from time to time, and PICC Re, who acted as reinsurer, accepted the risks of and paid commissions to the Company in return for the agreed insurance premiums received. Under the framework agreement, the parties to the agreement would 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 RMB6,000 million and RMB2,700 million, respectively. The actual insurance premiums ceded by the Company to PICC Re and commissions received by the Company from PICC Re were RMB3,772 million and RMB1,644 million, respectively.

On 20 January 2021, the Company and PICC Re entered into the 2021 Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2021 and expiring on 31 December 2021. For relevant details please refer to the Company's announcement dated 20 January 2021.

(III) THE ASSET MANAGEMENT AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO THE ASSET MANAGEMENT AGREEMENT ENTERED INTO BETWEEN THE COMPANY AND PICC AMC

On 28 August 2019, the Company and PICC AMC entered into the Asset Management Agreement and Supplemental Agreement to the Asset Management Agreement with a term commencing from 1 July 2019 and expiring on 30 June 2022 to continue the original asset management arrangement. PICC AMC, principally engaged in the provision of asset management and asset management consultation services in the PRC, has the experience and expertise in asset management and presents satisfactory investment management capability with management fee rates at comparatively lower level in the asset management industry. PICC AMC has established a good cooperation relationship with the Company. Pursuant to the Asset Management Agreement and Supplemental Agreement to the Asset Management Agreement, the Company entrusted PICC AMC to manage some of its investment assets, and PICC AMC manages the entrusted assets in accordance with the Asset Management Agreement and Supplemental agreement, relevant laws and regulations and regulatory rules and the investment guidelines formulated by the Company. The Company pays entrusted asset management fees and performance bonuses or deduction of management fees (if any) to PICC AMC.

The annual cap for the entrusted asset management fees (including performance-based bonuses and penalties) expected to be paid by the Company to PICC AMC for the Year was RMB260 million. The actual entrusted asset management fees (including performance-based bonuses and penalties) incurred for the Year were RMB216 million.

In addition, the Company entered into the Marketisation Entrusted Portfolio Asset Management Agreement with PICC AMC on 7 August 2019 with a term from 7 August 2019 to 6 August 2022. As the Marketisation Agreement differs from the Asset Management Agreement and the Supplemental Agreement in terms of investment asset scale, investable scope, management fee level and performance benchmark, the Company entered into the Marketisation Agreement with PICC AMC separately. Pursuant to the Marketisation Agreement, the Company agreed to entrust PICC AMC to manage some of its assets, and PICC AMC should manage the entrusted assets in accordance with the Marketisation Agreement, relevant laws and regulations and regulatory rules; the Company would pay entrusted asset management fees to PICC AMC.

Under the Marketisation Agreement, the annual cap for the entrusted asset management fees expected to be paid by the Company to PICC AMC for the Year was RMB4 million, and the Company actually didn't incur any entrusted asset management fees for the Year.

(IV) THE ASSET MANAGEMENT AGREEMENTS AND THE SUPPLEMENTAL AGREEMENTS TO THE ASSET MANAGEMENT AGREEMENTS ENTERED INTO BETWEEN THE COMPANY AND PICC INVESTMENT AND PICC CAPITAL RESPECTIVELY, AS WELL AS THE MEMORANDUM ON CONNECTED TRANSACTION ENTERED INTO BETWEEN THE COMPANY AND PICC AMC

On 28 August 2019, the Company entered into the Asset Management Agreements and Supplemental Agreements to Asset Management Agreements with PICC Investment and PICC Capital respectively for a term of three years commencing from 28 August 2019. Pursuant to such Agreements, the Company entrusts some investment assets to PICC Investment and PICC Capital for their management, and PICC Investment and PICC Capital manage the entrusted assets in accordance with such Agreements, relevant laws and regulations and regulatory provisions and the investment guidelines formulated by the Company, and use the assets entrusted by the Company to subscribe for the debt financial products and equity financial products sponsored and managed by them. Meanwhile, the Company pays product management fees to PICC Investment and PICC Capital.

The Company has previously entrusted some investment assets to PICC AMC for its management, and PICC AMC may utilise the assets entrusted by the Company to subscribe for debt financial products and equity financial products sponsored and managed by PICC AMC, PICC Capital, PICC Investment or PICC Equity, while the Company shall pay product management fees to PICC AMC, PICC Capital, PICC Investment and PICC Equity. On 28 August 2019, the Company entered into the Memorandum on Connected Transaction with PICC AMC, which regulates the connected transactions in relation to the subscription of debt financial products, the subscription of equity financial products and the payments of product management fees. The Memorandum took effect on 28 August 2019, with a term of three years.

Debt financial products and equity financial products present relatively good risk-return profile and play an important role in improving the investment return rate of the insurance funds. In recent years, PICC AMC, PICC Capital, PICC Investment and PICC Equity have actively developed such financial products. Their products suit the Company's risk preference in term of risk profile, deliver a relatively high investment return with a fair pricing, and are beneficial in improving the Company's capability on allocation of general categories of assets, enhancing its efficiency on allocation of non-standard assets and increasing the investment return rate.

Pursuant to the Asset Management Agreements and Supplemental Agreements between the Company and PICC Investment and PICC Capital respectively, and the Memorandum on Connected Transaction between the Company and PICC AMC, for each calendar year, the aggregated annual cap of the paid-up amount of the product management fees paid by the Company to PICC AMC, PICC Capital, PICC Investment and PICC Equity shall not exceed RMB450 million. The actual aggregated amount of product management fees incurred for the Year was RMB87 million.

Under the Asset Management Agreements and Supplemental Agreements between the Company and PICC Investment and PICC Capital respectively, and the Memorandum on Connected Transaction between the Company and PICC AMC, PICC AMC, PICC Capital or PICC Investment use the assets entrusted by the Company to subscribe for the debt financial products or the equity financial products individually or jointly sponsored and managed by PICC AMC, PICC Capital, PICC Investment or PICC Equity. If the subscribers of these financial products include connected persons of the Company, then the subscription by the Company in the same financial product constitutes a connected transaction of the Company. For each calendar year, each of the annual cap of the aggregated paid-up amount of the debt financial products or the equity financial products subscribed by the Company where connected persons participate in the subscription shall be RMB8 billion, and none of the applicable percentage ratios shall be more than 5% under Chapter 14A of the Listing Rules. The aggregated amount of the debt financial products actually and cumulatively subscribed by the Company where connected persons participate in the subscription for the Year was RMB5,481 million. The aggregated amount of the equity financial products actually and cumulatively subscribed by the Company where connected persons participate in the subscription for the Year was RMB284 million.

(V) THE MUTUAL AGENCY AGREEMENTS ENTERED INTO BETWEEN THE COMPANY AND PICC LIFE AND PICC HEALTH, RESPECTIVELY

On 30 August 2019, the Company renewed the Mutual Agency Agreements with PICC Life and PICC Health respectively, with a term of three years commencing from 31 August 2019 and expiring on 30 August 2022, in order to continue the sales of insurance products of each other on a mutual agency basis. PICC Life and PICC Health have their own distribution channels and customer bases, and the Company renewed the mutual agency agreements with PICC Life and PICC Health in order to lead the strategic synergies into further play and expand the sales channels of the Company. Pursuant to such agreements, the Company and PICC Life and PICC Health mutually act as an agency for selling insurance products of each other, collecting the premiums on behalf of each other, and engaging in such other businesses or services on a mutual agency basis as authorised in writing. The Company, PICC Life and PICC Health pay commissions to each other, including the business commissions to be paid to the business personnel of the agent party and the management commissions to be paid to the agent party for organising and conducting the mutual agency business.

Under the Mutual Agency Agreements, the estimated annual caps of the commissions to be paid by the Company to PICC Life and PICC Health in aggregate for the Year was RMB891 million, the estimated annual caps of the commissions to be paid by PICC Life and PICC Health to the Company in aggregate for the Year was RMB332 million. The actual commissions paid by the Company to PICC Life and PICC Health for the Year was RMB142 million. The actual commissions paid by PICC Life and PICC Health to the Company for the Year was RMB11 million.

(VI) THE GOODS PROCUREMENT CONTRACT ENTERED INTO BETWEEN THE COMPANY AND BANGBANG AUTO SALES & SERVICES

On 29 May 2019, the Company entered into the Goods Procurement Contract with Bangbang Auto Sales & Services with a term commencing from 1 April 2019 and expiring on 31 March 2021. Pursuant to the Contract, the Company purchases spare parts for the maintenance of insured vehicles damaged in accidents from Bangbang Auto Sales & Services, and Bangbang Auto Sales & Services supplies spare parts for damaged vehicles and provides services on development, operation and maintenance of relevant systems to the Company. The Company pays the cost of the auto spare parts to Bangbang Auto Sales & Services; other than that, the Company is not liable to make any extra payment to Bangbang Auto Sales & Services pursuant to the contract. The cooperation between the Company and Bangbang Auto Sales & Services will be able to improve our pricing power during the claim settlement of motor vehicle insurances, promote business development, reduce the claim cost, accelerate the processing of claim cases and enhance the customer satisfaction so as to provide high-quality claim services to the insured. The Company and Bangbang Auto Sales & Services entered into the contract and expressly set out the cooperation policy guidance of the headquarter for each branch office, which will be helpful for loss reduction in claim settlement in each branch.

Under the Contract, the annual cap for the payment for auto spare parts expected to be paid by the Company to Bangbang Auto Sales & Services for the Year was RMB6,000 million. The actual payment for auto spare parts paid by the Company to Bangbang Auto Sales & Services for the Year was RMB470 million.

(VII) THE FRAMEWORK AGREEMENT ON OCCUPATIONAL ANNUITY FUND MANAGEMENT BUSINESS AND CORPORATE ANNUITY FUND MANAGEMENT BUSINESS COOPERATION ENTERED INTO BETWEEN THE COMPANY AND PICC PENSION

The Company entered into the Framework Agreement on Occupational Annuity Fund Management Business and Corporate Annuity Fund Management Business Cooperation with PICC Pension on 20 February 2019 with a term commencing from 20 February 2019 and expiring on 31 December 2020. Pursuant to the Agreement, the Company provides PICC Pension with customer information (within the authorisation of customers) which can help promote the development of its occupational annuity fund management business and corporate annuity fund management business, assist it on customer development, publicity, promotion, bidding or participation in contract negotiations and will receive business cooperation fees from PICC Pension. The Company entered into the agreement with PICC Pension, with a view to achieving resource sharing and interest complementation through business cooperation, and further enhancing the Company's influence in corporate customers. Under the Agreement, the annual cap for the business cooperation fees expected to be received by the Company from PICC Pension for the Year was RMB300 million. There was actually no business cooperation fees incurred for the Year.

(VIII) BUSINESS COOPERATION AGREEMENT WITH PIB

On 21 June 2019, the Company entered into the Business Cooperation Agreement with PIB with a term commencing from 17 June 2019 and expiring on 16 June 2022. Pursuant to the Business Cooperation Agreement, PIB provides insurance brokerage services for the insurance contracts entered into between the insurance purchasers and the Company, and the Company pays brokerage commissions to PIB. The Company and PIB will enter into agreements for cooperation in specific projects. The Business Cooperation Agreement between the Company and PIB is beneficial to the respective parties in terms of resources integration and business synergy and, furthermore, to the Company in its building up of distribution channels and promotion of its development capability in the broker business market. Under the Business Cooperation Agreement between the Company and PIB, the annual cap for the brokerage commissions expected to be paid by the Company to PIB for the Year was RMB450 million. The actual brokerage commissions paid by the Company to PIB for the Year was RMB91 million.

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

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

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

3. such 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 their attention that causes them to believe that the continuing connected transactions abovementioned 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 their attention that causes them 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 their attention that causes them 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 their attention that causes them 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 annual results 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 proposals for appointment of PricewaterhouseCoopers as the international auditor of the Company and PricewaterhouseCoopers Zhong Tian LLP as the domestic auditor of the Company will be submitted at the forthcoming annual general meeting. The Company has not changed its auditors in the past three years.

By Order of the Board of Directors
Luo Xi
Chairman

Beijing, the PRC
23 March 2021

Report of the Supervisory Committee

In 2020, the Supervisory Committee and all of its members exercised dedication and diligence, continued to reinforce the ideology, conducted in-depth studies on and acted thoroughly on the spirits of the 19th National Congress of the Communist Party of China, the Second, Third, Fourth and Fifth Plenary Session of the 19th Central Committee of the Communist Party of China and the Central Economic Work Conference. Adhering to the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, in accordance with the regulatory requirements of relevant laws, regulations of the PRC, the Company Law and the Articles of Association, the Supervisory Committee kept the principle of "People's insurance serves the people" in mind, continuously improved its supervision work system, refined its supervision mechanism, earnestly exercised its supervisory duties and functions, carried out its work in compliance with regulations, assisted the Company in the transformation towards high-quality development with strong supervision, effectively upheld the highly efficient operation of the Company's corporate governance and protected the interests of the shareholders, the Company and its employees.

MEETINGS OF THE SUPERVISORY COMMITTEE

During the Year, according to the operation of the Company and the relevant requirements of Procedural Rules for Supervisory Committee, the Supervisory Committee adhered to the regular meeting system, convened five meetings to study, consider and hear 22 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 sixth meeting of the fifth session of the Supervisory Committee was held on 27 March and several proposals, namely the Proposal on the Auditor's Report and the Audited Financial Statements for 2019, the Proposal on the Profit Distribution Plan for 2019, the Proposal on the Report of the Supervisory Committee for 2019, the Proposal on the Corporate Governance Report for 2019 – the Supervisory Committee section, the Proposal on the Internal Control Assessment Report for 2019, the Proposal on the Compliance Assessment Report for 2019, the Proposal on the Risk Assessment Report for 2019, the Proposal on the Evaluation Report on the Implementation of the Related Party Transactions for 2019, the Proposal on the Anti-Money Laundering and Anti-Terrorist Financing Report for 2019, the Proposal on the Assessment Report on the Implementation of the PICC Property and Casualty's Development Plan for 2019, the Report on the Improvement of the Management Proposal for 2018, the Proposal on the Management Proposal for 2019, and the Proposal on the Appointment of Mr. Zhang Xiaoli as a Supervisor of the Company, were considered and approved. The Report of Deloitte Touche Tohmatsu on the Findings of the Reviewing Work for 2019 was also considered.

Secondly, the seventh meeting of the fifth session of the Supervisory Committee was held on 10 June and the Proposal on the Financial Statements for the First Quarter of 2020 was considered and approved.

Thirdly, the eighth meeting of the fifth session of the Supervisory Committee was held on 23 June and the Proposal on the Election of Mr. Zhang Xiaoli as the Chairman of the Fifth Session of the Supervisory Committee was considered and approved.

Fourthly, the ninth meeting of the fifth session of the Supervisory Committee was held on 21 August and the Proposal on the Interim Financial Report for 2020 was considered and approved. Separately, the Report of Deloitte Touche Tohmatsu on the Findings of the Reviewing Work for the Interim Period of 2020 and the Report on the Internal Auditing Work Progress for the First Half of 2020 were also considered.

Fifthly, the tenth meeting of the fifth session of the Supervisory Committee was held on 23 October and the Proposal on Establishing the Duty Performance Supervision Committee and the Finance and Internal Control Supervision Committee, the Proposal on the Stipulation of the Working Rules for the Duty Performance Supervision Committee and the Finance and Internal Control Supervision Committee of PICC Property and Casualty Company Limited, and the Proposal for the Financial Statements for the Third Quarter of 2020 were considered and approved.

WORK OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee completed the change of the Chairman, the appointment of the Chairman, the election of the Employee Representative Supervisor, the resignation of the Independent Supervisor of its fifth session, pursuant to the relevant rules and regulations including the Company Law, the relevant provisions of the CBIRC and the Listing Rules and the relevant legal procedures set out in the Articles of Association. The fifth session of the Supervisory Committee is currently composed of five Supervisors, including Mr. Zhang Xiaoli, the Chairman of the Supervisory Committee, Mr. Wang Yadong, the Shareholder Representative Supervisor, Mr. Lu Zhengfei, the Independent Supervisor, and Ms. Gao Hong and Ms. Wang Xiaoli, the Employee Representative Supervisors. The qualification of each of Ms. Gao Hong and Ms. Wang Xiaoli is still subject to the approval by the CBIRC.

During the Year, the Supervisory Committee has attended the Company's 2019 annual general meeting and the 2020 extraordinary general meeting. The Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2019 to the 2019 annual general meeting, which was approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in writing, attended eleven meetings of the Board of Directors and nine meetings of the Audit Committee, earnestly reviewed and studied the considerations of the shareholders' general meetings and the meetings of the Board of Directors, fully expressed its opinions and suggestions, and performed supervision over the legality of the agendas and procedures of the meetings while strengthening the supervision over significant issues of the Company. 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 effectively protected employees' legal rights and interests.

During the Year, the Supervisory Committee further strengthened corporate governance, continuously improved its operating mechanism, promoted the regularization and systematization of supervision, enhanced daily supervision and inspection and the supervision of the Company's finance, risks, internal control and compliance and strategic development plan and facilitated the operation of the Company in compliance with laws and regulations. It reinforced the communication and coordination with the external auditor, considered the auditor's report on the audit plan, the keynote of audit work and the audit of the Company's annual results, obtained an understanding of the audit status and paid special attention to the keynote of audit work and challenging issues. The Supervisory Committee put forward requirements in respect of the auditor's work and assessed the audit results. It deliberated on the Company's annual Internal Control Assessment Report, Compliance Assessment Report and Risk Assessment Report, kept abreast of the status of the establishment, improvement and operation of the Company's internal control and risk management mechanisms as well as the status of related party transactions and the implementation of the related party transactions management system, and gave its opinions and suggestions. The Supervisory Committee also supervised the implementation of the Company's strategic development plan.

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

During the Year, the Supervisory Committee continued to improve the corporate governance structure of the Company and strengthened the institutionalization of the Supervisory Committee. In accordance with laws, regulations and corporate governance procedures, the Duty Performance Supervision Committee and the Finance and Internal Control Supervision Committee of the Supervisory Committee were established, with relevant working rules stipulated, to further improve the supervisory working mechanism of the Supervisory Committee, strengthen the role of supervision, enhance the supervision efficiency, and give full play to the important role of the Supervisory Committee in the corporate governance system.

During the Year, the Supervisory Committee adopted the joint method to conduct visits and inspections and research, cooperating with the Group's board of supervisors to carry out "the Group's transformation to high-quality development and strengthen the risk management and control capability" and conducting on-site inspections in the Beijing Branch. Through the visits and inspections, the Supervisors obtained a comprehensive understanding of the Company's material business operation risk, commercial motor vehicle insurance premium rate reform, authorized operation, internal control and compliance, process design and risk prevention and control, budget management, operational process, and product design and development and risk management at the branch level, targeted matters to be focused on and effectively performed their duties of supervision.

INDEPENDENT OPINIONS ISSUED BY THE SUPERVISORY COMMITTEE

The Supervisory Committee provides 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' auditor's report and the audited financial statements for 2019 and the reviewed interim financial report for 2020 were strictly prepared in accordance with the relevant accounting standards. The financial reports 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 all the shareholders or the Company.

In 2021, the Supervisory Committee will, in accordance with the relevant provisions of the laws and regulations, the Company Law and the Articles of Association, continue to strictly perform its supervisory duties, uphold a highly efficient corporate governance operation and the sound development of the Company, be practical and realistic, take the initiative in exploration and innovation, constantly improve its performance capabilities, devote to the implementation of "comprehensive supervision" and "facilitating supervision", insist on problem orientation and taking responsibilities, fully exert the important role of the Supervisory Committee in the corporate governance system, earnestly safeguard the interests of the shareholders, the Company and employees and diligently perform all its duties, escort for the high-quality development of the Company.

By Order of the Supervisory Committee
Zhang Xiaoli
Chairman of the Supervisory Committee

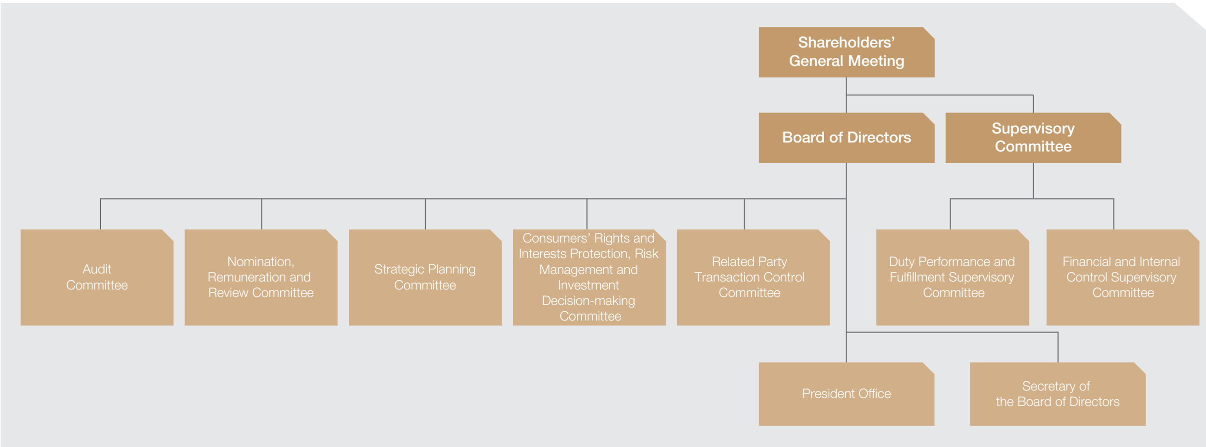
Beijing, the PRC
23 March 2021

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 2020, 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 PRC, the Measures on the Administration of Information Disclosure of Insurance Companies, the Working Rules for the Internal Audit of Insurance Institutions and the Measures on the Administration of Related Party Transactions of Insurance Companies issued by the CBIRC and the requirements under the applicable code 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 two shareholders' general meetings and submitted 14 proposals and reports to the shareholders' general meetings, held 11 Board meetings, at which 91 proposals were considered and approved; the Company's business development plan, financial plan, fixed assets investment plan, strategic allocations of and investment policies on entrusted assets were formulated; annual performance appraisals of the senior management were conducted; the President was elected; senior management was appointed; specialised committees were established; the auditors were re-appointed, and enhanced the Company's internal control management, compliance management, and risk management and control capabilities.

The Board holds regular meetings at least four times a year, and convenes extraordinary meetings when necessary. Notices and materials for regular Board meetings shall be given to the Directors at least 14 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 and specialised committees meeting are kept, including matters considered and agreed on by the Board and specialised committees, and any related concerns raised by the Directors. Relevant minutes shall be sent to all Directors within a reasonable period, and be available for inspection within a reasonable time after a reasonable notice by the Directors. Five specialised committees are formed under the Board, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee, and Related Party Transaction Control Committee. The duties and responsibilities of and the operating procedures for each of the Board committees are clearly defined in writing, among which, the duties and powers of the Audit Committee and the Nomination, Remuneration and Review Committee are published on the websites of the Company and the Hong Kong Stock Exchange. The Board committees submit opinions and proposals to the Board on matters within their respective scope of duties and responsibilities.

The Board comprises, among others, five Independent Non-executive Directors. Ms. Qu Xiaohui, an Independent Non-executive Director, is experienced in accounting and financial management, obtained relevant professional accounting qualification, and also serves as the chairman of the Audit Committee. The Company believes that, during the Year, the Board had been in compliance with Rules 3.10(1), 3.10(2), 3.10A and 3.21 of the Listing Rules.

In addition, the list of Independent Non-executive Directors is disclosed in all of the corporate communications published in accordance with the Listing Rules.

During the Year, in accordance with the applicable principles and code provisions of the Corporate Governance Code, 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. The Company complied with all the code provisions of the Corporate Governance Code and adopted recommended best practices where applicable to continuously perfect its corporate governance structure.

COMPOSITION

During the Year, the Board comprised the following Directors:

Name	Position	Date of commencement of directorship	Term
Mr. Luo Xi *(Note 1)*	Chairman, Non-executive Director	18 March 2021	From 18 March 2021 to 6 March 2022
Mr. Miao Jianmin (Resigned) *(Note 2)*	Chairman, Executive Director	12 March 2018	From 7 March 2019 to 14 July 2020 (resigned on 15 July 2020)
Mr. Xie Yiqun	Vice Chairman, Executive Director	22 June 2018	From 7 March 2019 to 6 March 2022
Mr. Tang Zhigang (Resigned) *(Note 3)*	Non-executive Director	7 March 2019	From 7 March 2019 to 20 January 2020 (Resigned on 21 January 2020)
Mr. Li Tao	Non-executive Director	18 October 2006	From 7 March 2019 to 6 March 2022
Mr. Jiang Caishi* *(Note 4)*	Executive Director	23 June 2020	From 23 June 2020 to 6 March 2022
Ms. Xie Xiaoyu (Resigned) *(Note 5)*	Executive Director	7 March 2019	From 7 March 2019 to 21 February 2021 (Resigned on 22 February 2021)
Mr. Lin Hanchuan	Independent Non-executive Director	25 March 2013	From 7 March 2019 to 6 March 2022
Mr. Lo Chung Hing	Independent Non-executive Director	26 June 2015	From 7 March 2019 to 6 March 2022
Mr. Ma Yusheng*	Independent Non-executive Director	26 June 2015	From 7 March 2019 to 6 March 2022
Mr. Chu Bende	Independent Non-executive Director	24 June 2016	From 7 March 2019 to 6 March 2022
Ms. Qu Xiaohui	Independent Non-executive Director	31 October 2017	From 7 March 2019 to 6 March 2022

Notes:

1. Mr. Luo Xi was appointed as a Non-executive Director by the general meeting on 29 December 2020.

2. Mr. Miao Jianmin resigned as the Chairman and an Executive Director on 15 July 2020.

3. Mr. Tang Zhigang resigned as a Non-executive Director on 21 January 2020.

4. Mr. Jiang Caishi was appointed as an Executive Director by the general meeting on 23 June 2020.

5. Ms. Xie Xiaoyu resigned as an Executive Director on 22 February 2021.

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

Changes in the Board members during the period from 1 January 2020 to the date of this report are as follows:

Mr. Tang Zhigang resigned as a Non-executive Director due to other work arrangements, with effect from 21 January 2020.

At the annual general meeting on 23 June 2020, Mr. Jiang Caishi was appointed as an Executive Director.

Mr. Miao Jianmin resigned as the Chairman and an Executive Director due to other work arrangements, with effect from 15 July 2020.

At the extraordinary general meeting of the Company on 29 December 2020, Mr. Luo Xi was appointed as a Non-executive Director. The Board elected Mr. Luo Xi as the Chairman of the Board.

Ms. Xie Xiaoyu resigned as an Executive Director due to her retirement, with effect from 22 February 2021.

DUTIES AND RESPONSIBILITIES

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

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

The Directors have recourse to seek independent professional advice in performing their duties at the Company's expense. They are also encouraged to consult with the Company's senior management independently.

SUMMARY OF WORK UNDERTAKEN

During the Year, the Board convened two shareholders' general meetings and submitted 14 proposals and reports to the shareholders' general meetings. 11 Board meetings were convened, at which 91 proposals were considered and approved. The attendance record of the Directors at the meetings is as follows:

	Board Meeting		Shareholders' General Meeting	
Name	Number of meetings attended/ Number of meetings that require attendance	Attendance rate	Number of meetings attended/ Number of meetings held	Attendance rate
Miao Jainmin	6/6	100%	1/1	100%
Xie Yiqun	11/11	100%	2/2	100%
Tang Zhigang	1/1	100%	0/0	–
Li Tao	10/11	91%	2/2	100%
Jiang Caishi	6/6	100%	1/1	100%
Xie Xiaoyu	10/11	91%	2/2	100%
Lin Hanchuan	11/11	100%	2/2	100%
Lo Chung Hing	11/11	100%	2/2	100%
Ma Yusheng	11/11	100%	2/2	100%
Chu Bende	11/11	100%	2/2	100%
Qu Xiaohui	11/11	100%	2/2	100%

Notes:

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

2. During the Year, Mr. Li Tao and Ms. Xie Xiaoyu attended 10 Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his/her behalf.

3. During the Year, the Chairman of the Board held a meeting with the Independent Non-executive Directors, at which no other Directors attended.

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

- convened two shareholders' general meetings and submitted 14 proposals and reports to the shareholders' general meetings, including the proposals for the appointment of the Director, the Report of the Board for 2019, the Report of the Supervisory Committee for 2019, the Auditor's Report and the audited financial statements for 2019, the profit distribution plan for 2019, and the re-appointment of the auditors, all of which were approved at the shareholders' general meetings;

- considered and approved the appointment of the nominated director, the election of the Chairman, and the appointments the chairman and members of the relevant specialised Board committees;

- considered and approved the appointments of Mr. Jiang Caishi and Mr. Shao Liduo as the Vice Presidents, Mr. Zhang Daoming and Mr. Xia Yuyang as the Assistants to the President, Mr. Fang Zhongyou as the Responsible Compliance Officer, and Mr. Zou Zhihong as the Responsible Auditing Officer;

- considered and approved the establishment of the Related Party Transaction Control Committee and the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee;

- 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 annual performance appraisals of the senior management, including the President, Vice Presidents, Assistants to the President;

- considered and approved the internal audit plan, internal audit budget and human resources plans of the Company during the Year, the internal control assessment report for 2019 and the compliance report for 2019 of the Company, considered the report on progress of improvement based on the management recommendation letter of the previous year, reviewed and continuously enhanced the effectiveness of the Company's internal control;

- considered and approved the risk assessment report for 2019, the solvency report for the fourth quarter in 2019 and the second quarter in 2020, the solvency margin condition and audit report and the solvency stress test report for 2019 of the Company, revised and improved the risk preference statement and risk tolerance and limit indicator system of the Company, and reviewed and continuously improved the effectiveness of the Company's risk management;

- considered and approved the information disclosure report for 2019, the financial report on compulsory third party liability motor vehicle insurance for 2019, the report on the implementation of the related party transactions management system for 2019 and the evaluation report on implementation of the development plan for 2019, the Capital Plan (2020-2022);

- considered and approved the report of asset and liability management for 2019, and stipulated the overall goals and strategies of the asset and liability management of the Company to meet new regulatory requirements;

- considered and approved the 2020 interim results;

- considered and approved the 2019 Corporate Social Responsibility Report of the Company; and

- considered and approved the purchase of fixed assets by branches of the Company, the related party transactions between the Company and its subsidiaries, affiliated branches or related subsidiaries and affiliated branches of PICC Group.

DIRECTORS

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the Articles of Association and the Working Rules of the Nomination, Remuneration and Review Committee of PICC Property and Casualty Company Limited, the appointment of director shall be subject to the consideration and approval of the Nomination, Remuneration and Review Committee, the Board, and the general meeting, after which, it shall be submitted and reported to the CBIRC for qualification approval. Upon the approval of the qualification, the candidate will be officially appointed. The procedures of re-election of Directors are the same.

REMOVAL OF DIRECTORS

According to the Articles of Association, the removal of a Director shall be passed by way of an ordinary resolution and the removal of an independent Director shall be passed by way of a special resolution at the shareholders' general meeting.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The management has provided to the Board such explanation and information as necessary to enable the Board to carry out an informed assessment of the Company's financial statements.

The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants and through the consistent adoption of appropriate accounting policies and, subject to compliance with the Hong Kong Financial Reporting Standards, the implementation of the regulations on accounting treatment issued by the Ministry of Finance of the PRC and the CBIRC. The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020, which shall present a true and fair view of the affairs of the Company and its subsidiaries and of the results and cash flows of the Company and its subsidiaries. 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.

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" in this annual report. Save as disclosed in the biographies of the Directors as set out under the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/related relationship) with any other Director, Supervisor or chief executive.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

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

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

Li Tao: attended relevant 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, and corporate governance, etc.

Jiang Caishi: attended various trainings and meetings related to the performance of director's functions and duties organised by regulatory departments, PICC Group and the Company, did an in-depth study in major national strategies and industry regulatory policies 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, and corporate governance, etc.

Xie Xiaoyu: attended relevant trainings and meetings organised by the CBIRC, National Healthcare Security Administration and Insurance Association of China; conducted studies on and understanding of the relevant laws and regulations as well as regulatory requirements; conducted studies on industrial development; attended relevant trainings organised by PICC Group related to the performance of director's functions and duties and gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, and corporate governance, etc.

Lin Hanchuan: paid continuous attention to and conducted research on the issues of enterprise transformation and upgrading; hosted and participated in several national significant and key projects relating to enterprise transformation and upgrading, and gave lessons relating to enterprise transformation to doctoral candidates of business schools of universities and the senior officers of the relevant enterprises.

Lo Chung Hing: paid continuous attention to and conducted research on corporate finance and corporate governance; attended the trainings organised by the Company related to the laws and regulations, corporate governance, performance of director's functions and duties and insurance industry, and attended the trainings organised by Deloitte Touche Tohmatsu, including trainings on research on the future development of Hong Kong's financial market, etc.

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 trainings organised by the Company related to the laws and regulations, corporate governance, performance of director's functions and duties and insurance industry.

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 trainings organised by the Company related to the laws and regulations, corporate governance, performance of director's functions and duties and insurance industry.

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; hosted the research on key ministerial-level major projects, attended American Accounting Association 2020 Annual Meeting on line and reported and made the comments on papers; attended and addressed at the first academic online forum on Accounting and Corporate Governance of the Guang Dong-Hong Kong- Macau Universities' Alliance of Accounting; attended the 2020 Annual Academic Conference of Accounting Society of China and hosted the opening ceremony and its standing council meeting; attended the 2020 Annual Meeting of Cost Research Society of China and seminars (the 40th anniversary) on line; attended the 19th Symposium on Empirical Accounting Research in China and its standing council meeting and chaired the doctoral student forum; and attended several academic accounting and finance forums held by Harbin Institute of Technology, Shenzhen.

CHAIRMAN/PRESIDENT

Mr. Miao Jianmin, resigned as the Chairman of the Company due to other work arrangements from 15 July 2020. Mr. Luo Xi serves as the Chairman commencing from 18 March 2021. As at the date of this report, the Chairman of the Company is Mr. Luo Xi, and the Vice Chairman of the Company is Mr. Xie Yiqun. During the Year, the President of the Company was Mr. Xie Yiqun. The Chairman is responsible for leading the Board and ensuring that the Board operates effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, the annual operation plans and investment plans, formulating proposals for organisational structure for internal management and the basic management system, and making proposals to the Board for the appointment or removal of the Vice President(s), the Responsible Compliance Officer, the Responsible Finance Officer and the Assistant(s) to the President, etc.

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

- to preside over shareholders' general meetings, and convene and preside over board meetings;
- to prompt and inspect the implementation of board resolutions;
- to sign securities issued by the Company; and
- any other functions and powers authorised by the Board.

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

- to be in charge of the operation and management of the Company and shall organise the implementation of the Board resolutions;
- to organise the implementation of the Company's annual business plans and annual investment plans;
- to issue general administrative documents of the Company;
- to draw up plans for organisational structure for internal management of the Company and, in accordance with operating needs, and decide on general organisational adjustment plans;
- to draw up the Company's basic management system;
- to formulate basic rules and regulations for the Company;
- to propose to the Board for the appointment or removal of Vice President(s), Responsible Compliance Officer, Responsible Financial Officer and Assistant(s) to the President;
- to appoint or remove responsible management personnel other than those required to be appointed or removed by the Board;
- to formulate policies for the remuneration, welfare benefits, rewards and penalties of the employees of the Company other than the senior management personnel and to determine, or authorise subordinate department heads to determine, the employment and removal of the employees other than the senior management personnel and the responsible management personnel described in the item 8 of the details of the duties and responsibilities of the President above;

- to propose the convening of special meetings of the Board; and
- to exercise any other functions and powers authorised by laws and regulations, regulatory provisions, the Articles of Association and the Board.

AUDIT COMMITTEE

OVERVIEW

During the Year, the Audit Committee continued to earnestly perform 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:	Qu Xiaohui (Independent Non-executive Director)
Members:	Lin Hanchuan (Independent Non-executive Director), Li Tao (Non-executive Director), Lo Chung Hing (Independent Non-executive Director), Chu Bende (Independent Non-executive Director)

DUTIES AND RESPONSIBILITIES

The Company established the Related Party Transaction Control Committee in February 2020 and the Audit Committee is no longer responsible for the duties and responsibilities in respect of related party transactions. The working rules for the Audit Committee has been revised accordingly. The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, supervising the design, implementation and monitoring of the internal control system by the management to ensure that the Company has the appropriate and effective internal control system in place, reviewing financial information of the Company, making recommendations in respect of the appointment or removal of the external accounting firm, reviewing the effectiveness of the internal audit function of the Company and supervising and providing guidance on internal and external audits.

REMUNERATION OF AUDITORS

During the Year, the Company paid RMB16.65 million for audit-related services, including the fees for the audit of the financial statements for 2020 and the review of the interim financial statements for 2020. During the Year, the Company paid RMB0.15 million to the auditors for non-audit services, which was the remunerations of the review service with regard to the quote of the audited and unaudited reports of the Company in the process of issuing capital supplementary bonds in the Year. 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 nine meetings and considered 35 proposals. The attendance record of committee members at the meetings is as follows:

Name	Qu Xiaohui	Lin Hanchuan	Li Tao	Lo Chung Hing	Chu Bende
Number of meetings attended/Number of meetings that require attendance	9/9	9/9	8/9	9/9	9/9
Attendance rate	100%	100%	89%	100%	100%

Note: Mr. Li Tao attended eight meetings in person and one meeting by appointing Ms. Qu Xiaohui as proxy to attend on his behalf.

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

Engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit work for 2019 and on the interim review work for 2020; and

- considered the proposal for the engagement of auditors for 2020, and obtained approvals from the Board and the shareholders' general meeting for the engagement proposal.

Reviewing the financial reports, etc.:

- reviewed the financial statements and results announcement, the information disclosure report, the special financial report on compulsory third party liability motor vehicle insurance and the solvency reports of the Company for 2019, the solvency reports for the fourth quarter of 2019 and the second quarter of 2020, the financial statements and results announcement for the interim period of 2020, and the financial statements and results announcement for the first and third quarters of 2020, discussed with the management on issues relating to, among others, further enhancing the risk management of investment returns and the management of premiums receivable under the impact of pandemic and the rectification of the Internet finance risk.

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 2019;
- considered and approved the report on progress of improvement based on the management recommendation letter for 2018, considered the management recommendation letter for 2019; and
- supervised and provided guidance on the internal audit and financial accounting work, reviewed the working report on internal audit for 2019, the asset and liability management audit results report for 2019, the internal audit report on anti-fraud management for 2019, the internal audit plan, the internal audit budget and human resources plan for 2020, the quarterly wok of internal audit and considered the work summary report of the Finance and Accounting Department of the Company for 2019 and the work plans for 2020.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

OVERVIEW

During the Year, the Nomination, Remuneration and Review Committee nominated the Chairman, Directors and senior management, conducted annual appraisals of the President and other senior management, and reviewed the remuneration of the Independent Non-executive Directors and independent Supervisors.

COMPOSITION

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

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

Note: Mr. Tang Zhigang resigned as a Non-executive Director on 21 January 2020 and ceased to act as a member of the Nomination, Remuneration and Review Committee simultaneously.

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.

NOMINATION OF DIRECTORS AND POLICY ON DIVERSITY OF BOARD MEMBERS

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 for directorships.

The Company understands and agrees with the importance of the diversity of the Board members, and regards the achieving of diversity of the Board members as an important factor for enhancing the level of the Company's corporate governance and achieving sustainable development. The Company has formulated the Policy on Diversity of Board Members, which requires the Nomination, Remuneration and Review Committee to 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 advisers at the Company's expense, when necessary.

The Company currently has nine Directors, consisting of two Non-executive Director (Mr. Luo Xi and Mr. Li Tao), two Executive Directors (including Mr. Xie Yiqun and Mr. Jiang Caishi) and five Independent Non-executive Directors (including Mr. Lin Hanchuan, Mr. Lo Chung Hing, Mr. Ma Yusheng, Mr. Chu Bende and Ms. Qu Xiaohui). The two Non-executive Director comes from shareholder's entities and have rich experience in the operation management and expertise in insurance institutions; the two Executive Directors have performed operating and management roles in the insurance sector for many years and have rich experience in the operation management and expertise in insurance institutions; the five Independent Non-executive Directors (one of whom is from Hong Kong) are experts in economics, finance, accounting research, financial management, public administration and corporate management. They are capable of giving the Company professional advice on various areas. The biographical details of the Directors are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this report.

In view of the current situation of the Directors of the Company, the Nomination, Remuneration and Review Committee is of the view that the composition of the Board meets the diversity requirement and there is no need to adopt a measurable objective.

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' remunerations and Supervisors' remunerations 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 four meetings, at which 13 proposals were considered, at which matters related to the nomination of the Chairman, Directors, senior management, the remuneration of the Directors and the Supervisors, and the appraisals of the senior management were discussed. The attendance record of committee members at the meetings is as follows:

Name	Ma Yusheng	Tang Zhigang	Lin Hanchuan	Chu Bende
Number of meetings attended/Number of meetings that require attendance	4/4	0/0	4/4	4/4
Attendance rate	100%	–	100%	100%

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

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

- nominated the Chairman, Directors, and senior management;
- took into consideration the market salary levels of comparable companies of the same industry and the Company's actual circumstances, made recommendations to the Board in respect of the remuneration for the Directors and Supervisors for 2020, and such recommendations were approved by the Board and the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2019 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the President, Vice Presidents, Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the head office of the Company; and made recommendations for bonus coefficients for the President, Vice Presidents and Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the head office of the Company, which were approved by the Board; and
- considered the Corporate Governance Report for 2019.

STRATEGIC PLANNING COMMITTEE

OVERVIEW

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

COMPOSITION

During the Year, the Strategic Planning Committee comprised:

Chairman: Miao Jianmin (Executive Director, resigned)
Members: Xie Yiqun (Executive Director), Li Tao (Non-executive Director)

Note:

1. Mr. Luo Xi was appointed as a Non-executive Director on 29 December 2020, and was elected as the Chairman of the Board and the chairman of the Strategic Planning Committee, his term of the chairman of the Strategic Planning Committee commenced from 18 March 2021 on which his qualification as the Chairman of the Board was approved by CBIRC.

2. Mr. Miao Jianmin resigned as the Chairman of the Board and an Executive Director on 15 July 2020 and ceased to act as a member of the Strategic Planning Committee simultaneously.

DUTIES AND RESPONSIBILITIES

The Strategic Planning Committee is responsible for formulating mid-term 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, formulating and reviewing corporate governance policies and practices of the Company, formulating and amending the Company's policies in respect of environmental, social and governance and other corporate social responsibilities, and reporting and proposing to the Board etc.

SUMMARY OF WORK UNDERTAKEN

During the Year, the Strategic Planning Committee held seven meetings and considered 23 proposals. The attendance record of committee members at the meetings is as follows:

Name	Miao Jianmin	Xie Yiqun	Li Tao
Number of meetings attended/Number of meetings that require attendance	5/5	7/7	7/7
Attendance rate	100%	100%	100%

Note: During the Year, a Director resigned and ceased to act as 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 financial plan, fixed assets investment plan for the Year, purchases of operational properties, the Evaluation Report on Implementation of the Development Plan for 2019, the Corporate Governance Report for 2019 and the Corporate Management Report for 2019;
- considered and approved the profit distribution plan for 2019 and interim profit distribution plan for 2020;
- considered and approved the investment proposal in Shenzhen Merchants Central Project, the participation in the establishment of China Agriculture Reinsurance Corporation, and the capital increase in North Information Center;
- considered and approved the appointment of Chubb Philippines as the Company's resident agent in the Philippines;
- considered and approved the establishments of the Related Party Transaction Control Committee and the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee, the stipulation of the working rules of such committees, and the amendments of the working rules of Strategic Planning Committee;
- considered and approved the high-quality development plan for agriculture insurance;
- considered and approved the Capital Plan (2020-2022) of the Company;
- considered and approved the Report on the Insurance Consumers' Rights and Interest Protection of the Company for 2019;
- considered and approved the 2019 Corporate Social Responsibility Report of the Company;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and monitored the training and continuous professional development of Directors, Supervisors and senior management;
- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- 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.

CONSUMERS' RIGHTS AND INTERESTS PROTECTION, RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE (THE FORMER RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE)

OVERVIEW

During the Year, the Consumers' Rights and Interests Protection, 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 risk preference statements and indicators of risk tolerance, the Capital Plan (2020-2022) and various risk management basic rules and investment plans of the Company.

COMPOSITION

During the Year, the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee comprised:

Chairman: Miao Jianmin (Executive Director, resigned)
Members: Xie Yiqun (Executive Director), Jiang Caishi (Executive Director), Xie Xiaoyu (Executive Director, resigned)

Notes:

1. Mr. Miao Jianmin resigned as the Chairman and an Executive Director on 15 July 2020 and has ceased to act as a member of the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee simultaneously.

2. Mr. Jiang Caishi was appointed as an Executive Director and was elected as a member of Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee on 23 June 2020.

3. Ms. Xie Xiaoyu resigned as an Executive Director on 22 February 2021 and has ceased to act as a member of the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee simultaneously.

DUTIES AND RESPONSIBILITIES

The Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee is responsible for promoting full implementation of consumers' rights protection by the management, evaluating and clearly determining the nature and extent of the risks that the Company is willing to take in achieving the Company's business objectives, considering the various basic systems of the Company for risk management, considering annual risk assessment reports and the risk assessment reports in respect of major decisions, monitoring the effectiveness and adequacy of the operation of the risk management system, monitoring the design, implementation and supervision of the risk management system by the management, so as to ensure that the Company has and maintains an appropriate and effective risk management system. Meanwhile, it undertakes asset-liability management of the Company by reviewing the asset-liability management system, the annual report of asset-liability management, the management mode of insurance funds utilisation, utilisation strategy and investment strategy of the Company, inspecting the establishment and enforcement of the risk control system for insurance funds utilisation, as well as formulating asset allocation strategic plan for insurance funds utilisation.

SUMMARY OF WORK UNDERTAKEN

During the Year, the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee held seven meetings and considered 22 proposals. The attendance record of committee members at the meetings is as follows:

Name	Miao Jianmin	Xie Yiqun	Jiang Caishi	Xie Xiaoyu
Number of meetings attended/Number of meetings that require attendance	4/4	7/7	3/3	7/7
Attendance rate	100%	100%	100%	100%

Note: During the Year, a Director was elected as a member of the Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee, and a Director resigned and ceased to act as a member of the Consumers' Rights and Interests Protection, 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 Consumers' Rights and Interests Protection, Risk Management and Investment Decision-making Committee in the Year included:

- considered and approved the Risk Assessment Report for 2019, and gave advice on further development of the comprehensive risk management system;

- considered and approved the 2019 Annual Report on Assets and Liabilities Management, the overall objectives and strategies of asset and liability management, the report on special audit results of asset and liability management, the internal audit report on anti-fraud management, the annual report on anti-money laundering and anti-terrorist financing, the report on consumers' rights and interests protection and consumer rights and interests protection plan and the Capital Plan (2020-2022); revised and improved the risk preference statement and risk tolerance and limit indicator system of the Company, and discussed with the management on ongoing improvement in risk management policies and procedures and ensuring the effectiveness of the risk management system of the Company;

- considered and approved the investment proposal in Shenzhen Merchants Central Project, the participation in the establishment of China Agriculture Reinsurance Corporation, the capital increase in North Information Center, the investment in the National SME Development Fund Co., Ltd. with entrusted assets, the subscription for the 2020 Jiatai No. 9 Assemble Fund Trust Plan of China Credit Trust, the restructuring of three intermediary subsidiaries, the capital increase in PICC Financial Services, the investment in PICC Technology Innovation Equity Investment Fund (Shanghai) Center (Limited Partnership) with entrusted assets, and the application for the entrustment qualification of financial derivatives;

- inspected the risk management system of the Company and reviewed the effectiveness of the risk management system of the Company (including subsidiaries of the Company); and

- considered and approved the strategic allocation plans of and reports on invested assets, the guidance on relevant offshore investment of the Company for the Year.

RELATED PARTY TRANSACTION CONTROL COMMITTEE

OVERVIEW

In accordance with the Administrative Measures on Related Party Transactions of Insurance Companies, the Board of the Company established a Related Party Transaction Control Committee in February 2020 for the identification and maintenance of related parties and the management, examination, approval and risk control of related party transactions, so as to put the new regulatory requirements into operation.

COMPOSITION

As at the date of this report, the Related Party Transaction Control Committee comprised:

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

Notes:

1. The Related Party Transaction Control Committee was established by the Board on 17 February 2020.

2. Mr. Jiang Caishi was appointed as an Executive Director and elected as a member of the Related Party Transaction Control Committee on 23 June 2020.

DUTIES AND RESPONSIBILITIES

The Related Party Transaction Control Committee is primarily responsible for examining the related party transaction management system of the Company and the state of its implementation, coordinating and managing the identification and maintenance of related parties, and for the management, examination, filing, approval and risk control of related party transactions, and coordinating and managing information disclosure and reporting in respect of related party transactions, etc.

SUMMARY OF WORK UNDERTAKEN

During the Year, the Related Party Transaction Control Committee held seven meetings and considered 16 proposals. The attendance record of committee members at the meetings is as follows:

Name	Chu Bende	Jiang Caishi	Lin Hanchuan	Lo Chung Hing	Qu Xiaohui
Number of meetings attended/Number of meetings that require attendance	7/7	3/3	7/7	7/7	7/7
Attendance rate	100%	100%	100%	100%	100%

Note: During the Year, a Director was elected as a member of the Related Party Transaction Control Committee. 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 Related Party Transaction Control Committee in the Year included:

- considered and approved the Report on the Implementation of the Related Party Transactions for 2019, and the Regulations on the Related Party Transaction Management of the Company; and

- considered and approved the investment proposal in Shenzhen Merchants Central Project, the capital increase in North Information Center, the overseas asset entrusted management agreement entered into with PICC HK, the investment in the National SME Development Fund Co., Ltd. with entrusted assets, the subscription for the 2020 Jiatai No. 9 Assemble Fund Trust Plan of China Credit Trust, the restructuring of three intermediary subsidiaries, the supplemental agreement to the payment technology service agreement entered into with PICC Financial Services, the capital increase in PICC Financial Services, the investment in PICC Technology Innovation Equity Investment Fund (Shanghai) Center (Limited Partnership) with entrusted assets, the overall related party transaction agreement of the procurement of smart claim tools and cloud-diagnostic systems entered into with Bangbang Auto Sales & Services, the integrated service contracts entered into with Bangbang Auto Sales & Services, the 2021 reinsurance framework agreement on reinsurance business cooperation entered into with PICC Re, the 2021 reinsurance framework agreement on reinsurance business cooperation with PICC HK, and the related party transaction concerning the financial institution loan loss credit insurance between Beijing Branch of the Company and Hua Xia Bank.

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 a self-assessment of the effectiveness of its internal control as of 31 December 2020 in terms of day-to-day supervision and supervision of particular matters. The Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2020 to review and continuously improve the effectiveness of the internal control systems of the Company and its subsidiaries.

The Board of the Company is responsible for establishing, improving and effectively implementing internal control, the Supervisory Committee is responsible for supervising the establishment and implementation of internal control by the Board, and the management is responsible for organising and leading for the day-to-day operation of the Company's internal control. In internal control assessment, the Board of the Company 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 business areas and operating units which are included in the scope of assessment. All departments of the head office, direct subordinate units and all provincial branches and subsidiaries participating in the assessment 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, direct subordinate units, the East China Center work team and provincial branches. In terms of the target businesses, the internal control assessment 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.

RISK MANAGEMENT

The Company believes that effective risk management is essential. By adhering to the basic risk management principles of "covering every aspect with focus on key areas, practising division of labour and cooperation, and adopting a closed-loop management system" and upholding the risk management objective of "operational compliance, effective management and control, asset safety, and sufficient capital", the Company has continued to improve the risk management system, improve its risk prevention and control ability, managed to contain the operational risk within the scope of its risk preference, tolerance and limit, and vigorously upheld the bottom line of abiding by laws and regulations and avoiding systematic risks. 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 Consumers' Rights and Interest Protection, Risk Management and Investment Decision-making Committee under the Board is responsible for considering the risk management system, the annual risk assessment reports, risk assessment of major decisions and the solutions to significant risks as well as continuously reviewing, monitoring and assessing the effectiveness of the risk management system. The President Office and the Risk Compliance 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 Consumers' Rights and Interest Protection, 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 risk compliance department is responsible for the coordinating, planning and organising the implementation of risk management, internal control and compliance before and during implementation, and the auditing department assesses the operation and operational effect of the risk management system at least once a year and monitors the implementation of risk management policies.

In 2020, the risk management work of the Company continued to focus on the regulatory provisions of the C-ROSS of the CBIRC, and actively implement the "Risk Control and Compliance Fundamental Year" work requirements of the Group, in order to firmly operate in compliance with laws and regulations, enhance risk prevention and control capabilities, and uphold the bottom line of no systemic risks, further promoting the construction of "Rules, System, and Evaluation". In 2020, the business of the Company presents a view of steady development, with sufficient solvency and comprehensive risk rating at a high level. The risks were generally under control.

Firstly, the Company improved the risk management mechanism and system, and laid a solid foundation for management. The Company comprehensively sorted out internal and external rules and regulations, improved the basic risk compliance rules, promoted the transmission of the risk preference system in the business line, played the role of risk preference in guiding and restricting the business, performed the functions of the risk compliance committee as an important driving force for risk compliance work. **Secondly**, the Company optimised the risk information system and promoted risk management and control in advance. The Company updated the functions of the risk system and expanded the scope of the application, used the system to spot the problems and carry out the investigations, to discover business risk hazards and bugs in a timely manner; improved the business systematic risk compliance management and control, and blocked loopholes by rigid system management and control. **Thirdly**, the Company improved the risk compliance assessment system, and reinforced the assessment of the members of leading groups of branches at all levels. The Company also incorporate relevant indicators into the performance appraisal of business departments to strengthen the risk compliance awareness and capacity building of institutions and business departments at all levels. **Fourthly**, the Company carried out the risk checks and rectification to prevent and resolve hidden risks in advance. The Company conducted multiple inspections on asset and liability risks, regulatory risks of products on sale, risks of improper promotion of credit enhancement, and risks of U.S. sanctions; implemented accountability work for rectification of problems found in the CBIRC's on-site inspections, and clarified the responsible departments and time limits for items to be rectified on a one-by-one basis, internalising the regulatory requirements into the internal control system of the Company and building a scientific and reasonable long-term mechanism for risk compliance operation. **Fifthly**, the Company continued to put efforts on the risk management work of C-ROSS. The Company implemented the C-ROSS regulatory requirements; regularly carried out the solvency measurement, stress tests and cash flow stress tests; continuously enhanced the monitoring, management and control of seven categories of risks, including insurance risk, market risk, credit risk, liquidity risk, operational risk, strategic risk and reputation risk; and conducted evaluation and reporting on a regular basis.

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 Consumers' Rights and Interest Protection, Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2020 and considered that system was effective and sufficient.

SUPERVISORY COMMITTEE

OVERVIEW

During the Year, the Supervisory Committee discharged its supervisory duties strictly in accordance with the Company Law, the Articles of Association and relevant laws and regulations and in adherence to the principle of good faith, which effectively protected the interests of the shareholders, the Company and its employees. Two specialised committees are formed under the Supervisory Committee, namely the Duty Performance and Fulfillment Supervisory Committee and the Financial and Internal Control Supervisory Committee, duties and procedural requirements of which have been explicitly stipulated and each specialised committee is obliged to offer proposals and advice to the Supervisory Committee in relation to matters within the scope of its duties.

COMPOSITION

During the Year, the Supervisory Committee comprised:

Chairman:	Zhang Xiaoli
Supervisors:	Wang Yadong (Shareholder Representative Supervisor), Lu Zhengfei (Independent Supervisor), Shi Yucheng Charlie (Independent Supervisor, resigned), Gao Hong* (Employee Representative Supervisor), Wang Xiaoli* (Employee Representative Supervisor)

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

Changes in the members of the Supervisory Committee during the period from 1 January 2020 to the date of this report are as follows:

Mr. Jiang Caishi resigned as the Chairman of the Supervisory Committee and a Supervisor on 12 March 2020.

At the employees representatives meeting of the Company held on 12 May 2020, Ms. Gao Hong has been re-elected and Ms. Wang Xiaoli has been newly elected as the Employee Representative Supervisors of the Company for a term commencing from the conclusion of the employee representatives meeting and expiring on 11 May 2023.

At the annual general meeting of the Company on 23 June 2020, Mr. Zhang Xiaoli was appointed as a Supervisor of the fifth session of the Supervisory Committee for a term commencing from the date of the formal appointment by the Company and expiring at the end of the term of the fifth session of the Supervisory Committee. Mr. Zhang Xiaoli was elected as the Chairman of the fifth session of the Supervisory Committee on the same day, whose term of office is the same as his term of office as a Supervisor.

Mr. Shi Yucheng Charlie resigned as an Independent Supervisor on 14 August 2020.

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, President and other 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.

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 five meetings, at which 22 proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

Name	Zhang Xiaoli	Jiang Caishi	Wang Yadong	Lu Zhengfei	Shi Yucheng Charlie	Gao Hong	Wang Xiaoli
Number of meetings attended/Number of meetings that require attendance	4/4	0/0	4/5	5/5	3/3	5/5	4/4
Attendance rate	100%	–	80%	100%	100%	100%	100%

Notes:

1. During the Year, certain Supervisors were appointed (re-appointed) or resigned from the Supervisory Committee. The table above lists the numbers of meetings held and attended by each Supervisor during his/her term of office.

2. During the Year, Mr. Wang Yadong attended four meetings in person and one meeting by appointing Ms. Gao Hong 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.

DUTY PERFORMANCE AND FULFILLMENT SUPERVISORY COMMITTEE

OVERVIEW

To further improve the supervisory mechanism of the Supervisory Committee, the Supervisory Committee of the Company has established a Duty Performance and Fulfillment Supervisory Committee in October 2020 in accordance with the requirements of the institutional reform plan of the Company to supervise the performance and fulfillment of duties of Directors and senior management, make proposals on the nomination of Supervisors and review the performance of Supervisors.

COMPOSITION

As at the date of this report, the Duty Performance and Fulfillment Supervisory Committee comprised:

Chairman: Zhang Xiaoli (Chairman of the Supervisory Committee)
Members: Gao Hong (Employee Representative Supervisor), Wang Xiaoli (Employee Representative Supervisor)

Note: The Duty Performance and Fulfillment Supervisory Committee was established on 23 October 2020.

DUTIES AND RESPONSIBILITIES

The Duty Performance and Fulfillment Supervisory Committee is primarily responsible for formulating supervisory rules for the performance and fulfillment of duties of Directors and senior management, making execution plans and enforcing the implementation of such plans, providing supervisory advice on the performance and fulfillment of duties of Directors and senior management, making proposals on the nomination for the Shareholder Representative Supervisory, Independent Supervisors and members of specialised committees under the Supervisory Committee, and reviewing the work performance of Supervisors.

FINANCIAL AND INTERNAL CONTROL SUPERVISORY COMMITTEE

OVERVIEW

To further improve the supervisory mechanism of the Supervisory Committee, the Supervisory Committee of the Company has established a Financial and Internal Control Supervisory Committee in October 2020 in accordance with the requirements of the institutional reform plan of the Company to review the financial and internal control of the Company, supervise the appointment process of the external auditor, and assess the independence and effectiveness of the external audit work.

COMPOSITION

As at the date of this report, the Financial and Internal Control Supervisory Committee comprised:

Chairman: Lu Zhengfei (Independent Supervisor)
Members: Wang Yadong (Shareholder Representative Supervisor), Wang Xiaoli (Employee Representative Supervisor)

Note: The Financial and Internal Control Supervisory Committee was established on 23 October 2020.

DUTIES AND RESPONSIBILITIES

The Financial and Internal Control Supervisory Committee is primarily responsible for formulating the supervisory rules for the financial and internal control of the Company, making execution plans and enforcing the implementation of such plans, reviewing the financial and internal control related documents including financial reports, business reports, profit distribution plans and assessment reports on internal control, supervising the compliance of appointment, removal and re-appointment of the external auditor, reviewing the fairness of the terms of appointment and the remuneration of the external auditor, and assessing the independence and effectiveness of the external audit work, etc.

COMPANY SECRETARY

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

RIGHTS OF SHAREHOLDERS

METHODS OF CONVENING EXTRAORDINARY GENERAL MEETINGS

According to the Articles of Association and the Rules of Procedures 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 of view 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 15 days after the receipt of such written resolution(s).

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 be within the scope of the shareholders' general meeting and shall contain explicit 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 Office of the Board, according to the registered address listed in the inside back cover of this annual report.

DIVIDEND POLICY

The Company may decide to use cash dividends or stock dividends to distribute profits based on its development plan, production, operation, and capital status. When the Company meets its profit goal for the year, the accumulated amount of undistributed profit is positive, and the relevant regulatory indicators reach the cash dividend standards stipulated by relevant laws and regulations, it shall, in principle, distribute cash dividends once a year.

INVESTOR RELATIONS

The Company focused on the maintenance of sound investor relations and maintained effective communication with investors through various means. After the announcements of the 2019 annual results and the 2020 interim results, the Company by way of results briefings and roadshows, among others, timely communicated its operating results and business development trends with investors which strengthened communication with investors and facilitated the understanding of the Company by investors. The Company also maintained sound communication with investors through accepting investors' visits, holding telephone conferences, attending major investment forums, by telephone and email, etc., and proactively provided information to investors on the Company's website, to establish and maintain good relationships with investors.

The Company appoints the office of the Board to act as the information inquiry department for investors, which can be reached by telephone, e-mail, mail, etc. For contact details, please see the telephone number, e-mail address and registered address of the Company listed in the back cover of this annual report. On the Company's website (https://property.picc.com), there is a section titled "Investor Relations", in which the information is updated timely.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the extraordinary general meeting held at PICC Building, No. 88 Xichang'an Street, Xicheng District, Beijing, the PRC on 29 December 2020, at which the proposal of appointing Mr. Luo Xi as Non-executive Director was considered and approved by way of poll. Details are set out in the circular of the Company dated 13 November 2020 and the poll results of the extraordinary general meeting dated 29 December 2020.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Year, the Company did not make any amendments to the Articles of Association.

Technology 2020

All-round upgrading of online service

- The online customer migration rate of household automobile insurance was 89.0%, representing an increase of 29.5 percentage points compared to the end of 2019.
- Set up online intelligent platform for issuance of motor vehicle insurance policy, which is faster by 30%.
- Launched the online operation and management as well as service sharing platform for claim settlement, promoted AI quality inspection and loss assessment; and the online claim service usage rate of household automobile insurance was 93.2%, representing an increase of 26.5 percentage points compared to the end of 2019.
- Developed the online customer service platform consisting of “PICC” APP and WeChat official account; built “Manual + Self-service + Robot” three-in-one online service system, achieving a year-on-year increase of 27% in online customer service rate.

Accelerating digital transformation

- Accelerated construction of infrastructure, launched the PDF-C technical system standard, and planned to develop an online operation sharing center.
- Promoted the “Motor Vehicle Insurance Manager” system, marketing management system and “T+0” Commission payment, and developed the “PICC Driving E-assistant”, “Seven Platforms” of claim settlement, continuously improving the underwriting and claim settlement efficiency.
- Set up the “Product Center” platform and accomplished online transfer and centralised management of all product provisions.

Independent Auditor's Report

TO THE SHAREHOLDERS OF
PICC PROPERTY AND CASUALTY COMPANY LIMITED
(A joint stock company 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 112 to 238 which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities	
We identified the valuation of insurance contract liabilities as a key audit matter as the estimation of insurance contract liabilities involves a significant degree of judgement. The Group recorded insurance contract liabilities of RMB312,873 million as at 31 December 2020. Insurance contract liabilities comprise unearned premium reserves and loss and loss adjustment expense reserves. Unearned premium reserves represent premiums received for risks that have not yet expired, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. Loss and loss adjustment expense reserves are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, the related claims handling costs, together with a risk margin to reflect the related uncertainty. 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 amount of loss and loss adjustment expense reserves. Details of the insurance contract liabilities are set out in note 35 to the consolidated financial statements.	Our procedures in relation to the valuation of insurance contract liabilities included: • Testing and evaluating the key controls relevant to our audit of the estimation of insurance contract liabilities; • Testing the policy data input into the actuarial models and the related supporting documents; • With the assistance of actuarial specialists: – Comparing the methodology, models and assumptions used against recognised actuarial practices to assess their reasonableness; – Performing independent projections on insurance contract liabilities, and comparing our projected reserves to those recorded by the management to assess their reasonableness; – Performing independent testing on the liability adequacy for unearned premium reserves; and – Reviewing the appropriateness of the results of the Group's retrospective analysis for loss and loss adjustment expense reserves.

KEY AUDIT MATTERS *(continued)*

Key audit matter

Impairment of financial assets

We identified the impairment of financial assets as a key audit matter as the Group applied significant judgement to determine whether impairment indicator exists. This included for available-for-sale equity instruments and mutual funds, judging whether any decline of fair value below cost is "significant" or "prolonged", and for financial assets measured at amortised cost, judging whether objective evidence of impairment exists. Significant accounting estimates are also involved in determining the present values of expected future cash flows, or the fair values measured by using significant unobservable inputs.

As at 31 December 2020, the Group held debt securities of RMB168,511 million, equity securities and mutual funds of RMB110,734 million, net insurance receivables of RMB50,103 million and investments classified as loans and receivables of RMB67,944 million. Impairment losses of RMB80 million, RMB2,341 million, RMB113 million and RMB610 million respectively were recorded for debt securities, equity securities and mutual funds, net insurance receivables and investments classified as loans and receivables for the current year.

Details of these financial assets and key estimation uncertainties of their impairment are disclosed in note 18, note 19, note 20, note 23 and note 3 to the consolidated financial statements, respectively.

How our audit addressed the key audit matter

Our procedures in relation to impairment of financial assets included:

- Testing and evaluating the key controls relevant to our audit on the identification of financial assets with evidence of impairment;
- Testing the financial assets data to supporting documents on a sample basis;
- For financial assets that have evidence of impairment, reviewing the impairment assessment and recalculating the impairment amounts provided by management;
- For financial assets measured at amortised cost, checking whether any evidence of impairment exists, including financial difficulties experienced by the issuers of the financial assets, default on repayment or delinquency on principal or interests; and
- For available-for-sale equity instruments and mutual funds, checking whether the judgment on "significant" or "prolonged" decline of fair value below cost is appropriate and consistently applied.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 RMB million	2019 RMB million
GROSS WRITTEN PREMIUMS	5	**433,187**	433,175
Net earned premiums	5	**393,127**	380,683
Net claims incurred	6	**(260,320)**	(251,822)
Net policy acquisition costs	7	**(69,075)**	(77,943)
Other underwriting expenses		**(49,729)**	(38,400)
Administrative expenses		**(9,826)**	(9,341)
UNDERWRITING PROFIT		**4,177**	3,177
Investment income	8	**17,709**	16,986
Net realised and unrealised gains on investments	9	**1,520**	733
Investment related expenses		**(424)**	(370)
Exchange (losses)/gains, net		**(621)**	77
Other (expenses)/income, net		**(89)**	354
Finance costs	10	**(1,547)**	(1,424)
Share of profits or losses of associates and joint venture		**3,951**	4,250
PROFIT BEFORE TAX	11	**24,676**	23,783
Income tax (expense)/credit	12	**(3,808)**	496
PROFIT FOR THE YEAR		**20,868**	24,279
Attributable to			
– Owners of the Company		**20,868**	24,282
– Non-controlling interests		**–**	(3)
		20,868	24,279
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (in RMB Yuan)	15	**0.938**	1.092

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB million	2019 RMB million
PROFIT FOR THE YEAR		20,868	24,279
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value gains		10,301	14,859
– Reclassification of gains to profit or loss on disposals		(4,321)	(1,367)
– Impairment losses	9	2,421	706
Income tax effect	29	(1,848)	(3,549)
		6,553	10,649
Share of other comprehensive income of associates and joint venture		108	898
NET OTHER COMPREHENSIVE INCOME THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		6,661	11,547
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and right-of-use assets upon transfer to investment properties	26	320	232
Income tax effect	29	(35)	(58)
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		285	174
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		6,946	11,721
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		27,814	36,000
Total comprehensive income attributable to			
– Owners of the Company		27,814	36,003
– Non-controlling interests		–	(3)
		27,814	36,000

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	31 December 2020 RMB million	31 December 2019 RMB million
ASSETS			
Cash and cash equivalents	*17*	**26,192**	32,520
Debt securities	*18*	**168,511**	149,072
Equity securities and mutual funds	*19*	**110,734**	91,728
Insurance receivables, net	*20*	**50,103**	53,593
Reinsurance assets	*21*	**33,167**	30,321
Term deposits	*22*	**70,943**	64,398
Investments classified as loans and receivables	*23*	**67,944**	67,391
Investments in associates and joint venture	*24*	**53,262**	50,477
Investment properties	*26*	**4,603**	4,598
Property and equipment	*27*	**25,725**	18,086
Right-of-use assets	*28*	**5,087**	5,863
Deferred tax assets	*29*	**5,055**	5,121
Prepayments and other assets	*30*	**25,475**	22,913
TOTAL ASSETS		**646,801**	596,081
LIABILITIES			
Payables to reinsurers	*32*	**21,818**	19,449
Accrued insurance security fund	*33*	**837**	1,076
Securities sold under agreements to repurchase	*34*	**29,028**	16,759
Income tax payable		**38**	96
Insurance contract liabilities	*35*	**312,873**	305,140
Policyholders' deposits	*36*	**1,750**	1,762
Bonds payable	*37*	**23,297**	15,198
Lease liabilities	*38*	**1,668**	2,198
Accruals and other liabilities	*39*	**65,461**	64,449
TOTAL LIABILITIES		**456,770**	426,127
EQUITY			
Issued capital	*40*	**22,242**	22,242
Reserves		**165,271**	147,711
Equity attributable to owners of the Company		**187,513**	169,953
Non-controlling interests	*25*	**2,518**	1
TOTAL EQUITY		**190,031**	169,954
TOTAL EQUITY AND LIABILITIES		**646,801**	596,081

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company											
	Issued capital RMB million	Share premium account RMB million	Asset revaluation reserve** RMB million	Available-for-sale investment revaluation reserve RMB million	Surplus reserve*** RMB million	General risk reserve RMB million	Catastrophic loss reserve RMB million	Share of other comprehensive income of associates and joint venture RMB million	Retained profits RMB million	Sub-total RMB million	Non-controlling interests RMB million	Total equity RMB million
Balance at 31 December 2019	22,242	11,412*	3,376*	14,211*	59,703*	15,426*	1,789*	796*	40,998*	169,953	1	169,954
Profit for the year	-	-	-	-	-	-	-	-	20,868	20,868	-	20,868
Other comprehensive income	-	-	285	6,553	-	-	-	108	-	6,946	-	6,946
Total comprehensive income	-	-	285	6,553	-	-	-	108	20,868	27,814	-	27,814
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	2,111	2,111	-	-	(4,222)	-	-	-
Appropriations to catastrophic loss reserve	-	-	-	-	-	-	312	-	(312)	-	-	-
Utilisation of catastrophic loss reserve	-	-	-	-	-	-	(952)	-	952	-	-	-
2019 final dividend****	-	-	-	-	-	-	-	-	(10,254)	(10,254)	-	(10,254)
Capital invested by non-controlling Shareholders (note 25)	-	-	-	-	-	-	-	-	-	-	2,517	2,517
Balance at 31 December 2020	22,242	11,412*	3,661*	20,764*	61,814*	17,537*	1,149*	904*	48,030*	187,513	2,518	190,031

* The consolidated reserves of RMB165,271 million in the consolidated statement of financial position as at 31 December 2020 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 2020, the shareholders of the Company at the general meeting approved a final dividend of RMB0.461 per ordinary share totalling RMB10,254 million for the year ended 31 December 2019.

	Attributable to owners of the Company											
	Issued capital RMB million	Share premium account RMB million	Asset revaluation reserve** RMB million	Available-for-sale investment revaluation reserve RMB million	Surplus reserve*** RMB million	General risk reserve RMB million	Catastrophic loss reserve RMB million	Share of other comprehensive (expense)/income of associates and joint venture RMB million	Retained profits RMB million	Sub-total RMB million	Non-controlling interests RMB million	Total equity RMB million
Balance at 31 December 2018	22,242	11,572*	3,202*	3,562*	42,212*	12,935*	2,471*	(193)*	43,492*	141,495	8	141,503
Impact of change in accounting policy in associates (note 24)	–	–	–	–	–	–	–	91	(1,426)	(1,335)	–	(1,335)
Balance at 1 January 2019 (restated)	22,242	11,572*	3,202*	3,562*	42,212*	12,935*	2,471*	(102)*	42,066*	140,160	8	140,168
Profit for the year	–	–	–	–	–	–	–	–	24,282	24,282	(3)	24,279
Other comprehensive income	–	–	174	10,649	–	–	–	898	–	11,721	–	11,721
Total comprehensive income	–	–	174	10,649	–	–	–	898	24,282	36,003	(3)	36,000
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	2,491	2,491	–	–	(4,982)	–	–	–
Appropriations to discretionary surplus reserve****	–	–	–	–	15,000	–	–	–	(15,000)	–	–	–
Appropriations to catastrophic loss reserve	–	–	–	–	–	–	313	–	(313)	–	–	–
Utilisation of catastrophic loss reserve	–	–	–	–	–	–	(995)	–	995	–	–	–
2018 final dividend****	–	–	–	–	–	–	–	–	(6,050)	(6,050)	–	(6,050)
Others	–	(160)	–	–	–	–	–	–	–	(160)	(4)	(164)
Balance at 31 December 2019	22,242	11,412*	3,376*	14,211*	59,703*	15,426*	1,789*	796*	40,998*	169,953	1	169,954

* The consolidated reserves of RMB147,711 million in the consolidated statement of financial position as at 31 December 2019 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 21 June 2019, the shareholders of the Company at the general meeting approved a final dividend of RMB0.272 per ordinary share totalling RMB6,050 million for the year ended 31 December 2018, and an amount of RMB10,000 million to be appropriated to discretionary surplus reserve. On 23 August 2019, the Board of Directors of the Company approved an amount of RMB5,000 million to be appropriated to discretionary surplus reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	**2020** **RMB million**	2019 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**24,676**	23,783
Adjustments for:			
Investment income	*8*	**(17,709)**	(16,986)
Net realised and unrealised gains on investments	*9*	**(1,520)**	(733)
Exchange losses/(gains), net		**621**	(77)
Share of profits or losses of associates and joint venture		**(3,951)**	(4,250)
Depreciation of property and equipment	*11, 27*	**1,920**	1,884
Depreciation of right-of-use assets	*11, 28*	**1,186**	1,102
Amortisation of intangible assets	*11*	**433**	348
Net gains on disposal of items of property and equipment	*11*	**(71)**	(34)
Finance costs	*10*	**1,547**	1,424
Investment related expenses		**424**	370
Provision for impairment losses on insurance receivables	*11, 20*	**113**	233
Reversal of impairment losses on prepayments and other assets	*11*	**(3)**	(99)
Operating cash flows before working capital changes		**7,666**	6,965
Changes in working capital:			
Decrease/(increase) in insurance receivables		**3,377**	(11,405)
Decrease in policyholders' deposits		**(12)**	(194)
Increase in other assets		**(1,183)**	(206)
Increase in payables to reinsurers		**2,369**	3,743
(Decrease)/increase in accrued insurance security fund		**(239)**	50
Increase in accruals and other liabilities		**1,629**	3,715
Increase in insurance contract liabilities, net		**4,887**	27,603
Cash generated from operations		**18,494**	30,271
Income tax paid		**(5,683)**	(4,466)
Net cash flows from operating activities		**12,811**	25,805

	Notes	2020 RMB million	2019 RMB million
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**14,961**	13,987
Rental income received from investment properties		**259**	275
Dividend income received from equity securities and mutual funds		**2,993**	2,684
Payment for capital expenditure		**(9,780)**	(3,813)
Proceeds from disposal of items of property and equipment		**157**	84
Payment for acquisition of subsidiaries		**–**	(8)
Payment for acquisition/capital increase of associates and joint venture		**(300)**	(2,077)
Payment for purchase of debt securities, equity securities and mutual funds		**(117,289)**	(89,583)
Payment for purchase of investments classified as loans and receivables		**(15,684)**	(22,305)
Dividend income received from associates		**918**	715
Proceeds from sale of debt securities, equity securities and mutual funds		**85,805**	82,406
Proceeds from maturity of investments classified as loans and receivables		**14,521**	9,011
Proceeds on disposal of interest in an associate		**594**	–
(Increase)/decrease in term deposits, net		**(6,545)**	9,565
Net cash flows (used in)/generated from investing activities		**(29,390)**	941
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital supplementary bonds	*45*	**8,000**	–
Payment for redemption of bonds payable	*45*	**–**	(8,000)
Increase/(decrease) in securities sold under agreements to repurchase, net	*45*	**12,269**	(11,240)
Interest paid	*45*	**(1,123)**	(1,661)
Dividends paid		**(10,254)**	(6,050)
Repayments of lease liabilities	*45*	**(1,000)**	(1,112)
Funds from capital invested by non-controlling shareholders	*25*	**2,517**	–
Net cash flows generated from/(used in) financing activities		**10,409**	(28,063)

	Notes	2020 RMB million	2019 RMB million
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,170)**	(1,317)
Cash and cash equivalents at beginning of the year		**32,520**	33,797
Effect of foreign exchange rate changes		**(158)**	40
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*17*	**26,192**	32,520
Analysis of balances of cash and cash equivalents			
Demand deposits	*17*	**14,173**	13,704
Securities purchased under resale agreements with original maturity of no more than three months	*17*	**12,019**	18,816
Cash and cash equivalents at end of the year		**26,192**	32,520

Notes To The Consolidated Financial Statements

For the year ended 31 December 2020

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

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

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

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2.2 BASIS OF PREPARATION

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

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

2.3 APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions.

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these 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 amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[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 – Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after 1 January 2022.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

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

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

HKFRS 9 – Financial Instruments

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

Key requirements of HKFRS 9:

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2020, the following principal impacts to the consolidated financial statements on initial application of HKFRS 9 are expected:

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

HKFRS 9 – Financial Instruments *(continued)*

Classification and measurement

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

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

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

- At fair value through profit or loss financial assets as disclosed in note 18 and note 19: all these at fair value through profit or loss financial assets are held within a business model whose objective is achieved by selling these financial instruments in the open market, so they will be measured at fair value with fair value gains or losses to be recognised in profit or loss under both HKAS 39 and HKFRS 9.

Impairment

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

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

HKFRS 17 – Insurance Contracts and the related Amendments

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 Insurance Contracts.

HKFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of HKFRS 17 is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and information technology.

The HKICPA issued Amendments to HKFRS 17 to address concerns and implementation challenges that were identified after HKFRS 17 was published. The amendments defer the date of initial application of HKFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the HKICPA issued Amendments to HKFRS 4 Extension of the Temporary Exemption from HKFRS 9 that extends the fixed expiry date of the temporary exemption from applying HKFRS 9 in HKFRS 4 to annual reporting periods beginning on or after 1 January 2023.

HKFRS 17 is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

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. In order to adopt HKFRS 17 in the consolidated financial statements, a HKFRS 17 implementation workgroup comprised of various functions (Finance, Actuarial, Risk, IT and Operations) has been operating since 2018. The Company is in the process of assessing the impact of HKFRS 17. As of 31 December 2020, it was not practicable to quantify the potential impact on the Group's financial position or performance of applying HKFRS 17.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Investments in associates and joint venture

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint venture *(continued)*

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint venture *(continued)*

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

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

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

Foreign currencies

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

At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

Cash and cash equivalents

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

***Subsequent measurement** (continued)*

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Effective interest method

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at cost

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

Available-for-sale financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are always measured at fair value through profit or loss unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

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

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

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

Effective interest method

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

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

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial guarantee contracts

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

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

Derivative financial instruments

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.

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 HKFRS 16 (since 1 January 2019) or HKAS 17 (before applications of HKFRS 16) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless HKFRS 16 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

Property and equipment and depreciation

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, 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 estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for this purpose are as follows:

Land and buildings	1.62% to 19.40%
Motor vehicles	16.17% to 24.25%
Office equipment, furniture and fixtures	9.70% to 32.33%

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Insurance contracts

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

Some contracts issued by the Group may contain both an insurance component and a deposit component. If these two components are distinct and can be measured reliably, the underlying amounts are unbundled. The unbundled insurance component is accounted for according to HKFRS 4 and the unbundled deposit component is accounted for as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the entire contract will be accounted for as an insurance contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract up to derecognition, even if the insurance risk subsequently reduces significantly. Investment contracts can, however, be reclassified as insurance contracts after initial recognition if insurance risk becomes significant.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant insurance risk testing

For insurance contracts issued by the Group, tests are performed to determine if the contracts contain significant insurance risk, and contracts of a similar nature are grouped together for this purpose. When performing the significant insurance risk testing, the Group makes judgements in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is significant.

Insurance receivables

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

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

Insurance contract liabilities

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

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

The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as commission expenses, underwriting personnel expenses, tax and other surcharges, insurance security fund and other acquisition 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

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.

Derecognition of insurance contract liabilities

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

Reinsurance

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reinsurance *(continued)*

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial instruments. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the cedant. Investment income or expense on these contracts is accounted for using the effective interest method when accrued.

Revenue recognition

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

Gross premiums

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

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Rental income

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

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)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modification, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right exists to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under “other income”.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Provisions

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance. The Group has made annuity contributions in proportion to its employees' wages. Employees who leave the scheme prior to vesting fully in the annuity scheme shall return part of the interests (the "forfeited contributions"). The forfeited contributions can not be used by the Group to reduce the existing level of the annuity scheme contributions. The purpose of the forfeited contributions will be determined in due course.

Termination benefits

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

Short-term and other long-term employee benefits

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

Short-term employee benefits refer to employee wages, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusions in the cost of an asset.

Share-based payments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and other assets, other than leases of office premises, that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

***The Group as a lessee** (continued)*

Right-of-use assets *(continued)*

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Land leases are also in the scope of HKFRS 16. The Group recognises any prepaid premium for leasehold lands as right-of-use assets which are depreciated over the relevant lease terms.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Lease payments include fixed payments, variable lease payment based on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, and others.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

The Group as a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Profit appropriation

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Profit appropriation *(continued)*

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

According to the relevant regulations of the PRC, the Company is required to make appropriations to catastrophic loss reserves when the agriculture and nuclear insurance businesses achieve annual or accumulated excessive underwriting profits determined in accordance with PRC GAAP. These catastrophic loss reserves cannot be used for dividend distribution or conversion into capital.

Dividends

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2.5, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Product classification

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

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

Critical judgements in applying accounting policies *(continued)*

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

The Group determines whether it can exercise influence over an investee when it holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, when one or more of the following indicators are present:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the investor and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

An investee is accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset in accordance with HKAS 39.

The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 24 to these consolidated financial statements.

Consolidations of structured entities

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

Impairment assessment on investments in associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investments in associates exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When value in use calculations are undertaken, the Group must estimate the present values of cash flows expected to arise from continuing to hold the investments and choose a suitable discount rate in order to calculate the present value of those cash flows.

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty *(continued)*

Valuation of insurance contract liabilities

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

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

- For insurance contracts under which the future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of yield curve of China's treasury bonds published by China Central Depository and Clearing Co., Ltd., with consideration of tax effect and illiquidity premiums. In consideration of the different duration of each line of business, the Group used premiums of 83 – 96 basis points as at 31 December 2020 (31 December 2019: 95 – 106 basis points). The discount rates of the different duration used as at 31 December 2020 were 3.3% – 3.8% (31 December 2019: 3.8% – 4.3%).

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

Type	2020	2019
Agriculture insurance	**33.8%**	33.8%
Motor vehicle insurance	**3%**	3%
Health insurance	**3%**	3%
Other insurance	**6%**	6%

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

Type	2020	2019
Agriculture insurance	**33.3%**	33.3%
Motor vehicle insurance	**2.5%**	2.5%
Health insurance	**2.5%**	2.5%
Other insurance	**5.5%**	5.5%

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

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

Key sources of estimation uncertainty *(continued)*

***Valuation of insurance contract liabilities** (continued)*

Management is of the opinion that as at the end of the reporting period, loss and loss adjustment expense reserves are sufficient to cover the relevant liabilities 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 44(a).

Impairment of financial assets

Financial assets measured at amortised cost

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

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

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

Available-for-sale financial assets

The Group considers whether impairment provision is needed for an available-for-sale financial asset investment if fair value of an available-for-sale financial instrument is below its carrying amount. The Group determines whether impairment exists by: for equity instruments, judging whether this decline below cost is “significant” or “prolonged” as explained in note 2.5; for debt instruments, whether the decline in fair value is due to market interest rates or interest rates specific to the issuers of the financial instruments, or presence of other objective evidence of impairment.

Fair values of financial assets determined using valuation techniques

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities, correlations and earnings require management to make estimates. Fair values of financial assets, their hierarchy, valuation techniques and key inputs are disclosed in note 41 to these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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 (including depreciation and amortisation) (for segments (a) to (h)) is a measure of underwriting profit/loss and corporate business income and expense (for segment (i)), primarily investment related income and expense, is a measure of profit for the year excluding underwriting profit/loss. Income tax expense is not further allocated but assigned to corporate business segment.

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

Geographical information is not presented as the Group's customers, business, assets and liabilities are mainly located and operations are mainly carried out in the PRC for relevant entities. No inter-segment transactions occurred in 2020 and 2019.

In 2020 and 2019, 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 2020 and 2019 are as follows:

2020	Insurance								Corporate	Total
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Credit and surety *RMB million*	Others *RMB million*	*RMB million*	*RMB million*
Gross written premiums	265,651	14,957	3,807	28,467	66,187	36,121	5,283	12,714	–	433,187
Net earned premiums	254,249	8,548	2,566	19,697	63,428	25,966	11,409	7,264	–	393,127
Net claims incurred	(147,573)	(5,784)	(1,118)	(12,236)	(55,900)	(19,405)	(14,225)	(4,079)	–	(260,320)
Net policy acquisition costs	(53,161)	(2,005)	(549)	(4,218)	(5,900)	(1,444)	(729)	(1,069)	–	(69,075)
Other underwriting expenses	(39,096)	(760)	(321)	(2,063)	(1,593)	(3,841)	(1,018)	(1,037)	–	(49,729)
Administrative expenses	(5,610)	(343)	(138)	(637)	(853)	(1,220)	(541)	(484)	–	(9,826)
Underwriting profit/(loss)	8,809	(344)	440	543	(818)	56	(5,104)	595	–	4,177
Investment income	–	–	–	–	–	–	–	–	17,709	17,709
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	–	1,520	1,520
Investment related expenses	–	–	–	–	–	–	–	–	(424)	(424)
Exchange losses, net	–	–	–	–	–	–	–	–	(621)	(621)
Other (expenses)/income, net	–	–	–	–	–	(555)	–	–	466	(89)
Finance costs	–	–	–	–	–	–	–	–	(1,547)	(1,547)
Share of profits or losses of associates and joint venture	–	–	–	–	–	–	–	–	3,951	3,951
Profit/(loss) before tax	8,809	(344)	440	543	(818)	(499)	(5,104)	595	21,054	24,676
Income tax expense	–	–	–	–	–	–	–	–	(3,808)	(3,808)
Profit/(loss) for the year – segment results	8,809	(344)	440	543	(818)	(499)	(5,104)	595	17,246	20,868

4. OPERATING SEGMENT INFORMATION *(continued)*

2019	Insurance									
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Credit and surety *RMB million*	Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Gross written premiums	262,927	15,167	3,972	27,223	57,633	30,772	22,767	12,714	–	433,175
Net earned premiums	251,653	8,679	2,782	18,926	53,806	24,632	13,271	6,934	–	380,683
Net claims incurred	(150,560)	(5,727)	(1,339)	(11,420)	(47,635)	(19,984)	(10,364)	(4,793)	–	(251,822)
Net policy acquisition costs	(59,094)	(2,221)	(649)	(4,810)	(4,831)	(499)	(4,862)	(977)	–	(77,943)
Other underwriting expenses	(27,981)	(876)	(313)	(2,085)	(1,682)	(3,562)	(542)	(1,359)	–	(38,400)
Administrative expenses	(5,818)	(357)	(133)	(551)	(640)	(999)	(387)	(456)	–	(9,341)
Underwriting profit/(loss)	8,200	(502)	348	60	(982)	(412)	(2,884)	(651)	–	3,177
Investment income	–	–	–	–	–	–	–	–	16,986	16,986
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	–	733	733
Investment related expenses	–	–	–	–	–	–	–	–	(370)	(370)
Exchange gains, net	–	–	–	–	–	–	–	–	77	77
Other income, net	–	–	–	–	–	–	–	–	354	354
Finance costs	–	–	–	–	–	–	–	–	(1,424)	(1,424)
Share of profits or losses of associates and joint venture	–	–	–	–	–	–	–	–	4,250	4,250
Profit/(loss) before tax	8,200	(502)	348	60	(982)	(412)	(2,884)	(651)	20,606	23,783
Income tax credit	–	–	–	–	–	–	–	–	496	496
Profit/(loss) for the year – segment results	8,200	(502)	348	60	(982)	(412)	(2,884)	(651)	21,102	24,279

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets and liabilities of the Group as at 31 December 2020 and 2019 and other segment information for the years then ended are as follows:

31 December 2020	Insurance									
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Credit and surety *RMB million*	Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	8,280	9,493	1,636	12,452	9,695	15,713	11,484	17,244	560,804	646,801
Segment liabilities	213,119	19,823	3,632	34,058	35,957	20,991	17,177	23,552	88,461	456,770
Other segment information:										
Capital expenditures	5,998	338	86	643	1,494	815	119	287	–	9,780
Depreciation and amortisation	2,170	122	31	233	541	295	43	104	–	3,539
(Reversal of)/provision for impairment losses on insurance receivables, prepayments and other assets	(78)	19	(12)	34	24	(39)	102	60	–	110
Interest income	–	–	–	–	–	–	–	–	14,447	14,447

4. OPERATING SEGMENT INFORMATION *(continued)*

31 December 2019	Insurance									
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Credit and surety *RMB million*	Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	8,371	9,826	1,424	10,735	10,712	12,161	16,023	17,978	508,851	596,081
Segment liabilities	212,576	19,204	3,495	29,034	29,213	16,781	23,983	24,682	67,159	426,127
Other segment information:										
Capital expenditures	2,314	134	35	240	507	271	200	112	–	3,813
Depreciation and amortisation	2,045	115	29	219	509	278	41	98	–	3,334
Provision for/(reversal of) impairment losses on insurance receivables, prepayments and other assets	8	24	(9)	(10)	10	45	51	15	–	134
Interest income	–	–	–	–	–	–	–	–	14,027	14,027

5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	2020 *RMB million*	2019 *RMB million*
Gross written premiums		
Direct written premiums	**432,019**	431,724
Reinsurance premiums assumed	**1,168**	1,451
	433,187	433,175
Net earned premiums		
Gross written premiums	**433,187**	433,175
Reinsurance premiums ceded	**(41,211)**	(35,159)
Net written premiums	**391,976**	398,016
Gross change in unearned premium reserves	**(580)**	(18,161)
Reinsurer's share of change in unearned premium reserves	**1,731**	828
Net change in unearned premium reserves	**1,151**	(17,333)
Net earned premiums	**393,127**	380,683

6. NET CLAIMS INCURRED

	2020 *RMB million*	2019 *RMB million*
Gross claims paid	**277,757**	263,572
Paid losses recoverable from reinsurers	**(23,475)**	(22,020)
Net claims paid	**254,282**	241,552
Gross change in loss and loss adjustment expense reserves	**7,153**	11,198
Reinsurer's share of change in loss and loss adjustment expense reserves	**(1,115)**	(928)
Net change in loss and loss adjustment expense reserves	**6,038**	10,270
Net claims incurred	**260,320**	251,822

7. NET POLICY ACQUISITION COSTS

	2020	2019
	RMB million	*RMB million*
Commission expenses	**49,552**	55,042
Less: Reinsurance commission income	**(11,682)**	(10,143)
Underwriting personnel expenses	**26,706**	25,334
Taxes and other surcharges	**1,017**	1,210
Contributions to insurance security fund (note 33)	**2,376**	3,205
Others	**1,106**	3,295
Total	**69,075**	77,943

8. INVESTMENT INCOME

	2020	2019
	RMB million	*RMB million*
Operating lease income from investment properties	**259**	275
Interest income from:		
Current and term deposits	**3,499**	3,816
Debt securities		
– Held-to-maturity	**2,390**	2,223
– Available-for-sale	**4,180**	4,279
– At fair value through profit or loss	**510**	227
Investments classified as loans and receivables	**3,868**	3,482
Subtotal	**14,447**	14,027
Dividend income from equity securities and mutual funds:		
– Available-for-sale	**2,942**	2,533
– At fair value through profit or loss	**61**	151
Subtotal	**3,003**	2,684
Total	**17,709**	16,986

9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	2020 *RMB million*	2019 *RMB million*
Realised gains/(losses) from:		
Debt securities		
– Available-for-sale	**111**	149
– At fair value through profit or loss	**(9)**	15
Equity securities and mutual funds		
– Available-for-sale	**4,210**	1,218
– At fair value through profit or loss	**32**	21
Disposal of an associate (note 24)	**239**	–
Subtotal	**4,583**	1,403
Unrealised (losses)/gains from:		
Debt securities classified as fair value through profit or loss	**(136)**	67
Equity securities and mutual funds classified as fair value through profit or loss	**64**	45
Subtotal	**(72)**	112
Impairment losses on:		
Equity securities and mutual funds classified as available-for-sale (note 19)	**(2,341)**	(706)
Investments classified as loans and receivables (note 23)	**(610)**	–
Debt securities classified as available-for-sale (note 18)	**(80)**	–
Fair value gains/(losses) on investment properties (note 26)	**40**	(76)
Total	**1,520**	733

10. FINANCE COSTS

	2020 RMB million	2019 RMB million
Interest on bonds payable	**890**	697
Interest on securities sold under agreements to repurchase	**507**	599
Interest on lease liabilities	**80**	89
Others	**70**	39
Total	**1,547**	1,424

11. PROFIT BEFORE TAX

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

	Notes	2020 RMB million	2019 RMB million
Depreciation of property and equipment	*27*	**1,920**	1,884
Depreciation of right-of-use assets	*28*	**1,186**	1,102
Amortisation of intangible assets		**433**	348
Employee expenses (including directors', supervisors' and senior management's remunerations)			
– Salaries, allowances and performance related bonuses		**40,709**	38,785
– Pension scheme contributions		**3,057**	4,093
Provision for impairment losses on insurance receivables	*20*	**113**	233
Reversal of impairment losses on prepayments and other assets		**(3)**	(99)
Net gains on disposal of items of property and equipment		**(71)**	(34)
Auditors' remuneration		**17**	17

12. INCOME TAX (EXPENSE)/CREDIT

The provision for PRC income tax is calculated based on the statutory rate of 25% (2019: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2020	2019
	RMB million	*RMB million*
Current tax	**5,625**	5,683
Adjustments in respect of prior years	**–**	(4,230)
Deferred tax (note 29)	**(1,817)**	(1,949)
Total	**3,808**	(496)

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:

	2020	2019
	RMB million	*RMB million*
Profit before tax	**24,676**	23,783
Tax at the statutory tax rate of 25% (2019: 25%)	**6,169**	5,946
Income not subject to tax	**(2,383)**	(2,362)
Expenses not deductible for tax	**119**	150
Adjustments in respect of prior years (i)	**–**	(4,230)
Impact from preferential tax treatment (ii)	**(97)**	–
Tax charge at the Group's effective tax rate	**3,808**	(496)

(i) In May 2019, Ministry of Finance and State Taxation Administration issued the "Announcement on the Tax Deduction Policy for Commission Expenses of Insurance Enterprises" (Announcement of the Ministry of Finance and State Taxation Administration [2019] No.72, the "New Policy"). According to the New Policy, the commission expenses paid by an insurance enterprise are deductible to the extent of 18% of its direct written premium, and the excess, if any, can be carried forward to the subsequent years. The New Policy is also applicable to 2018 annual income tax filing. The Group recognised the impact on income tax expense of RMB4,230 million for the year ended 31 December 2018 arising from the New Policy in the year ended 31 December 2019, and therefore resulting in a tax credit for the year ended 31 December 2019.

(ii) In the current year, the Group's operations in certain provinces in the Western region and Hainan Province of China are entitled to preferential tax treatments and their eligible taxable income is subject to an income tax rate of 15%. The preferential income tax rate is applicable until the end of the year 2030 and 2024 for certain provinces in the Western region and Hainan Province respectively according to relevant tax regulations.

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

(a) Directors and supervisors

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

2020	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*
Non-executive directors:					
Mr. Luo Xi (i) (Chairman of the Board) (appointed as non-executive director and Chairman of the Board on 18 March 2021)	–	–	–	–	–
Mr. Tang Zhigang (i) (resigned on 21 January 2020)	–	–	–	–	–
Mr. Li Tao (i)	–	–	–	–	–
Executive directors:					
Mr. Miao Jianmin (i) (resigned as chairman of the board and executive director on 15 July 2020)	–	–	–	–	–
Mr. Xie Yiqun (i) (Vice Chairman/President)	–	–	–	–	–
Ms. Xie Xiaoyu (retired on 22 February 2021)	–	1,056	190	112	1,358
Mr. Jiang Caishi (resigned as chairman of the supervisory committee on 12 March 2020, appointed as executive director on 23 June 2020)	–	1,056	206	112	1,374
Independent non-executive directors:					
Mr. Lin Hanchuan	258	–	–	–	258
Mr. Lo Chung Hing	237	–	–	–	237
Mr. Ma Yusheng	258	–	–	–	258
Mr. Chu Bende	258	–	–	–	258
Ms. Qu Xiaohui	258	–	–	–	258
Supervisors:					
Mr. Zhang Xiaoli (Chairman of the Supervisory Committee) (appointed as supervisor and chairman of the supervisory committee on 31 July 2020)	–	1,056	206	112	1,374
Ms. Wang Xiaoli (appointed on 12 May 2020)	–	637	142	111	890
Mr. Wang Yadong (i)	–	–	–	–	–
Ms. Gao Hong	–	714	160	111	985
Independent supervisors:					
Mr. Lu Zhengfei	258	–	–	–	258
Mr. Shi Charlie Yucheng (resigned on 14 August 2020)	168	–	–	–	168
Total	1,695	4,519	904	558	7,676

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

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

(a) Directors and supervisors *(continued)*

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

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

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

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

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

In respect of the Share Appreciation Rights ("SARs") granted to senior executives, in compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and The China Banking and Insurance Regulatory Commission (the "CBIRC"), the Company decided to suspend the scheme in 2008 except for SAR granted to any person who is not a Chinese Mainland resident (please refer to note 43).

The total compensation packages for executive directors and supervisors for the year ended 31 December 2020 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

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

(a) Directors and supervisors *(continued)*

2019 (Restated)	Fees *RMB'000*	Salaries and allowances *RMB'000*	Retirement benefits *RMB'000*	Housing fund and other benefits *RMB'000*	Total remuneration before tax *RMB'000*
Non-executive directors:					
Mr. Tang Zhigang (i) (appointed on 7 March 2019)	–	–	–	–	–
Mr. Li Tao (i)	–	–	–	–	–
Executive directors:					
Mr. Miao Jianmin (i) (Chairman of the Board)	–	–	–	–	–
Mr. Xie Yiqun (i) (Vice Chairman/President) (appointed as vice chairman/president on 7 March 2019)	–	–	–	–	–
Mr. Lin Zhiyong (resigned as vice chairman/ president on 25 February 2019, resigned as executive director on 7 March 2019)	–	300	39	8	347
Ms. Xie Xiaoyu (appointed on 7 March 2019)	–	1,474	212	110	1,796
Mr. Hua Shan (appointed on 7 March 2019, resigned on 23 September 2019)	–	990	151	73	1,214
Independent non-executive directors:					
Mr. Lin Hanchuan	248	–	–	–	248
Mr. Lo Chung Hing	253	–	–	–	253
Mr. Na Guoyi (resigned on 19 July 2019)	140	–	–	–	140
Mr. Ma Yusheng	248	–	–	–	248
Mr. Chu Bende	248	–	–	–	248
Ms. Qu Xiaohui	248	–	–	–	248
Supervisors:					
Mr. Jiang Caishi (Chairman of the Supervisory Committee) (appointed on 7 March 2019)	–	1,468	224	110	1,802
Mr. Li Zhuyong (i) (retired on 7 March 2019)	–	–	–	–	–
Mr. Wang Yadong (i) (appointed on 7 March 2019)	–	–	–	–	–
Mr. Li Fuhan (retired on 16 December 2019)	–	1,737	132	95	1,964
Ms. Gao Hong	–	1,845	181	109	2,135
Independent supervisors:					
Mr. Lu Zhengfei	248	–	–	–	248
Mr. Shi Charlie Yucheng (appointed on 7 March 2019)	205	–	–	–	205
Total	1,838	7,814	939	505	11,096

(i) These executive directors, 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 2019 were restated based on the finalised amounts determined during 2020. Additionally, pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2019 amounting to approximately RMB2.51 million for executive directors and supervisors had been deferred contingent upon the future performance.

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

(b) Senior management

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

	2020	2019 (Restated)
	RMB'000	*RMB'000*
Salaries, allowances and performance related bonuses	**6,980**	8,600
Retirement benefits	**1,566**	1,613
Housing fund and other benefits	**771**	655
Total	**9,317**	10,868

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 2020 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

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

	2020	2019 (Restated)
HKD1,000,001 to HKD1,500,000	**2**	–
HKD1,500,001 to HKD2,000,000	**5**	2
HKD2,000,001 to HKD2,500,000	**–**	4
Total	**7**	6

The compensation amounts for certain members of senior management for the year ended 31 December 2019 were restated based on the finalised amounts determined during 2020. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2019 amounting to approximately RMB5 million for senior management had been deferred contingent upon the future performance.

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included one director (2019: two supervisors), details of whose remunerations are set out in note 13 above. Details of the remuneration for the year of the remaining four (2019: three) highest paid individuals are set out below:

	2020 *RMB'000*	2019 (Restated) *RMB'000*
Salaries, allowances and performance related bonuses	**4,223**	4,385
Retirement benefits	**1,039**	948
Housing fund and other benefits	**448**	330
Total	**5,710**	5,663

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

	2020	2019 (Restated)
HKD1,500,001 to HKD2,000,000	**4**	–
HKD2,000,001 to HKD2,500,000	**–**	3
Total	**4**	3

The compensation amounts for highest paid individuals for the year ended 31 December 2019 were restated based on the finalised amounts determined during 2020.

15. EARNINGS PER SHARE

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

	2020	2019
Earnings:		
Profit attributable to owners of the Company (RMB million)	**20,868**	24,282
Shares:		
Weighted average number of ordinary shares in issue (in million shares) (note 40)	**22,242**	22,242
Basic earnings per share (RMB Yuan)	**0.938**	1.092

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 2020 and 2019 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDENDS

	2020	2019
	RMB million	*RMB million*
Dividends recognised as distribution during the year:		
2018 final dividend – RMB0.272 per ordinary share	**–**	6,050
2019 final dividend – RMB0.461 per ordinary share	**10,254**	–

No interim dividend was proposed by the Board of Directors in 2020 and 2019.

Pursuant to the shareholders' approval at the general meeting on 23 June 2020, a final dividend of RMB0.461 per ordinary share totalling RMB10,254 million in respect of the year ended 31 December 2019 was declared.

Pursuant to the shareholders' approval at the general meeting on 21 June 2019, a final dividend of RMB0.272 per ordinary share totalling RMB6,050 million in respect of the year ended 31 December 2018 was declared.

17. CASH AND CASH EQUIVALENTS

	31 December 2020 ***RMB million***	31 December 2019 *RMB million*
Demand deposits	**14,173**	13,704
Securities purchased under resale agreements with original maturity of no more than three months	**12,019**	18,816
Total	**26,192**	32,520
Classification of cash and cash equivalents:		
Loans and receivables	**26,192**	32,520

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 2020 and 2019.

18. DEBT SECURITIES

	31 December 2020 ***RMB million***	31 December 2019 *RMB million*
Classification of debt securities:		
At fair value through profit or loss		
– Government bonds	**726**	297
– Financial bonds	**1,509**	4,707
– Corporate bonds	**8,964**	8,790
Subtotal	**11,199**	13,794
Available-for-sale, at fair value		
– Government bonds	**24,564**	6,284
– Financial bonds	**22,180**	13,481
– Corporate bonds	**61,177**	58,726
– Wealth management products and others	**595**	11,700
Subtotal	**108,516**	90,191
Held-to-maturity, at amortised cost		
– Government bonds	**10,431**	3,225
– Financial bonds	**24,699**	29,620
– Corporate bonds	**13,666**	12,242
Subtotal	**48,796**	45,087
Total	**168,511**	149,072

During the year, an impairment loss of RMB80 million was provided by the Group on debt securities (2019: nil).

19. EQUITY SECURITIES AND MUTUAL FUNDS

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Investments, at fair value:		
Listed shares	**42,062**	32,687
Unlisted shares	**2,727**	1,755
Mutual funds	**26,571**	26,150
Preferred shares	**7,815**	7,886
Equity schemes (i)	**10,476**	10,670
Perpetual bonds (ii)	**10,993**	3,350
Perpetual trust plans and perpetual debt plans (ii)	**10,090**	9,230
Total	**110,734**	91,728

(i) 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.

(ii) These perpetual financial instruments have no maturity date, and the issuer does not have a contractual obligation to make distributions or to redeem them by cash or other financial assets.

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 2020 *RMB million*	31 December 2019 *RMB million*
Classification of equity securities and mutual funds:		
At fair value through profit or loss	**3,582**	4,796
Available-for-sale, at fair value	**107,152**	86,932
Total	**110,734**	91,728

During the year, an impairment loss of RMB2,341 million was provided by the Group on equity securities and mutual funds (2019: RMB706 million).

20. INSURANCE RECEIVABLES, NET

	31 December 2020 RMB million	31 December 2019 RMB million
Premiums receivable and agents' balances	**36,618**	39,731
Receivables from reinsurers	**16,897**	17,194
	53,515	56,925
Less: Impairment provisions on		
– Premiums receivable and agents' balances	**(3,251)**	(3,167)
– Receivables from reinsurers	**(161)**	(165)
Net value	**50,103**	53,593

Analysis of insurance receivables, based on the payment past due date and net of provision, is as follows:

	31 December 2020 RMB million	31 December 2019 RMB million
Not yet due	**35,710**	40,138
Within 1 month	**5,038**	5,000
1 to 3 months	**2,949**	2,694
3 to 6 months	**2,077**	2,486
6 to 12 months	**3,525**	2,313
1 to 2 years	**720**	816
Over 2 years	**84**	146
Total	**50,103**	53,593

20. INSURANCE RECEIVABLES, NET *(continued)*

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

	2020	2019
	RMB million	*RMB million*
At 1 January	**3,332**	3,152
Impairment losses recognised (note 11)	**113**	233
Amount written off as uncollectible	**(33)**	(53)
At 31 December	**3,412**	3,332

Included in the Group's insurance receivables are amounts due from a fellow subsidiary of RMB177 million (31 December 2019: RMB150 million) and an associate of RMB1,320 million (31 December 2019: RMB1,690 million), respectively. Please refer to note 47(d) for details.

21. REINSURANCE ASSETS

	31 December 2020	31 December 2019
	RMB million	*RMB million*
Reinsurers' share of:		
Unearned premium reserves (note 35)	**13,313**	11,582
Loss and loss adjustment expense reserves (note 35)	**19,854**	18,739
Total	**33,167**	30,321

22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2020	31 December 2019
	RMB million	*RMB million*
More than 3 months to 1 year	**1,205**	1,192
More than 1 year to 2 years	**47**	121
More than 2 years to 3 years	**6,795**	2,268
More than 3 years	**62,896**	60,817
Total	**70,943**	64,398

23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Long-term debt investment schemes	**34,944**	35,616
Trust plans	**25,381**	21,320
Asset management products	**6,540**	6,785
Others	**1,689**	3,670
Total	**68,554**	67,391
Less: impairment provision (note 9)	**(610)**	–
Net carrying value	**67,944**	67,391

Long-term debt investment schemes ("Debt Schemes") are structured entities and offer either fixed or variable interests to their investors. The Group has invested in a number of Debt Schemes over time. These Debt Schemes were created to raise funds from investors for lending onto various borrowers. The Group's investments in Debt Schemes are entirely lending transactions in nature and the Group's interests in these Debt Schemes range from 2% to 100% as at 31 December 2020 (31 December 2019: 2% to 100%). The interest rates of these Debt Schemes range from 4.25% to 6.75% (31 December 2019: 4.20% to 6.80%) per annum as at 31 December 2020.

The Group assessed it has no control on any of these Debt Schemes. The Group's voting rights as lenders to these Debt Schemes are protective of the Group's interests in the Debt Schemes and mainly comprise early termination or extension of the Debt Schemes' term and, when certain conditions exist, change of the Debt Schemes' managers. Support from two-thirds of the beneficiary interests are required to pass resolutions to make these changes. 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 did not guarantee or provide any financing support for these Debt Schemes, and considers that the carrying amount of the loans to these Debt Schemes represents the Group's maximum risk exposure.

Trust schemes invest in predominantly debt instruments and offer the Group expected returns ranging from 4.57% – 6.70% (31 December 2019: ranging from 4.85% – 6.70%) per annum. The actual returns and eventual repayment of initial investments, however, depend on the performance of the underlying investments, which are predominantly debts in nature. The Group's maximum loss is limited to the investments and has no contractual obligations or intention to provide any financial support for these trust schemes.

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in an active market. These financial products include securitised assets, asset management products offered by asset management companies. The interest rates of these products range from 4.20% to 6.30% (31 December 2019: 4.00% to 6.30%) per annum as at 31 December 2020.

24. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Associates		
Cost of investments in associates (i)	**38,560**	38,960
Share of post-acquisition profit and other comprehensive income, net of dividend received (ii)	**14,664**	11,419
Subtotal	**53,224**	50,379
Joint venture		
Cost of investment in joint venture	**98**	98
Share of post-acquisition profit and other comprehensive income, net of dividend received	**(60)**	–
Total	**53,262**	50,477

(i) In the current year, the Group disposed of an associate with a carrying amount of RMB355 million, including cost of RMB400 million and share of post-acquisition loss and other comprehensive income of RMB45 million, and realised a net disposal gain of RMB239 million.

(ii) Hua Xia Bank Co., Ltd. (the Group's material associate, the "Hua Xia Bank") and Industrial Bank Co., Ltd. (an associate of the Group's another associate, the "IBC") applied PRC new financial instrument accounting standards (which is equivalent to HKFRS 9 Financial Instruments) retrospectively from 1 January 2019, with the practical expedients permitted under the standard. This adoption has decreased the carrying amount of investments in associates by RMB1,335 million on 1 January 2019.

As permitted by Amendments to HKFRS 4 Insurance Contracts, the Group elects not to apply uniform accounting policies when using the equity method for Hua Xia Bank.

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

Particulars of a material associate

Particulars of a material associate as at 31 December 2020 and 2019 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 2020	2019	Principal activities
Hua Xia Bank	Beijing, PRC	15,387	**16.660%**	16.660%	Commercial banking

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

Except for Hua Xia Bank, all the associates and joint venture are private companies or structured entities, and there are no quoted market prices available for these shares. Hua Xia Bank is listed on the Shanghai Stock Exchange and the fair value of the Group's interests in Hua Xia Bank as at 31 December 2020 was RMB16,020 million (31 December 2019: RMB19,660 million).

As at 31 December 2020, the carrying amount of Hua Xia Bank exceeded its fair value for more than three years. Management performed impairment test accordingly considering such impairment indicator exists. The recoverable amount of the interest in Hua Xia Bank is determined by value-in-use approach. The calculation used pre-tax cash flow projections for the five years ending 31 December 2025 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 2020. Reasonably possible changes in key assumptions will not lead to impairment loss.

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

Summarised financial information of a material associate

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

Hua Xia Bank

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Total assets	**3,399,816**	3,020,789
Net assets attributable to equity holders of Hua Xia Bank	**280,613**	267,588

	2020 *RMB million*	2019 *RMB million*
Revenue	**95,309**	84,734
Profit attributable to equity holders of Hua Xia Bank	**21,275**	21,905
Dividends received from the associate during the year	**638**	446

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

Summarised financial information of a material associate *(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 2020 ***RMB million***	31 December 2019 *RMB million*
Net assets of Hua Xia Bank attributable to equity holders of Hua Xia Bank	**280,613**	267,588
Total preference shares issued by Hua Xia Bank	**(19,978)**	(19,978)
Total perpetual bonds issued by Hua Xia Bank	**(39,993)**	(39,993)
Net assets attributable to ordinary share holders of Hua Xia Bank	**220,642**	207,617
Proportion of the Group's ownership interest in Hua Xia Bank	**16.660%**	16.660%
The Group's ownership interest in net assets of Hua Xia Bank	**36,759**	34,589
Net fair value adjustment to the investee's identifiable assets and liabilities	**(65)**	(65)
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	**274**	236
Carrying amount of the Group's interest in Hua Xia Bank	**36,968**	34,760
Fair value of shares listed in Mainland China	**16,020**	19,660

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

Aggregate information of associates and joint venture that are not individually material:

As at 31 December 2020, apart from an associate disclosed above, the Group has in aggregate 7 (31 December 2019: 8) immaterial associates and joint venture and their aggregate information is presented as below:

	2020	2019
	RMB million	*RMB million*
The Group's share of profit	**803**	674
The Group's share of other comprehensive income	**410**	822
The Group's share of total comprehensive income	**1,213**	1,496
Aggregate carrying amount of the Group's interests in these associates and joint venture	**16,294**	15,717

25. INVESTMENTS IN SUBSIDIARIES

	Company	
	31 December 2020	31 December 2019
	RMB million	*RMB million*
Unlisted shares, at cost	**2,950**	218

25. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2020 and 2019 are as follows:

Name of subsidiary	Place of incorporation and type of legal entity	Share capital registered/paid-up capital *RMB million*	Equity interest and voting right held by the Group as at 31 December 2020	 2019	Principal activities
PICC Community Sales Service Company Limited	Shenzhen, PRC Limited Liability	RMB50	**100%**	100%	Provision of insurance agency services
PICC Motor Insurance Sales Services Company Limited	Shandong, PRC Limited Liability	RMB50	**90%**	90%	Provision of insurance agency services
PICC Haikou Training Center Company Limited	Hainan, PRC Limited Liability	RMB0.1	**100%**	100%	Provision of training services
Zhongsheng International Insurance Brokers Co., Ltd. ("ZSIB")	Beijing, PRC Limited Liability	RMB171	**100%**	100%	Provision of insurance agency services
PICC North Information Center Management Co., Ltd. ("PICC North Center") (i)	Hebei, PRC Limited Liability	RMB571	**70%**	70%	Provision of IT services and business services
PICC Services (Europe) Ltd. ("PICC Europe") (ii)	London, UK Limited Liability	GBP0.5	**100%**	–	Claim handling agency
PICC Real Estate (Shenzhen) Company Limited ("PICC Real Estate") (iii)	Shenzhen, PRC Limited Liability	RMB4,940/ RMB4,722	**50%**	–	Property management

(i) In the current year, the paid-up capital of PICC North Center increased by RMB521 million, of which RMB156 million were contributed by non-controlling equity holder.

(ii) In the current year, the Group acquired PICC Europe from PICC Group, which were accounted for using business combination under common control. As the new subsidiary was not material, and the acquisition transaction has no material financial effect to the Group, the Group doesn't disclose further details.

(iii) In the current year, PICC Life Insurance Company Limited ("PICC Life"), PICC Health Insurance Company Limited ("PICC Health") and the Group jointly established PICC Real Estate in Shenzhen. The Group invested RMB2,361 million, holding 50% equity interest. In December 2020, PICC Real Estate held a general meeting and approved relevant resolutions in relation to adjustment on the structure of its board of directors and amendments to its articles of association. As such, the Group assesses it has control on PICC Real Estate as the Group has the power to appoint or remove a majority of the board of directors or a majority of the voting rights on the board meetings of PICC Real Estate. It is therefore accounted for as a subsidiary.

25. INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of non-wholly owned subsidiary that have material non-controlling interests

Summarised financial information of PICC Real Estate is set out below.

	31 December 2020 *RMB million*
Total assets	4,723
Total liabilities	–
Total equity	4,723
Equity attributable to owners of the Group	2,362
Non-controlling interests	2,361

	2020 *RMB million*
Profit for the year	0.8
Profit attributable to owners of the Company	0.4
Profit attributable to non-controlling interests	0.4
Total comprehensive income for the year	0.8
Net cash flows used in operating activities	(2)
Net cash flows used in investing activities	(4,693)
Net cash flows from financing activities	4,722
Net cash inflow	27

In the opinion of the directors, there is no other subsidiary with material non-controlling interests within the Group.

26. INVESTMENT PROPERTIES

	2020 *RMB million*	2019 *RMB million*
At 1 January	**4,598**	4,881
Transfers from property and equipment and right-of-use assets (notes 27, 28)	**196**	93
Fair value gains on revaluation of investment properties transferred from property and equipment and right-of-use assets	**320**	232
Increase/(decrease) in fair value of investment properties during the year (note 9)	**40**	(76)
Transfers to property and equipment (note 27)	**(551)**	(532)
At 31 December	**4,603**	4,598
Hierarchy of fair value:		
Level 3	**4,603**	4,598

The Group is still in the process of applying for the title certificates of certain investment properties with a total carrying value of RMB259 million as at 31 December 2020 (31 December 2019: RMB237 million). The directors of the Company do not expect this to have any impacts on the operation of the Group.

As at 31 December 2020 and 2019, the Group's investment properties were not pledged as collateral.

At 31 December 2020 and 2019, the fair values were determined based on the valuation carried out by an external independent valuer, Cushman & Wakefield Shenzhen Valuation 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, using the recent similar transaction price adjusting for difference of status, date, region and other specific factors between the target properties and the recent similar transaction cases.

26. 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.

There has been no change in the valuation technique used from the prior years. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 4% to 7.5% as at 31 December 2020 (31 December 2019: 4% to 7.5%). A slight increase in the capitalisation rate used would result in significant decrease in fair value measurement of investment properties, and vice versa.

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

For investment properties measured at fair value categorised as Level 3, their valuations are performed by the independent valuer at 30 June and 31 December of each year, as well as on the dates of transfers in and out of investment properties. 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 RMB259 million (2019: RMB275 million) was recognised in the consolidated income statement for the year.

27. 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 2020	19,590	1,929	8,598	2,432	32,549
Additions	600	259	877	7,464	9,200
Transfers	990	–	3	(993)	–
Transfers from investment properties (note 26)	551	–	–	–	551
Transfers to investment properties (note 26)	(227)	–	–	–	(227)
Disposals	(43)	(115)	(355)	(1)	(514)
At 31 December 2020	21,461	2,073	9,123	8,902	41,559
ACCUMULATED DEPRECIATION					
At 1 January 2020	(6,641)	(1,236)	(6,586)	–	(14,463)
Provided for the year (note 11)	(980)	(244)	(696)	–	(1,920)
Transfers to investment properties (note 26)	66	–	–	–	66
Disposals	28	112	343	–	483
At 31 December 2020	(7,527)	(1,368)	(6,939)	–	(15,834)
NET BOOK VALUE					
At 31 December 2020	13,934	705	2,184	8,902	25,725

27. PROPERTY AND EQUIPMENT *(continued)*

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
COST					
At 1 January 2019	17,582	2,064	8,030	2,819	30,495
Additions	183	4	1,042	1,035	2,264
Transfers	1,420	–	2	(1,422)	–
Transfers from investment properties (note 26)	532	–	–	–	532
Transfers to investment properties (note 26)	(102)	–	–	–	(102)
Disposals	(25)	(139)	(476)	–	(640)
At 31 December 2019	19,590	1,929	8,598	2,432	32,549
ACCUMULATED DEPRECIATION					
At 1 January 2019	(6,002)	(1,095)	(6,163)	–	(13,260)
Provided for the year (note 11)	(709)	(278)	(897)	–	(1,884)
Transfers to investment properties (note 26)	56	–	–	–	56
Disposals	14	137	474	–	625
At 31 December 2019	(6,641)	(1,236)	(6,586)	–	(14,463)
NET BOOK VALUE					
At 31 December 2019	12,949	693	2,012	2,432	18,086

As at 31 December 2020, certain acquired buildings of the Group with a net book value of RMB668 million (31 December 2019: RMB602 million) were still in the process of title registration. The directors of the Company do not expect this to have any impacts on the operation of the Group.

28. RIGHT-OF-USE ASSETS

	Leasehold lands *RMB million*	Leased properties *RMB million*	Others *RMB million*	Total *RMB million*
COST				
At 1 January 2020	5,255	3,158	63	8,476
Additions	84	716	17	817
Transfers to investment properties (note 26)	(54)	–	–	(54)
Disposals/terminations	(44)	(849)	(32)	(925)
At 31 December 2020	5,241	3,025	48	8,314
ACCUMULATED DEPRECIATION				
At 1 January 2020	(1,734)	(849)	(30)	(2,613)
Provided for the year	(202)	(956)	(28)	(1,186)
Transfers to investment properties (note 26)	19	–	–	19
Disposals/terminations	15	524	14	553
At 31 December 2020	(1,902)	(1,281)	(44)	(3,227)
NET BOOK VALUE				
At 31 December 2020	3,339	1,744	4	5,087

28. RIGHT-OF-USE ASSETS *(continued)*

	Leasehold lands *RMB million*	Leased properties *RMB million*	Others *RMB million*	Total *RMB million*
COST				
At 1 January 2019	4,453	2,755	49	7,257
Additions	951	533	61	1,545
Transfers to investment properties (note 26)	(81)	–	–	(81)
Disposals/terminations	(68)	(130)	(47)	(245)
At 31 December 2019	5,255	3,158	63	8,476
ACCUMULATED DEPRECIATION				
At 1 January 2019	(1,608)	–	–	(1,608)
Provided for the year	(185)	(870)	(47)	(1,102)
Transfers to investment properties (note 26)	34	–	–	34
Disposals/terminations	25	21	17	63
At 31 December 2019	(1,734)	(849)	(30)	(2,613)
NET BOOK VALUE				
At 31 December 2019	3,521	2,309	33	5,863

The above items of leasehold Lands are depreciated on a straight-line basis over 30-70 years. For the year ended 31 December 2020, expense relating to leases of low-value assets and short-term leases that applied the simplified approach is approximately RMB181 million (2019: RMB171 million).

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB33 million (2019: RMB22 million) in which the Group is in the process of obtaining.

29. DEFERRED TAX

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

	Impairment losses on financial assets *RMB million*	Fair value changes of available-for-sale financial assets *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets							
At 1 January 2020	1,156	–	8,861	379	–	1,179	11,575
Credited to income statement (note 12)	629	–	756	155	–	222	1,762
Gross deferred tax assets at 31 December 2020	1,785	–	9,617	534	–	1,401	13,337
Deferred tax liabilities							
At 1 January 2020	–	(4,738)	–	–	(1,504)	(212)	(6,454)
Credited to income statement (note 12)	–	–	–	–	5	50	55
Charged to other comprehensive income	–	(1,848)	–	–	(35)	–	(1,883)
Gross deferred tax liabilities at 31 December 2020	–	(6,586)	–	–	(1,534)	(162)	(8,282)
Net deferred tax assets at 31 December 2020							5,055

29. DEFERRED TAX *(continued)*

	Impairment losses on financial assets *RMB million*	Fair value changes of available-for-sale financial assets *RMB million*	Insurance contract liabilities *RMB million*	Salaries and staff welfare payables *RMB million*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets							
At 1 January 2019	1,137	–	7,170	268	–	984	9,559
Credited to income statement (note 12)	19	–	1,691	111	–	195	2,016
Gross deferred tax assets at 31 December 2019	1,156	–	8,861	379	–	1,179	11,575
Deferred tax liabilities							
At 1 January 2019	–	(1,189)	–	–	(1,465)	(126)	(2,780)
Credited/(charged) to income statement (note 12)	–	–	–	–	19	(86)	(67)
Charged to other comprehensive income	–	(3,549)	–	–	(58)	–	(3,607)
Gross deferred tax liabilities at 31 December 2019	–	(4,738)	–	–	(1,504)	(212)	(6,454)
Net deferred tax assets at 31 December 2019							5,121

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.

30. PREPAYMENTS AND OTHER ASSETS

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Interest receivables	**5,168**	4,902
Capital security fund (i)	**4,449**	4,449
Deductible input value-added tax	**4,410**	3,992
Intangible assets	**2,453**	2,271
Co-insurance receivables	**2,119**	2,060
Deposits	**1,316**	1,187
Securities settlement receivables	**711**	–
Prepaid insurance underwriting commission	**407**	1,161
Amounts due from fellow subsidiaries (note 47(d))	**320**	25
Prepayments for assets and expenses	**405**	297
Amounts due from PICC Group (note 47(d))	**50**	50
Amounts due from associates (note 47(d))	**4**	35
Others	**3,986**	2,810
Subtotal	**25,798**	23,239
Less: Impairment provision on		
– Co-insurance receivables	**(166)**	(169)
– Other receivables	**(157)**	(157)
Total	**25,475**	22,913

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

31. RESTRICTED DEPOSITS

As at 31 December 2020, term deposits contained an amount of RMB1,627 million (31 December 2019: RMB1,434 million) that were subject to various restrictions. These deposits are managed in specific bank accounts according to requirements of certain local governments and can only be used to settle for catastrophic losses from agriculture insurance business.

32. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Reinsurance payables	**21,818**	19,449

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 RMB243 million (31 December 2019: RMB203 million) and an associate of RMB2,088 million (31 December 2019: RMB2,514 million), respectively. Please refer to note 47(d) for details.

33. ACCRUED INSURANCE SECURITY FUND

	2020 *RMB million*	2019 *RMB million*
At 1 January	**1,076**	1,026
Accrued during the year (note 7)	**2,376**	3,205
Paid during the year	**(2,615)**	(3,155)
At 31 December	**837**	1,076

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% (2019: 6%) of the Group's total assets as determined in accordance with the relevant regulations. CISF was established to provide protection for policyholders when an insurance company in China is in financial troubles.

Insurance companies are required to deposit their insurance security fund in bank accounts designated by the CBIRC.

34. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Transactions by market places:		
Stock exchange	**10,535**	12,479
Inter-bank market	**18,493**	4,280
Total	**29,028**	16,759

For debt repurchase transactions through stock exchange, the Group is required to deposit certain exchange-traded bonds into a collateral pool with 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 2020, the carrying amount and fair value of securities deposited in the collateral pool were RMB33,334 million and RMB33,448 million(31 December 2019: RMB31,220 million and RMB31,398 million) respectively. The collateral is restricted from trading during the period of the repurchase transaction. The Group can withdraw the exchange-traded bonds from the collateral pool provided that the value of the remaining exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

As at 31 December 2020, bonds with carrying amount and fair value of RMB24,290 million and RMB24,934 million(31 December 2019: RMB4,366 million and RMB4,616 million) respectively were pledged as collateral for securities sold under agreements to repurchase resulted from repurchase transactions entered into by the Group in the inter-bank market. The collateral is restricted from trading during the period of the repurchase transactions.

35. INSURANCE CONTRACT LIABILITIES

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Unearned premium reserves	**159,093**	158,513
Loss and loss adjustment expense reserves	**153,780**	146,627
	312,873	305,140

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

	2020 Gross amount *RMB* million	Reinsurers' share *RMB* million (note 21)	Net amount *RMB* million	2019 Gross amount *RMB* million	Reinsurers' share *RMB* million (note 21)	Net amount *RMB* million
Unearned premium reserves						
At 1 January	**158,513**	**(11,582)**	**146,931**	140,352	(10,754)	129,598
Increase during the year	**352,771**	**(53,007)**	**299,764**	357,501	(35,545)	321,956
Release during the year	**(352,191)**	**51,276**	**(300,915)**	(339,340)	34,717	(304,623)
At 31 December	**159,093**	**(13,313)**	**145,780**	158,513	(11,582)	146,931
Loss and loss adjustment expense reserves						
At 1 January	**146,627**	**(18,739)**	**127,888**	135,429	(17,811)	117,618
Increase during the year	**284,853**	**(24,590)**	**260,263**	274,746	(22,948)	251,798
Release during the year	**(277,700)**	**23,475**	**(254,225)**	(263,548)	22,020	(241,528)
At 31 December	**153,780**	**(19,854)**	**133,926**	146,627	(18,739)	127,888
Total insurance contract liabilities at 31 December	**312,873**	**(33,167)**	**279,706**	305,140	(30,321)	274,819

36. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Interest-bearing deposits	**13**	79
Non-interest-bearing deposits	**1,737**	1,683
Total	**1,750**	1,762

For the years ended 31 December 2020 and 2019, the Group has underwritten policies in homeowners' and accidental insurance products containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy, and the policyholders receive a fixed rate of interest or bear no interest. Penalties on early termination are charged according to the terms stated in the policy.

37. BONDS PAYABLE

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Capital supplementary bonds:		
Carrying amount repayable in More than five years	**23,297**	15,198

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

On 23 March 2020, the Company issued capital supplementary bonds of RMB8,000 million.

Terms of the capital supplementary bonds issued in 2016 are ten years. With proper notice to the counterparties, the Company has an option to redeem the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rate of the capital supplementary bonds is 3.65% per annum in the first five years and 4.65% per annum in the following five years.

Terms of the capital supplementary bonds issued in 2020 are ten years. With proper notice to the counterparties, the Company has an option to redeem the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rate of the capital supplementary bonds is 3.59% per annum in the first five years and 4.59% per annum in the following five years.

38. LEASE LIABILITIES

	31 December 2020 RMB million	31 December 2019 RMB million
Lease liabilities payable:		
Within one year	**661**	722
Within a period of more than one year but not more than two years	**410**	560
Within a period of more than two years but not more than five years	**490**	750
Within a period of more than five years	**107**	166
Total	**1,668**	2,198

The incremental borrowing rates applied to lease liabilities range from 3.56% to 4.48% (2019: from 4.03% to 4.61%) for different lease terms.

39. ACCRUALS AND OTHER LIABILITIES

	31 December 2020 RMB million	31 December 2019 RMB million
Premiums received in advance (i)	**17,756**	21,268
Salaries and staff welfare payables	**11,848**	10,155
Other taxes payable	**7,893**	7,755
Commission payable	**7,236**	7,125
Premiums payable (ii)	**5,275**	5,638
Claims payable	**4,496**	3,203
Insurance business deposits	**1,239**	1,342
Accrued capital expenditure	**414**	282
Interest payable	**318**	73
Amounts due to fellow subsidiaries (note 47(d))	**139**	123
Payables to interest holders of consolidated structured entities	**69**	153
Others	**8,778**	7,332
Total	**65,461**	64,449

(i) Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2020 and 2019, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

(ii) Premiums payable mainly includes premium refundable to policyholders and premium payable to co-insurers in co-insurance business.

40. ISSUED CAPITAL

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Issued and fully paid:		
Domestic shares of RMB1.00 each	**15,343**	15,343
H shares of RMB1.00 each	**6,899**	6,899
Total	**22,242**	22,242

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, debt securities, equity securities and mutual funds, investments classified as loans and receivables, securities sold under agreements to repurchase and bonds payable, 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 2020	31 December 2019	**31 December 2020**	31 December 2019
	RMB million	*RMB million*	***RMB million***	*RMB million*
Financial assets				
At fair value through profit or loss				
– Equity securities and mutual funds	**3,582**	4,796	**3,582**	4,796
– Debt securities	**11,199**	13,794	**11,199**	13,794
Available-for-sale				
– Equity securities and mutual funds	**107,152**	86,932	**107,152**	86,932
– Debt securities	**108,516**	90,191	**108,516**	90,191
Held-to-maturity investments				
– Debt securities	**48,796**	45,087	**50,971**	47,851
Loans and receivables				
– Cash and cash equivalents	**26,192**	32,520	**26,192**	32,520
– Term deposits	**70,943**	64,398	**70,943**	64,398
– Investments classified as loans and receivables	**67,944**	67,391	**72,378**	72,094
– Insurance receivables, net	**50,103**	53,593	**50,103**	53,593
– Other financial assets	**17,942**	15,161	**17,942**	15,161
Total financial assets	**512,369**	473,863	**518,978**	481,330
Financial liabilities				
Other financial liabilities, at amortised cost				
– Payables to reinsurers	**21,818**	19,449	**21,818**	19,449
– Accrued insurance security fund	**837**	1,076	**837**	1,076
– Securities sold under agreements to repurchase	**29,028**	16,759	**29,028**	16,759
– Policyholders' deposits	**1,750**	1,762	**1,750**	1,762
– Bonds payable	**23,297**	15,198	**23,032**	15,108
– Other financial liabilities	**27,952**	24,918	**27,952**	24,918
Total financial liabilities	**104,682**	79,162	**104,417**	79,072

41. 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 26 to these consolidated financial statements.

(a) Fair value of financial assets that are measured at fair value on a recurring basis

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

	Fair value			
Items	**31 December 2020** ***(RMB million)***	31 December 2019 *(RMB million)*	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
At fair value through profit or loss debt securities	**2,648**	1,702	Level 1	Quoted bid prices in an active market.
At fair value through profit or loss debt securities	**8,551**	12,092	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale debt securities	**9,920**	7,096	Level 1	Quoted bid prices in an active market.

41. 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 that are measured at fair value on a recurring basis (continued)

Items	Fair value 31 December 2020 *(RMB million)*	Fair value 31 December 2019 *(RMB million)*	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale debt securities	**98,596**	83,095	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
At fair value through profit or loss equity securities and mutual funds	**3,582**	4,796	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	**72,866**	54,536	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	**21,083**	19,971	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend yield, discounted at a rate that reflects the credit risk of counterparty.

41. 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 that are measured at fair value on a recurring basis (continued)

Items	Fair value 31 December 2020 (RMB million)	Fair value 31 December 2019 (RMB million)	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale equity securities and mutual funds	**8,664**	6,560	Level 3	The fair value is determined with reference to the latest private transaction price or net assets value.
Available-for-sale equity securities and mutual funds	**2,776**	4,112	Level 3	Relative value that are assessed based on average price-to-earnings/price to sales ratio from comparable companies and earnings per share of target company.
Available-for-sale equity securities and mutual funds	**1,763**	1,753	Level 3	Fair value of the investments is based on the use of internal discounted cash flow valuation models.

41. 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 that are measured at fair value on a recurring basis (continued)

31 December 2020	**Level 1** *RMB million*	**Level 2** *RMB million*	**Level 3** *RMB million*	**Total** *RMB million*
Financial assets classified as fair value through profit or loss				
– Equity securities and mutual funds	**3,582**	**–**	**–**	**3,582**
– Debt securities	**2,648**	**8,551**	**–**	**11,199**
Available-for-sale financial assets				
– Equity securities and mutual funds	**72,866**	**21,083**	**13,203**	**107,152**
– Debt securities	**9,920**	**98,596**	**–**	**108,516**
	89,016	**128,230**	**13,203**	**230,449**

31 December 2019	Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets classified as fair value through profit or loss				
– Equity securities and mutual funds	4,796	–	–	4,796
– Debt securities	1,702	12,092	–	13,794
Available-for-sale financial assets				
– Equity securities and mutual funds	54,536	19,971	12,425	86,932
– Debt securities	7,096	83,095	–	90,191
	68,130	115,158	12,425	195,713

For the year ended 31 December 2020, available-for-sale debt securities with a carrying amount of RMB1,856 million (2019: RMB3,361 million) were transferred from Level 1 to Level 2 because the quoted prices in the market for such investments were no longer regularly available. Conversely, available-for-sale debt securities with a carrying amount of RMB3,746 million (2019: RMB3,115 million) were transferred from Level 2 to Level 1 because the quoted prices in active markets were available as at 31 December 2020.

41. 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 that are measured at fair value on a recurring basis (continued)*

No sensitivity analysis for Level 3 unlisted equity investments is presented as the fair value of these unlisted equity investments was not significantly sensitive to reasonably possible changes in unobservable inputs used in the sensitivity analysis.

(b) *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 2020 and 2019 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

31 December 2020	**Fair value hierarchy**			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB million	***RMB million***	***RMB million***	***RMB million***
Financial assets				
– Held-to-maturity investments	**651**	**50,320**	**–**	**50,971**
– Investments classified as loans and receivables	**–**	**72,378**	**–**	**72,378**
Financial liabilities				
– Bonds payable	**–**	**23,032**	**–**	**23,032**

31 December 2019	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Financial assets				
– Held-to-maturity investments	1,046	46,805	–	47,851
– Investments classified as loans and receivables	–	72,094	–	72,094
Financial liabilities				
– Bonds payable	–	15,108	–	15,108

The fair values of the financial assets and financial liabilities classified under Level 2 were determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties obtained from China Bond Yield Curves published by China Central Depository & Clearing Co., Ltd..

41. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

(c) Reconciliation of Level 3 fair value measurements

	2020 ***RMB million***	2019 *RMB million*
At 1 January	**12,425**	10,773
Addition	**1,925**	1,464
Losses recognised in profit or loss	**(2,300)**	–
Unrealised gains recognised in other comprehensive income	**1,153**	188
At 31 December	**13,203**	12,425

42. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that the Company meets all obligations arising from the insurance contracts and the applicable laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

The comprehensive and core solvency margin ratios of the Company are listed below:

	31 December 2020 ***RMB million***	31 December 2019 *RMB million*
Actual capital	**207,246**	181,721
Core capital	**179,290**	162,136
Minimum capital	**71,757**	64,414
Comprehensive solvency margin ratio (%)	**289%**	282%
Core solvency margin ratio (%)	**250%**	252%

42. CAPITAL MANAGEMENT *(continued)*

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the CBIRC. These capital requirements are generally known as solvency requirements in the insurance industry.

Insurance companies comply with requirements on both the core capital and actual capital (sum of core and supplementary capital). Under China Risk Oriented Solvency System, the minimum capital is calculated by formula prescribed by the CBIRC. The minimum capital requirement is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For the Company, core capital is principally net assets, while supplementary capital is mainly capital supplementary bonds issued by the Company.

Comprehensive and core solvency margin ratios are defined as actual capital and core capital divided by the minimum capital requirements, respectively. Comprehensive and core solvency margin ratio have to be higher than 100% and 50% respectively for compliance with the solvency requirements.

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

43. SHARE APPRECIATION RIGHTS (“SARs”)

The shareholders of the Company approved the adoption of a scheme of SARs for senior management on 30 July 2003. The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SARs.

Under the SARs scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, department managers of the Company, general managers of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company’s Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SARs.

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

44. RISK MANAGEMENT

The Group's activities are exposed to insurance risk and varieties of financial risks. The Group issues contracts that transfer insurance risk or financial risk or both. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund the obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are credit risk, liquidity risk and market risk.

(a) Insurance risk

(1) Insurance contract liabilities

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contract is that the actual claim payments and the costs of claim 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 claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

44. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

The Group's concentration of insurance risk before and after reinsurance, measured by geographical gross written premiums and net written premiums, is as follows:

	2020		2019	
	Gross written premiums	**Net written premiums**	Gross written premiums	Net written premiums
	RMB million	***RMB million***	*RMB million*	*RMB million*
Coastal and developed provinces/cities	**191,737**	**171,012**	195,992	177,661
Western China	**90,245**	**81,677**	88,188	81,215
Northern China	**54,283**	**50,533**	54,823	51,987
Central China	**70,627**	**65,912**	68,588	64,677
North-eastern China	**26,295**	**22,842**	25,584	22,476
Total	**433,187**	**391,976**	433,175	398,016

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-Ferguson method
- Expected loss ratio method

The loss and loss adjustment expense reserves were projected with the actuarial methods mentioned above and the loss triangle data on gross and net of reinsurance basis. The reinsurers' share of loss and loss adjustment expense reserves equal to gross minus net claim reserves, which is the amount expected to be reimbursed from reinsurers.

44. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

Assumptions and sensitivities

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affecting the estimates. The rates used for discounting long-tailed liabilities were in the range of 3.3%-3.8% and 3.8%-4.3% for 2020 and 2019, 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.

It is not possible to quantify the sensitivity of certain variables like legislative change and uncertainty in the estimation process with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claim reserve is not quantifiable with certainty at the end of 2020 and 2019.

Reproduced below is an analysis that shows the development of claims over a period of time on a gross basis:

	Accident year-gross					
	2016	2017	2018	2019	**2020**	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***	*RMB million*
Estimated cumulative claims paid as of:						
End of current year	191,668	210,232	234,325	268,651	**279,884**	
One year later	192,274	210,281	235,121	269,007		
Two years later	191,400	206,701	234,952			
Three years later	189,224	205,679				
Four years later	188,662					
Estimated cumulative claims	188,662	205,679	234,952	269,007	**279,884**	1,178,184
Less: cumulative claims paid	185,584	197,619	225,743	245,544	**185,137**	1,039,627
Sub-total						138,557
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						15,223
Outstanding claim reserves						153,780

44. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance contract liabilities (continued)

Assumptions and sensitivities *(continued)*

Reproduced below is an analysis that shows the development of claims over a period of time on a net basis:

	Accident year-net					
	2016	2017	2018	2019	**2020**	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***	*RMB million*
Estimated cumulative claims paid as of:						
End of current year	170,712	192,690	215,471	245,536	**255,114**	
One year later	170,727	191,225	215,830	245,671		
Two years later	170,676	187,941	215,577			
Three years later	168,696	187,024				
Four years later	168,200					
Estimated cumulative claims	168,200	187,024	215,577	245,671	**255,113**	1,071,585
Less: cumulative claims paid	165,553	179,884	208,104	225,962	**171,424**	950,927
Sub-total						120,658
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						13,268
Outstanding claim reserves						133,926

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.

44. RISK MANAGEMENT *(continued)*

(a) Insurance risk *(continued)*

(2) Reinsurance assets – terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the businesses ceded are placed on a quota share basis or surplus line basis with retention limits varying by product line. There are profit commission, sliding scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophe reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to RMB14,708 million in total (2019: RMB12,875 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that these reinsurers are unable to meet their obligations assumed under such reinsurance agreements.

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes the other party to incur a financial loss.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt securities, insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, and corporate bonds with high credit ratings and term deposits with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration in credit risk.

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A- (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch or Moody's) or above except for state-owned reinsurance companies. Management of the Group performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2020, receivables from the top three reinsurance companies amounted to RMB5,313 million in total (31 December 2019: RMB4,743 million).

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

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

31 December 2020	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	26,192	–	–	–	–	–	26,192
Term deposits	70,943	–	–	–	–	–	70,943
Debt securities	168,591	–	–	–	–	–	168,591
Insurance receivables	35,872	3,506	2,153	2,873	8,532	9,111	53,515
Reinsurance assets	33,167	–	–	–	–	–	33,167
Investments classified as loans and receivables	67,666	–	–	–	–	888	68,554
Other financial assets	15,583	724	401	1,235	2,360	323	18,266
Gross Amount	418,014	4,230	2,554	4,108	10,892	10,322	439,228
Less: Impairment provision	(329)	–	–	–	–	(4,096)	(4,425)
Net Amount	417,685	4,230	2,554	4,108	10,892	6,226	434,803

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

31 December 2019	Not past due	Past due but not impaired Less than 30 days	31 to 90 days	More than 90 days	Sub-total	Past due and impaired	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	32,520	–	–	–	–	–	32,520
Term deposits	64,398	–	–	–	–	–	64,398
Debt securities	149,072	–	–	–	–	–	149,072
Insurance receivables	40,401	3,665	2,230	3,287	9,182	7,342	56,925
Reinsurance assets	30,321	–	–	–	–	–	30,321
Investments classified as loans and receivables	67,391	–	–	–	–	–	67,391
Other financial assets	12,818	709	373	1,261	2,343	326	15,487
Gross Amount	396,921	4,374	2,603	4,548	11,525	7,668	416,114
Less: Impairment provision	–	–	–	–	–	(3,658)	(3,658)
Net Amount	396,921	4,374	2,603	4,548	11,525	4,010	412,456

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. The government bonds and financial bonds are issued by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2020, 100% (31 December 2019: 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 2020, 98.69% (31 December 2019: 98.74%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks and CSDCC have a high credit quality.

The credit risk associated with securities purchased under resale agreements included in cash equivalent will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2020 and 2019.

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Credit quality *(continued)*

As at 31 December 2020 and 2019, investments classified as loans and receivables are issued by asset management companies, trust companies or large financial institutions with high credit quality, and mostly are guaranteed by the lenders' related parties. The Group believes investments classified as loans and receivables have a high credit quality.

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collaterals and the valuation parameters.

Securities purchased under resale agreements are pledged by counterparts' debt securities of which the Group could take the ownership should the owner of the collateral defaults.

The Group's long-term debt investment schemes, asset management products and asset-backed securities, included in investments classified as loans and receivables, are supported by third party guarantee or with pledge.

Management monitors the market value of the collateral, requests additional collaterals when needed and performs impairment testing when applicable.

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

As at 31 December 2020, the Group maintained demand deposits at 2% of total assets (31 December 2019: 2%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

Maturity profiles of financial assets and financial liabilities

The table below summarises maturity profiles of financial assets and financial liabilities of the Group. Maturity profiles of financial assets and financial liabilities are prepared, using the contractual collection or repayment dates.

All amounts are based on undiscounted contractual cash flows.

31 December 2020	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	14,173	12,024	–	–	–	–	26,197
Debt securities							
– Available-for-sale	–	1,187	12,656	51,734	89,803	–	155,380
– Held-for-trading	–	328	2,731	7,121	2,512	–	12,692
– Held-to-maturity	–	281	2,457	17,167	58,901	–	78,806
Equity securities and mutual funds	–	–	–	–	–	110,734	110,734
Insurance receivables, net	14,393	14,142	13,970	7,255	343	–	50,103
Term deposits	–	670	2,896	63,618	10,401	–	77,585
Investments classified as loans and receivables	888	1,438	6,139	43,754	33,902	–	86,121
Other financial assets	4,874	4,452	5,795	3,286	112	–	18,519
Total financial assets	34,328	34,522	46,644	193,935	195,974	110,734	616,137
Financial liabilities:							
Payables to reinsurers	5,156	11,162	4,806	647	47	–	21,818
Accrued insurance security fund	–	837	–	–	–	–	837
Securities sold under agreements to repurchase	–	29,045	–	–	–	–	29,045
Policyholders' deposits	1,750	–	–	–	–	–	1,750
Bonds payable	–	–	549	3,939	25,535	–	30,023
Other financial liabilities	6,063	17,417	2,161	2,168	143	–	27,952
Total financial liabilities	12,969	58,461	7,516	6,754	25,725	–	111,425
Net liquidity gap	21,359	(23,939)	39,128	187,181	170,249	110,734	504,712

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

Maturity profiles of financial assets and financial liabilities *(continued)*

31 December 2019	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	13,704	18,821	–	–	–	–	32,525
Debt securities							
– Available-for-sale	–	5,565	14,778	47,396	41,881	–	109,620
– Held-for-trading	–	1,198	7,447	4,510	1,918	–	15,073
– Held-to-maturity	–	103	1,230	13,650	55,171	–	70,154
Equity securities and mutual funds	–	–	–	–	–	91,728	91,728
Insurance receivables, net	13,455	13,892	15,023	11,004	219		53,593
Term deposits	–	11,031	12,400	46,933	1,914	–	72,278
Investments classified as loans and receivables	–	1,361	5,842	44,794	34,402	–	86,399
Other financial assets	2,501	4,521	3,695	4,802	198	–	15,717
Total financial assets	29,660	56,492	60,415	173,089	135,703	91,728	547,087
Financial liabilities:							
Payables to reinsurers	4,939	9,361	4,500	619	30	–	19,449
Accrued insurance security fund	–	1,076	–	–	–	–	1,076
Securities sold under agreements to repurchase	–	16,782	–	–	–	–	16,782
Policyholders' deposits	1,762	–	–	–	–	–	1,762
Bonds payable	–	–	488	2,190	18,488		21,166
Other financial liabilities	5,157	15,557	2,142	1,818	244	–	24,918
Total financial liabilities	11,858	42,776	7,130	4,627	18,762	–	85,153
Net liquidity gap	17,802	13,716	53,285	168,462	116,941	91,728	461,934

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

Maturity profiles of reinsurance assets and insurance contract liabilities

For reinsurance assets and insurance contract liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims. These expected timing is made on various assumptions, including settlement speed of claims. Therefore, actual timing may deviate from the analysis presented below.

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

All amounts are based on undiscounted contractual cash flows.

31 December 2020	**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	**–**	**6,336**	**15,675**	**8,801**	**3,004**	**–**	**33,816**
Insurance contract liabilities	**–**	**56,124**	**184,742**	**52,571**	**22,552**	**–**	**315,989**

31 December 2019	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	–	5,670	14,430	8,128	2,714	–	30,942
Insurance contract liabilities	–	53,483	180,414	52,961	19,692	–	306,550

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity or funding risk (continued)

The expected utilisation or settlement of all assets and liabilities

The Group has no significant concentration of liquidity or funding risk.

The table below summarises the expected utilisation or settlement of all assets and liabilities:

	31 December 2020			31 December 2019		
	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*
Cash and cash equivalents	26,192	–	26,192	32,520	–	32,520
Debt securities	14,991	153,520	168,511	30,929	118,143	149,072
Equity securities and mutual funds	3,582	107,152	110,734	75,073	16,655	91,728
Insurance receivables, net	42,507	7,596	50,103	42,370	11,223	53,593
Reinsurance assets	21,625	11,542	33,167	19,744	10,577	30,321
Term deposits	1,205	69,738	70,943	21,432	42,966	64,398
Investments classified as loans and receivables	4,447	63,497	67,944	3,894	63,497	67,391
Investments in associates and joint venture	–	53,262	53,262	–	50,477	50,477
Investment properties	–	4,603	4,603	–	4,598	4,598
Property and equipment	–	25,725	25,725	–	18,086	18,086
Right-of-use assets	–	5,087	5,087	–	5,863	5,863
Deferred tax assets	–	5,055	5,055	–	5,121	5,121
Prepayments and other assets	17,214	8,261	25,475	15,685	7,228	22,913
Total assets	131,763	515,038	646,801	241,647	354,434	596,081
Payables to reinsurers	21,124	694	21,818	18,800	649	19,449
Accrued insurance security fund	837	–	837	1,076	–	1,076
Securities sold under agreements to repurchase	29,028	–	29,028	16,759	–	16,759
Income tax payable	38	–	38	96	–	96
Insurance contract liabilities	238,862	74,011	312,873	233,006	72,134	305,140
Policyholders' deposits	1,750	–	1,750	1,762	–	1,762
Bonds payable	–	23,297	23,297	–	15,198	15,198
Lease Liabilities	558	1,110	1,668	722	1,476	2,198
Accruals and other liabilities	62,112	3,349	65,461	61,191	3,258	64,449
Total liabilities	354,309	102,461	456,770	333,412	92,715	426,127

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

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) or market prices (price risk).

The Group uses multiple methods to manage market risk, including using sensitivity 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. Investment mandate is also approved by an investment committee to direct investment decisions.

(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 2020	RMB *in million*	USD *in RMB million equivalent*	HKD *in RMB million equivalent*	Other *in RMB million equivalent*	Total *in RMB million equivalent*
Cash and cash equivalents	23,147	2,616	300	129	26,192
Debt securities	168,127	1	383	–	168,511
Equity securities and mutual funds	108,920	1,073	741	–	110,734
Insurance receivables, net	44,927	4,854	27	295	50,103
Reinsurance assets	31,716	1,418	10	23	33,167
Term deposits	69,783	1,160	–	–	70,943
Investments classified as loans and receivables	67,944	–	–	–	67,944
Other financial assets	17,843	98	–	1	17,942
Total assets	532,407	11,220	1,461	448	545,536

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk *(continued)*

31 December 2020	*RMB in million*	USD *in RMB million equivalent*	HKD *in RMB million equivalent*	Other *in RMB million equivalent*	Total *in RMB million equivalent*
Payables to reinsurers	19,466	2,241	18	93	21,818
Accrued insurance security fund	837	–	–	–	837
Securities sold under agreements to repurchase	29,028	–	–	–	29,028
Insurance contract liabilities	310,221	2,438	49	165	312,873
Policyholders' deposits	1,750	–	–	–	1,750
Bonds payable	23,297	–	–	–	23,297
Other financial liabilities	26,438	1,449	23	42	27,952
Total liabilities	411,037	6,128	90	300	417,555
Net exposure	121,370	5,092	1,371	148	127,981

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk *(continued)*

31 December 2019	RMB *in million*	USD *in RMB million equivalent*	HKD *in RMB million equivalent*	Other *in RMB million equivalent*	Total *in RMB million equivalent*
Cash and cash equivalents	30,594	1,634	238	54	32,520
Debt securities	148,085	910	77	–	149,072
Equity securities and mutual funds	88,084	2,485	1,159	–	91,728
Insurance receivables, net	47,062	6,156	51	324	53,593
Reinsurance assets	28,656	1,617	14	34	30,321
Term deposits	63,188	1,210	–	–	64,398
Investments classified as loans and receivables	67,391	–	–	–	67,391
Other financial assets	15,061	97	–	3	15,161
Total assets	488,121	14,109	1,539	415	504,184
Payables to reinsurers	16,902	2,438	11	98	19,449
Accrued insurance security fund	1,076	–	–	–	1,076
Securities sold under agreements to repurchase	16,759	–	–	–	16,759
Insurance contract liabilities	302,171	2,715	62	192	305,140
Policyholders' deposits	1,762	–	–	–	1,762
Bonds payable	15,198	–	–	–	15,198
Other financial liabilities	24,209	629	54	26	24,918
Total liabilities	378,077	5,782	127	316	384,302
Net exposure	110,044	8,327	1,412	99	119,882

44. RISK MANAGEMENT *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

(i) Currency risk *(continued)*

Sensitivity analysis

The analysis below is performed for reasonably possible movements in exchange rate with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency-sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in foreign currency exchange rate, the correlations of these variables are ignored.

	31 December 2020		31 December 2019	
Appreciation/ (depreciation) against RMB	**Pre-tax impact on profit** ***RMB million***	**Pre-tax impact on equity** ***RMB million***	Pre-tax impact on profit *RMB million*	Pre-tax impact on equity *RMB million*
5%	**222**	**332**	288	493
(5%)	**(222)**	**(332)**	(288)	(493)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days (2019: 10 trading days) at a confidence level of 99% (2019: 99%) for bond investments measured at fair value. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price behavior, which could differ substantially from the past behavior. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	31 December 2020 ***RMB million***	31 December 2019 *RMB million*
Interest rate VaR	**1,113**	372

44. RISK MANAGEMENT *(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 listed equity securities and mutual funds whose values will fluctuate as a result of changes in market prices.

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

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and carefully plan the use of derivative financial instruments.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and mutual fund investments measured at fair value (other than those measured at level 3 fair value) over a holding period of 10 trading days (2019: 10 trading days) at a confidence level of 99% (2019: 99%). Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price behaviour, which could differ substantially from past behaviour. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Equity price VaR	**5,065**	1,568

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Securities sold under agreements to repurchase *RMB million* **(note 34)**	**Interest payable** *RMB million* **(note 39)**	**Bonds payable** *RMB million* **(note 37)**	**Lease liabilities** *RMB million* **(note 38)**	**Total** *RMB million*
At 31 December 2019	**16,759**	**73**	**15,198**	**2,198**	**34,228**
Financing cash flows	**12,269**	**(1,123)**	**8,000**	**(1,000)**	**18,146**
Finance costs	**–**	**1,368**	**99**	**80**	**1,547**
New leases entered/ lease modified	**–**	**–**	**–**	**390**	**390**
At 31 December 2020	**29,028**	**318**	**23,297**	**1,668**	**54,311**

	Securities sold under agreements to repurchase *RMB million* (note 34)	Interest payable *RMB million* (note 39)	Bonds payable *RMB million* (note 37)	Lease liabilities *RMB million* (note 38)	Total *RMB million*
At 31 December 2018	27,999	177	23,420	–	51,596
Adjustment upon application of HKFRS 16	–	–	–	2,733	2,733
As at 1 January 2019 (restated)	27,999	177	23,420	2,733	54,329
Financing cash flows	(11,240)	(1,661)	(8,000)	(1,112)	(22,013)
Finance costs	–	1,557	(222)	89	1,424
New leases entered/lease modified	–	–	–	488	488
At 31 December 2019	16,759	73	15,198	2,198	34,228

46. CONTINGENCIES AND COMMITMENTS

(1) Contingencies

Due to the nature of the insurance business, the Group is subject to legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies, and some losses arising therefrom will be partly indemnified by reinsurers or other recoveries including salvages and subrogation. During the current year, the Group was involved in similar legal proceedings on certain insurance businesses. The legal claim amounts for certain cases are significant and the legal proceedings are still in progress. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group believes that any resulting liabilities, if any, will not have a material adverse effect on the financial position as at 31 December 2020 and 31 December 2019 or operating results of the Group for the years ended 31 December 2020 and 2019.

(2) Capital commitments

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Property and equipment commitments:		
Contracted, but not provided for:	**1,196**	1,486

47. RELATED PARTY TRANSACTIONS

(a) Related parties with control relationship

The Company is a state-owned enterprise and its controlling shareholder is PICC Group.

47. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related parties without controlling relationship with the Company:

Related parties' name	Relationship
PICC Asset Management Company Limited ("PICC AMC")	Fellow subsidiary
The People's Insurance Company of China (Hong Kong) Limited ("PICC HK")	Fellow subsidiary
PICC Capital Investment Management Company Limited ("PICC Capital")	Fellow subsidiary
PICC Investment Holding Company Limited ("PICC Investment")	Fellow subsidiary
PICC Capital Equity Investment Company Limited ("PICC Equity")	A subsidiary of a fellow subsidiary
PICC Life	An associate of the Company and fellow subsidiary
PICC Health	An associate of the Company and fellow subsidiary
PICC Reinsurance Company Limited ("PICC Re")	An associate of the Company and fellow subsidiary
PICC Financial Services Company Limited ("PICC Financial Services")	Fellow subsidiary
Prime Insurance Brokers Company Limited ("PIB")	A subsidiary of a fellow subsidiary
Hua Xia Bank	An associate of the Company
IBC	An associate of the controlling shareholder
China Merchants Securities Co. Ltd. ("China Merchant Securities")	An associate of the controlling shareholder
Bangbang Auto Sales Service (Beijing) Co., Ltd. ("Bangbang")	A joint venture of the Company

47. RELATED PARTY TRANSACTIONS *(continued)*

(c) Material transactions with related parties

	Notes	2020 RMB million	2019 RMB million
Transactions with PICC Group:			
2019 final dividend distribution	(i)	**7,073**	–
2018 final dividend distribution	(i)	**–**	4,173
Addition to right-of-use assets	(ii)	**160**	88
Addition to lease liabilities	(ii)	**160**	88
Payment of lease liabilities	(ii)	**83**	90
Interest on lease liabilities	(ii)	**4**	2
WAN service fees	(ii)	**21**	21
Transactions with fellow subsidiaries:			
Management fee	(iii)	**303**	278
Subscription amount of financial products set up and managed by fellow subsidiaries	(iii)	**5,765**	7,227
Premiums ceded	(iv)	**615**	534
Reinsurance commission income	(iv)	**234**	165
Paid losses recoverable from reinsurers	(iv)	**285**	282
Reinsurance premiums assumed	(iv)	**10**	8
Commission expenses – reinsurance	(iv)	**2**	2
Gross claims paid – reinsurance	(iv)	**20**	20
Brokerage commission expense	(v)	**91**	131
Service fee		**58**	146
Addition to right-of-use assets		**4**	66
Addition to lease liabilities		**4**	66
Payment of lease liabilities		**100**	128
Interest on lease liabilities		**2**	11
Transactions with associates of the Company:			
Agency services commission received	(vi), (vii)	**11**	113
Agency services commission paid	(vi), (vii)	**142**	547
Premiums paid	(viii)	**34**	44
Interest income	(x)	**1**	331
Premium income	(x)	**3**	2
Claims paid	(x)	**533**	370
Commission expense	(x)	**–**	1
Dividend income	(x)	**638**	446
Premiums ceded	(xi)	**3,772**	4,701
Reinsurance commission income	(xi)	**1,644**	1,520
Paid losses recoverable from reinsurers	(xi)	**2,398**	2,453
Addition to right-of-use assets		**1**	8
Addition to lease liabilities		**1**	8
Payment of lease liabilities		**12**	17
Interest on lease liabilities		**1**	1

47. RELATED PARTY TRANSACTIONS *(continued)*

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

	Notes	2020 RMB million	2019 RMB million
Transactions with associates of PICC Group:			
Interest income	(ix)	970	821
Dividend income	(ix)	974	885
Interest expense	(ix)	–	15
Premium income	(ix)	17	16
Claims paid	(ix)	78	26
Commission expense	(ix)	1	11
Transactions with joint venture of the Company:			
Purchase of spare parts	(xii)	470	388
Service fee		22	5

Notes:

(i) As PICC Group held 68.98% of the share capital of the Company, the Company distributed 2019 dividend amounting to RMB7,073 million to PICC Group during the year of 2020.

The Company distributed 2018 dividend amounting to RMB4,173 million to PICC Group during the year of 2019.

(ii) On 1 January 2018, the Company and PICC Group renewed the integrated service agreement for a term of two years effective from 1 January 2018. Pursuant to the agreement, the services include renting out, check-up and maintenance services on the office space, WAN equipment as well as the WAN technical support services agreed by the two parties.

On 18 March 2020, the Company entered into the South Information Center Package Service Agreement with PICC Group for two years effective from 1 January 2020. Pursuant to the agreement, PICC Group shall provide the Company with, among others, the service of leasing workplaces, meeting rooms and server installation positions in the server building.

The Company paid the rent and service fees to PICC Group. The rental transaction was accounted for as right-of-use assets and lease liabilities.

47. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(iii) On 23 June 2016, the Company and PICC AMC renewed the asset management agreement for 3 years, effective from 1 July 2016. On 28 August 2019, the Company and PICC AMC further renewed the asset management agreement and supplemental agreements for another 3 years, effective from 1 July 2019. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than management fees, performance bonuses were also paid to PICC AMC when the investment performance has satisfied certain conditions.

On 7 August 2019, the Company and PICC AMC entered into a Marketisation Entrusted Portfolio Asset Management Agreement for 3 years, effective from 7 August 2019. Pursuant to the Marketisation Agreement, the Company agrees to entrust PICC AMC to manage some of its assets, and PICC AMC shall manage the entrusted assets in accordance with the Marketisation Agreement, relevant laws and regulations and regulatory rules in consideration of the entrusted asset management fees to be paid by the Company to PICC AMC.

On 28 August 2019, the Company entered into asset management agreements and supplemental agreements with PICC Investment and PICC Capital respectively for 3 years, effective from 28 August 2019. Pursuant to the asset management agreements and supplemental agreements, the Company entrusts some investment assets to PICC Investment and PICC Capital for their management, and PICC Investment and PICC Capital manage the entrusted assets in accordance with the asset management agreements and supplemental agreements, relevant laws and regulations and regulatory provisions and the investment guidelines formulated by the Company, and use the assets entrusted by the Company to subscribe for the debt financial products and equity financial products sponsored and managed by them. Meanwhile, the Company pays product management fees to PICC Investment and PICC Capital.

On 24 November 2016, the Company and PICC AMC entered into a memorandum of understanding, effective from 24 November 2016 to 30 June 2019, regarding the above asset management agreement. On 28 August 2019, the Company and PICC AMC entered into a memorandum on connected transaction (the "memorandum") for a term of three years effective from 28 August 2019. Pursuant to the memorandum, in respect of the Company's subscription of financial products set up and managed, either solely or jointly, by PICC AMC, PICC Capital, PICC Investment and PICC Equity, 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).

(iv) On 18 February 2019, the Company and PICC HK renewed the Framework Agreement for one year, effective from 1 January 2019. 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.

On 21 January 2020, the Company and PICC HK renewed the Framework Agreement for one year, effective from 1 January 2020. 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 21 June 2019, the Company entered into business cooperation agreements with PIB with a term of 3 years, effective from 17 June 2019. Pursuant to the agreement, PIB provided insurance brokerage services for the insurance contracts entered into between the insurance purchasers and the Company, and the Company paid brokerage commissions to PIB.

47. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(vi) On 30 August 2016, the Company and PICC Health renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016. On 30 August 2019, the Company and PICC Health further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Health mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Health in consideration of the agency services provided by PICC Health on the Company's insurance products. The Company would receive an agency fee from PICC Health in consideration of the agency services provided by the Company on PICC Health's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Health on normal commercial terms.

PICC Health is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Health is included in "associates" and excluded from "fellow subsidiaries".

(vii) On 30 August 2016, the Company and PICC Life renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016. On 30 August 2019, the Company and PICC Life further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Life mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company would receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Life on normal commercial terms.

PICC Life is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Life is included in "associates" and excluded from "fellow subsidiaries".

(viii) The Company purchased life or health insurance products from PICC Life and PICC Health for the employees of the Company.

(ix) The transactions with IBC are related party transactions as IBC is an associate of PICC Group since 2013. The transactions with China Merchant Securities are related party transactions as China Merchant Securities is an associate of PICC Group since 2017.

(x) The transactions with Hua Xia Bank are related party transactions as Hua Xia Bank is an associate of the Company since 2016.

47. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(xi) On 18 February 2019, the Company and PICC Re renewed the Framework Agreement on Reinsurance Business Cooperation for a term of one year, effective from 1 January 2019. Pursuant to the agreement, the Company agreed to cede insurance premiums to PICC RE and PICC Re agreed to pay commissions to the Company. On 18 December 2019, the Company entered into a Supplemental Agreement with PICC Re to increase the annual caps in relation to the premiums ceded by the Company to PICC Re and the commissions paid to the Company by PICC Re for the year ended 31 December 2019 as set under the Reinsurance Framework Agreement.

On 21 January 2020, the Company and PICC Re renewed the Framework Agreement on Reinsurance Business Cooperation for a term of one year, effective from 1 January 2020. Pursuant to the agreement, the Company agreed to cede insurance premiums to PICC RE and PICC Re agreed to pay commissions to the Company.

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".

(xii) On 29 May 2019, the Company and Bangbang signed a Goods Procurement Contract for a term of two years, effective from 1 April 2019. Pursuant to the contract, the Company shall purchase spare parts for the maintenance of insured accident-damaged vehicles from BangBang, and BangBang shall supply spare parts for accident-damaged vehicles and provide services on development, operation and maintenance of relevant systems to the Company. The Company shall pay the cost of the auto spare parts to BangBang.

Under the Listing Rules, the items (iii), (iv), (v), (vi), (vii),(xi) and (xii) above constitute continuing connected transactions.

(d) Outstanding balances with related parties

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Cash and cash equivalents:		
An associate	**7**	65
An associate of PICC Group	**1,818**	1,310
Term deposits:		
An associate	**10**	6,010
An associate of PICC Group	**20,050**	18,266
Debt securities:		
An associate of PICC Group	**2,447**	2,699
Equity securities:		
An associate of PICC Group	**26,390**	25,057
Receivables from reinsurers:		
A fellow subsidiary (note 20)	**177**	150
An associate (note 20)	**1,320**	1,690

47. RELATED PARTY TRANSACTIONS *(continued)*

(d) Outstanding balances with related parties *(continued)*

	31 December 2020	31 December 2019
	RMB million	*RMB million*
Due from related parties:		
PICC Group (note 30)	**50**	50
Fellow subsidiaries (note 30)	**320**	25
Associates (note 30)	**4**	35
An associate of PICC Group	**333**	376
Payables to reinsurers:		
A fellow subsidiary (note 32)	**243**	203
An associate (note 32)	**2,088**	2,514
Due to related parties:		
Fellow subsidiaries (note 39)	**139**	123
An associate of PICC Group	**–**	18
Lease liabilities:		
The PICC Group	**81**	–
A fellow subsidiary	**79**	318
An associate	**20**	30

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.

47. RELATED PARTY TRANSACTIONS *(continued)*

(e) Transactions with other government-related entities in the PRC

The Company is a state-owned enterprise which is subject to the indirect control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions paid to banks for insurance policies distributed.

The directors consider that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

(f) Compensation of key management personnel

	2020 ***RMB'000***	2019 (Restated) *RMB'000*
Fees, salaries, allowances and performance related bonuses	**13,194**	18,252
Retirement benefits	**2,470**	2,552
Housing fund and other benefits	**1,329**	1,160
	16,993	21,964

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.

47. RELATED PARTY TRANSACTIONS *(continued)*

(f) Compensation of key management personnel *(continued)*

The total compensation packages for key management personnel for the year ended 31 December 2020 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

The compensation amounts for certain key management personnel for the year ended 31 December 2019 were restated based on the finalised amounts determined in 2020. Additionally, pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2019 amounting to RMB8 million for key management personnel had been deferred contingent upon the future performance.

48. OPERATING LEASING ARRANGEMENTS

As lessor

The Group leases its investment properties (note 26) under lease arrangements, with lease terms ranging from one to twenty three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

As at 31 December 2020 and 2019, the undiscounted lease payments to be received under leases are as follows:

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
Within one year, inclusive 1 year	**149**	142
One to two years, inclusive 2 years	**106**	97
Two to three years, inclusive 3 years	**75**	71
Three to four years, inclusive 4 years	**43**	52
Four to five years, inclusive 5 years	**25**	26
After five years	**45**	43
Total	**443**	431

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 2020, interests in these consolidated structured entities held by the Group represented by their investment cost amounted to RMB1,669 million (31 December 2019: RMB3,696 million).

The financial impact of these debt schemes on the Group's financial position as at 31 December 2020, 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 in consolidated structured entities are presented as finance costs in the consolidated income statement and as accruals and other liabilities in the consolidated statement of financial position respectively. The payables to interest holders of consolidated structured entities amounted to RMB69 million as at 31 December 2020 (31 December 2019: RMB153 million). The finance costs amounted to RMB5 million for the year ended 31 December 2020 (2019: RMB12 million).

(b) Interests in unconsolidated structured entities

The Group invested in a variety of structured entities including asset management products sponsored by asset management companies, securities companies or insurance asset management companies, mutual funds sponsored by mutual fund management companies, trusts sponsored by trust companies and wealth management products sponsored by banks. Investments in these unconsolidated structured entities are disclosed in respective notes of "Equity securities and mutual funds" and "Investments classified as loans and receivables". The corresponding investment income is recorded in profit or loss as changes in fair values, realised gains/(losses), dividend or interest income, net of any impairment loss.

The Group is not the investment manager, and has no power over changing any investment decisions and investment managers, as such, the Group does not control any of these structured entities and does not consolidate these structured entities.

The following table shows the Groups' interests in unconsolidated structured entities. It also shows the Group's maximum exposure to these unconsolidated structured entities, representing the Group's maximum possible risk exposure that could occur. The Group does not provide any financial support to these unconsolidated structured entities.

49. STRUCTURED ENTITIES *(continued)*

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

	31 December 2020		
	Funding provided by the Group and carrying amount of the investment *RMB million*	**The Group's maximum exposure** *RMB million*	**Interest held by the Group**
Products managed by related parties	**41,361**	**41,361**	**Investment income**
Products managed by third parties	**72,987**	**72,987**	**Investment income**
Total	**114,348**	**114,348**	

	31 December 2019		
	Funding provided by the Group and carrying amount of the investment *RMB million*	The Group's maximum exposure *RMB million*	Interest held by the Group
Products managed by related parties	45,589	45,589	Investment income
Products managed by third parties	74,882	74,882	Investment income
Total	120,471	120,471	

50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9

According to Amendments to HKFRS 4, the Group and the Company performed an assessment during the year ended 31 December 2016. The carrying amount of the Group's liabilities connected with insurance exceeded 90% of the carrying amount of the Group's total liabilities and, as such, the Group concluded that its activities were predominantly connected with insurance as at 31 December 2015, and is eligible to apply the temporary exemption from HKFRS 9. There had been no significant change in the activities of the Group and the Company since then that requires reassessment. The Group and the Company have decided to apply the temporary exemption in its reporting period commencing on 1 January 2018.

As disclosed in Note 24, the Group's material associate, Hua Xia Bank applied PRC new financial instrument accounting standards (which is equivalent to HKFRS 9) retrospectively from 1 January 2019, with the practical expedients permitted under the standard.

As permitted by Amendments to HKFRS 4, the Group elects not to apply uniform accounting policies when using the equity method for Hua Xia Bank. Except for Hua Xia Bank, the Group has applied uniform accounting policies for its subsidiaries, other associates and joint venture in these consolidated financial statements.

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

(i) Fair value of financial assets

The table below presents the fair value of the following groups of financial assets (Note) under HKFRS 9 as at 31 December 2020 and 2019 and fair value changes for the years ended 31 December 2020 and 2019:

	Fair value as at 31 December 2020 *RMB million*	**Fair value changes for the year ended 31 December 2020** *RMB million*	Fair value as at 31 December 2019 *RMB million*	Fair value changes for the year ended 31 December 2019 *RMB million*
Held for trading financial assets (A)	**14,782**	**(30)**	18,590	95
Financial assets that are managed and whose performance are evaluated on a fair value basis (B)	**–**	**–**	–	–
Financial assets other than A and B				
– Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") (C)	**200,931**	**(743)**	180,537	3,531
– Financial assets with contractual terms that do not meet SPPI terms (D)	**138,085**	**10,405**	116,532	16,084
Total	**353,798**	**9,632**	315,659	19,710

50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9 *(continued)*

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

Note: The table above includes only debt securities, equity securities and mutual funds and investments classified as loans and receivables. As all other financial assets (including cash, term deposits, insurance receivables and other assets) held by the Group are financial assets that meet SPPI criterion, and their carrying amounts approximate their fair values. Accordingly, they have not been included in the table above.

(ii) Credit risk exposure

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

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

	Carrying amount (Note 1)	
	31 December 2020	31 December 2019
	RMB million	*RMB million*
AAA	**145,716**	142,390
AA+	**1,179**	4,043
AA	**1,328**	700
A-1	**100**	30
Not rated*	**46,486**	26,216
Total	**194,809**	173,379

* Included in the not rated category, there is an aggregate carrying amount of RMB45,492 million (31 December 2019: RMB20,412 million) of government bonds and certain financial bonds issued by policy banks with low credit risks, and the remaining financial assets with carrying amount of RMB994 million (31 December 2019: RMB5,804 million) without any credit rating do not have low credit risk.

50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9 *(continued)*

(ii) Credit risk exposure *(continued)*

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

Credit rating of overseas bonds that meet SPPI criterion

	Carrying amount (Note 1)	
	31 December 2020	31 December 2019
	RMB million	*RMB million*
Aaa	**152**	207
Aa1	**14**	6
Aa2	**7**	20
Aa3	**28**	8
A1	**10**	14
A2	**23**	29
A3	**58**	46
Baa1	**43**	34
Baa2	**22**	9
Baa3	**9**	–
Total	**366**	373

	Carrying amount		**Fair value**	
	31 December 2020	31 December 2019	**31 December 2020**	31 December 2019
	RMB million	*RMB million*	***RMB million***	*RMB million*
Financial assets that do not have low credit risk (those that meet SPPI criterion (included in C above)) (Note 2)	**3,601**	10,577	**3,973**	10,998

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

Note 2: Financial assets that do not have low credit risk refer to financial assets with either credit rating for those assets rated by qualified rating agencies in the PRC below AAA or Moody's credit rating below Baa3.

51. THE IMPACT OF COVID-19

The outbreak of Covid-19 had direct and indirect impact on the insurance industry as the economy slowed down leading to a declined demand for certain insurance products. As a leading insurance group offering a wide range of products to the market, the Group is launching online services vigorously and actively tackled the impact of Covid-19. The Group managed to maintain a positive growth in premium income for the first half of the year but at a slower pace compared with prior years. In the second half of the year, with the order of social life being back to normal and the economic growth has been back to the positive territory, the Covid-19 impact on the Group's businesses has been minimised. The Group has managed to achieve a positive growth in its underwriting profit and profit before tax for the whole year.

The directors of the Company consider that the impact of Covid-19 to the Group's financial position as at 31 December 2020 and results of the year are not significant.

52. EVENTS AFTER THE REPORTING YEAR

On 23 March 2021, the Board of Directors of the Company proposed a final dividend of RMB0.375 per ordinary share for the year ended 31 December 2020 totalling approximately RMB8,341 million, and approved an amount of RMB15,000 million 10-year capital supplementary bonds to be issued.

The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

53. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) The Company's statement of financial position

	31 December 2020 *RMB million*	31 December 2019 *RMB million*
ASSETS		
Cash and cash equivalents	**25,602**	31,993
Debt securities	**168,424**	149,072
Equity securities and mutual funds	**110,734**	91,728
Insurance receivables, net	**50,103**	53,593
Reinsurance assets	**33,167**	30,321
Term deposits	**70,896**	64,398
Investments classified as loans and receivables	**68,285**	67,417
Investments in associates and joint venture	**38,658**	39,063
Investments in subsidiaries	**2,950**	218
Investment properties	**4,774**	4,767
Property and equipment	**21,272**	18,049
Right-of-use assets	**4,887**	5,863
Deferred tax assets	**4,935**	5,092
Prepayments and other assets	**24,841**	22,702
TOTAL ASSETS	**629,528**	584,276
LIABILITIES		
Payables to reinsurers	**21,818**	19,449
Accrued insurance security fund	**837**	1,076
Securities sold under agreements to repurchase	**29,028**	16,759
Income tax payable	**50**	104
Insurance contract liabilities	**312,826**	305,109
Policyholders' deposits	**1,750**	1,762
Bonds payable	**23,297**	15,198
Lease liabilities	**1,668**	2,198
Accruals and other liabilities	**65,011**	64,023
TOTAL LIABILITIES	**456,285**	425,678
EQUITY		
Issued capital	**22,242**	22,242
Reserves	**151,001**	136,356
TOTAL EQUITY	**173,243**	158,598
TOTAL EQUITY AND LIABILITIES	**629,528**	584,276

53. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

(b) Movement in the Company's reserves

The movements in reserves of the Company are set out below:

	Share premium account *RMB million*	Asset revaluation reserve *RMB million*	Available for-sale investment revaluation reserve *RMB million*	Surplus reserve *RMB million*	General risk reserve *RMB million*	Catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2020	11,432	3,440	14,211	59,703	15,426	1,789	30,355	136,356
Total comprehensive income for the year	–	285	6,553	–	–	–	18,061	24,899
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	2,111	2,111	–	(4,222)	–
Appropriations to catastrophic loss reserve	–	–	–	–	–	312	(312)	–
Utilisation of catastrophic loss reserve	–	–	–	–	–	(952)	952	–
2019 final dividend	–	–	–	–	–	–	(10,254)	(10,254)
At 31 December 2020	11,432	3,725	20,764	61,814	17,537	1,149	34,580	151,001

	Share premium account *RMB million*	Asset revaluation reserve *RMB million*	Available for-sale investment revaluation reserve *RMB million*	Surplus reserve *RMB million*	General risk reserve *RMB million*	Catastrophic loss reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2019	11,572	3,266	3,562	42,212	12,935	2,471	33,081	109,099
Total comprehensive income for the year	–	174	10,649	–	–	–	22,624	33,447
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	2,491	2,491	–	(4,982)	–
Appropriations to discretionary surplus reserve	–	–	–	15,000	–	–	(15,000)	–
Appropriations to catastrophic loss reserve	–	–	–	–	–	313	(313)	–
Utilisation of catastrophic loss reserve	–	–	–	–	–	(995)	995	–
2018 final dividend	–	–	–	–	–	–	(6,050)	(6,050)
Others	(140)	–	–	–	–	–	–	(140)
At 31 December 2019	11,432	3,440	14,211	59,703	15,426	1,789	30,355	136,356

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
"Bangbang Auto Sales & Services"	Bangbang Auto Sales & Service (Beijing) Co., Ltd.
"Board" or "Board of Directors"	the board of directors of the Company
"CBIRC"	China Banking and Insurance Regulatory Commission
"Company" "We" or "PICC Property and Casualty"	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
"North Information Center"	PICC North Information Center Management Company Limited
"PIB"	Prime Insurance Brokers Company Limited
"PICC AMC"	PICC Asset Management Company Limited

"PICC Capital"	PICC Capital Investment Management Company Limited
"PICC Equity"	PICC Capital Equity Investment Company Limited
"PICC Financial Services"	PICC Financial Services Company Limited
"PICC Group"	The People's Insurance Company (Group) of China Limited
"PICC Health"	PICC Health Insurance Company Limited
"PICC HK"	The People's Insurance Company of China (Hong Kong), Limited
"PICC Investment"	PICC Investment Holding Company Limited
"PICC Life"	PICC Life Insurance Company Limited
"PICC Pension"	PICC Pension Company Limited
"PICC Re"	PICC Reinsurance Company Limited
"PICC Real Estate"	PICC Real Estate (Shenzhen) Company Limited
"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Year"	the year ended 31 December 2020
"%"	per cent

Corporate Information

REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司 (Abbreviation of Chinese name: 人保財險)

English name: PICC Property and Casualty Company Limited (Abbreviation of English name: PICC P&C)

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

property.picc.com

SECRETARY OF THE BOARD OF DIRECTORS

Zou Zhihong

COMPANY SECRETARY

Ko Mei Ying

INFORMATION INQUIRY DEPARTMENT

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REGISTERED OFFICE

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AUDITORS

International Auditor
Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditor

Domestic Auditor
Deloitte Touche Tohmatsu Certified Public Accountants LLP