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中國太平洋保險（集團）股份有限公司

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

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

(Stock Code: 02601)

Announcement of Audited Annual Results

for the year ended 31 December 2016

Letter from chairman to shareholders

Dear Shareholders:

In 2016, we delivered another year of solid business results, with continued value growth and improvement in the quality of development. Group operating revenues^{note 1} amounted to RMB267.014 billion, of which, gross written premiums (GWPs) reached RMB234.018 billion, up 15.1%. Group total assets stood at RMB1.02 trillion, exceeding the mark of 1 trillion for the first time in our history, with net assets^{note 2} of RMB131.764 billion. Group net profits^{note 2} amounted to RMB12.057 billion. The number of valid customers grew by over 10 million for the first time, reaching 104 million. We boasted strong capital positions, with the Group comprehensive solvency margin ratio at 294% under C-ROSS (China Risk-oriented Solvency System). We were ranked among Fortune Global 500 for the 6th consecutive year, occupying 251st place in 2016, and for the first time among the top 300.

The year 2017 will mark the 10th anniversary of our IPO. The listing helped us to put in place sound corporate governance with market-driven mechanisms. Looking back at the past decade,

we stayed focused on insurance while expanding our business portfolio along the insurance value chain. We now boast a full range of insurance-related licenses spanning life insurance, property and casualty insurance, pension, health insurance, agricultural insurance and asset management, with increased collaboration and synergy. **We gave priority to customers' needs** and launched the customer-oriented transformation initiative. The initiative centered on 3 objectives, namely, understanding customers' needs, improving customer interfaces and enhancing customer experience, being a broad-based effort across the entire organization. With the roll-out of 18 projects, the values and methodology underpinning the initiative have been embedded in the Company's DNA and will continue to play their part in the future. **We have been committed to value growth**, focusing on high quality NBV growth for life business, underwriting profitability for property and casualty business, and an investment yield consistently higher than the cost of liabilities for asset management. As early as the Company's listing, the Board of Directors formulated the development philosophy of "focusing on the core business of insurance and pursuing sustainable value growth". Our commitment has never wavered in the face of market shifts. As a matter of fact, **given our adherence to protection as the basic value proposition of insurance, the business philosophy was only further entrenched**. In 2016, amid polarization of development strategies in the insurance sector, upholding protection as the unique insurance value proposition and risk management have become the priority of the industry, which only served to justify our choice. In the past 10 years since we went public, **we have been transformed into one of the leading domestic insurance groups with strong capital positions, markedly-enhanced capabilities in value creation and risk management and a high level of professionalism**. In particular, the customer-oriented transformation initiative was concluded in 2016, which, in retrospect, has made a big difference to the Company.

- **A shift away from low-margin bancassurance towards high-margin individual business.**

Given our commitment to sustainable value growth, we focused on the individual business which has higher margin and better sustainability. Unstinting efforts over the years have led to dramatic improvement in business mix. Bancassurance as a share of GWPs fell from 54.9% in 2010 to 5.3% in 2016, with its volume decreasing from RMB48.2 billion to RMB7.3 billion over the same period, shedding over RMB40 billion in low-margin business. During the same period, GWPs from the individual business grew from RMB35.3 billion to RMB115.4 billion, with its share rising from 40.2% to 84.0%. With continued business mix improvement, NBV grew from RMB6.714 billion in 2011 to RMB19.041 billion in 2016, with an annual compound growth of 23.2%. In particular, in 2016, CPIC Life delivered

impressive results in both value and volume, with strong growth of both new and renewal business, at 33.0% and 23.2% respectively. Business quality saw continued improvement, with a surrender ratio of 2.0%, down by 2.2pt. In essence, the transformation initiative successfully built the individual business into the core driver of both value and volume growth, marking a fundamental shift in the Company's development mode.

- **Exercising stringent control of business quality, shedding bad business and increasing share of high-quality customers.** Given the strategy of “controlling business quality, enhancing foundation and boosting long-term growth potential”, we gave first priority to enhancing the development quality, eliminating bad business and focusing resources to attract and retain high-quality customers. This led to continued improvement in CPIC P/C's underwriting profitability. As for automobile insurance, we eliminated group business with claims ratios exceeding 100% for 3 years on end. On the other hand, we continuously increased the retention of high quality customers via channel mix adjustment and improved customer services. The number of customers with zero claims for 3 years in a row rose from 550,000 in 2011 to 2.58 million in 2016, and the number of female customers, who tend to have lower claims ratio, from 1.54 million to 3.62 million during the same period. In 2016, the combined ratio of CPIC P/C was 99.2%, down by 0.6pt. Of this, that of the automobile insurance stood at 97.2%, down by 0.8pt. In a nutshell, through more stringent control of business quality and elimination of bad business, we could mobilize more resources to provide differentiated service to target customer segments, hence better loyalty among high quality customers and better profitability. However, there is no denying that our non-automobile business still faced grave challenges. It incurred another year of underwriting loss with no improvement in its combined ratio, falling short of the requirement of the Board and expectations of our shareholders. To achieve underwriting profitability, we will step up specialized management of the non-auto business, deepen operational integration covering the front, middle and back ends, while accelerating the development of high quality business lines or customer segments such as agricultural insurance, SME business and individual customers.
- **Persisting in prudent, value and long-term investment in an environment of uncertainties.** To cope with complicated market environment such as lower interest rates and market-based industry reform, we abided by inherent rules of insurance and pioneered the industry in reforming asset liability management (ALM) and established an ALM system specific to investment pools, with mechanisms to check costs of liabilities. Under such mechanisms, insurance companies (such as CPIC Life) perform their duties as a

principal to an investment contract, responsible for strategic asset allocation (SAA), selection of investment managers, and the establishment of a full ALM cycle starting with products. Asset managers (such as CPIC AMC and Changjiang Pension) focus on building their investment capabilities to deliver higher-than-benchmark performances. Thanks to the new mechanisms, the actual investment results overall exceeded the benchmarks as agreed in the contracts. In particular, the 3-year compound comprehensive yield growth was well above the investment return assumption. Such mechanisms also served as an effective curb on costs of liabilities, which in turn prevented aggressive investment and systemic risks for the Company. As a result, the new business value (NBV) margin of our life business rose from 13.6% in 2011 to 32.9% in 2016, ensuring steady value growth. As an important institutional investor, we adhered to long-term, value and diversified investment, refraining from anything that may disrupt the capital market. Instead, we served China's real economy and contributed to the steady development of China's capital market.

- **Promoting supply-side reform and enhancing value-creating capabilities.** We are keenly aware of the importance of sustainable value growth, and to this end we have pushed for supply-side reform in different ways.

First, satisfying customer needs for protection through innovations in product supply.

Data governance enabled us to gain insights into customer needs from multiple dimensions. The Group, CPIC Life and CPIC P/C and their 79 branch offices have completed customer profile delineation, with over 80 findings, forming the basis of product innovation targeting different customer segments. We launched *Anxingbao*, a long-term personal accident product to cater for needs for high-level protection, with sum assured up to RMB5 million. *Yinfa Ankang* offers cancer cover with age limits for the insured raised from 65 to 75, targeting the elderly population. Another product innovation was *Xin'Anyi*, with expanded coverage such as reimbursement of out-of-pocket medical expenses. For China's rural areas, we combined insurance and futures market and offered a series of weather-index and target price agricultural insurance products. For female customers, we launched *Huayang Nianhua*, providing cover against both cancer and woman's mental illnesses, with lower premiums, at RMB182 on the average per policy. Thanks to our accurate risk-pricing capabilities, we were able to translate customers' needs for higher protection, raised age limits, expanded coverage and lower premiums into new engines of business and profit growth.

Second, improving loyalty of high-quality customers through service innovations. The customer-oriented transformation initiative improved our understanding of customers. For example, CPIC P/C formulated criteria for high-quality automobile insurance customers, and launched the Golden Key Program to provide differentiated customer services. Under the program, customers with claims can entrust car repairs entirely with us, saving time and effort. The program is now available in all provincial capitals, helping to increase the number of customers with zero claims for 3 years to 2.58 million, a growth of 21.1%. We also tailor-made services for female drivers, and in 2016, provided differentiated services such as tyre replacement and road assistance to 270,000 female customers. The number of female customer grew by 14.2% and reached 3.62 million. We used mobile internet technology to deliver high quality on-line claims handling service to automobile insurance customers under the brand *Taihaopei*.

Third, we increased the use of new technologies to improve service and operational efficiency. Proactively adapting to the era of internet and mobile telecommunications, we see the application of new technologies as a key factor of our transformation. On the one hand, we continued to improve customer interface, offering customers friendly end-to-end interactive platforms. The Company's We-Chat platform provides self-services such as loans and welcome calls, as well as social net-working. Our on-line platform integrates e-commerce and the official website, offering a wide range of services and receiving over 70 million visits in 2016. The Company's *Zhongguo Taibao* App encapsulates a wide spectrum of self-service functions such as application, policy renewal, policy amendments and information inquiry, transcending limitations of traditional interfaces in time and space and bringing ease and convenience to customers. On the other hand, we used new technologies and put in place strong middle and back office support. We equipped our life insurance agents with over 322,000 terminals of *Shenxing Taibao*, a smart mobile insurance platform with sales, contract, service and management functions, covering all new individual business policy issuance. CPIC P/C's innovative *Mashangbao* technology enables automatic policy application and premium payment by simply scanning a QR code without downloading any app; we rolled out the "e-agricultural insurance" system to step up the use of new technologies like photography by unmanned aerial vehicles and long-distance loss-adjustment by satellites to enhance differentiation in our agricultural business.

- **Enhancing compliance and forestalling major risks.** Our internal control gives first priority to forestalling systemic risks and serious breaches. In 2016, all our compliance and risk

monitoring indicators stayed above industry average, without any occurrence of regional, systemic risks or major cases. First, comprehensive indicators maintained healthy levels. Under C-ROSS, our capital positions were further improved, with comprehensive solvency margin ratios for CPIC P/C and CPIC Life at 296% and 257% respectively. We put in place a risk management regime in line with C-ROSS requirements, with CPIC P/C and CPIC Life receiving good results in CIRC C-ROSS evaluations. Second, major risks are under control. Surrender ratios returned to normal levels. The Value at Risk (VaR) for equity investments remained stable, effectively mitigating impact of capital market volatility. Credit risk was handled in a timely manner, with overall exposure in the comfort zone. 99.7% of enterprise bonds and financial bonds issued by non-government-sponsored banks had an issuer or debt rating of AA/A-1 or above. Third, compliance indicators continued to improve. 2016 was another year of 0 regulatory penalties for CPIC Group, CPIC AMC, Anxin Agricultural, Changjiang Pension and CPIC Allianz Health. Indicators for CPIC Life and CPIC P/C showed improvement. Of this, the number of complaints per one hundred million in premium was lower than the industry average. On the rankings of regulatory complaints, CPIC P/C improved from the 3rd place to 4th, while CPIC Life from 4th to 6th. At the same time, the proportion of internal control issues stayed under 2% for five consecutive years, with continued decline over the years. Fourth, we continued with innovations in the Company's internal auditing (IA) system. At the Group level, we established an independent and centralized IA governance framework underpinned by innovations in organizational structure, auditing quality and long-distance technology. The framework features a new model with process-driven specialization and separation of front, middle and back office. We optimized the long-distance IA system based on big data analytics, winning top ranking in the evaluation of IA quality by China Internal Auditing Association. To sum up, our IA system serves as an effective "last line of defense" in the Company's 3-pillar internal control system.

In 2016, along the insurance value chain, we continued to push for further collaboration between business segments. CPIC Allianz Health focused on mid and high-end customers, stepped up product innovation, deepened channel collaboration with CPIC Life and CPIC P/C, and realized RMB519 million in GWPs, a growth of 248.3%. Meanwhile, it vigorously explored the combination of health insurance and health management, in a bid to establish a platform for commercial health product development, centralized operation and health services within the entire Group. Changjiang Pension, on the back of the Group resources, joined hands with its sister companies and set up 30 "Pacific-Changjiang Business Co-operation Centers". Its

third-party investment management assets amounted to RMB125.775 billion, a growth of 50.3% from the end of 2015. It also qualified as the asset manager for the outsourcing of China's social security pension fund. Besides, it became the first trust-type pension firm in China turning profits on a cumulative basis. In 2016, we increased stake in Anxin Agricultural and achieved financial consolidation. In line with the Group's valued-oriented development strategies, Anxin Agricultural took the initiative to adjust its business mix, shifting away from automobile insurance which was not its competitive advantage, and focused more on its core agricultural business, with marked improvement in profitability. Its combined ratio for 2016 fell by 4.4pt, with net profits of RMB116 million, up 2.7%.

In 2016, as always, we strived to incorporate CSR into our development model in an all-around way, in a bid to deliver value to all stake-holders. We ranked for the 7th consecutive year on the list of China's Outstanding Companies in Corporate Social Responsibility. We paid close attention to areas relating to people's well-being, pioneered in innovations in agriculture, care for the elderly population and health care so as to improve the well-being of the Chinese people and support the development of China's economy with diversified services and products. We deepened strategic co-operation with government agencies, international peers, banks and large firms, exploring new products, services, business models and investment so that such insurance innovations can be duplicated nation-wide. We engaged in insurance educational and publicity programs so that the public could have more opportunities to experience insurance products and services, thus better understanding the business. To contribute to the national poverty-relief effort, we made full use of our insurance expertise, and shouldered our responsibility as a responsible company via insurance schemes for terminal illnesses, agricultural insurance, as well as other special programs seeking to support certain industries or targeting underprivileged communities. We fulfilled our commitments as a corporate citizen by continuously engaging in charitable activities such as school donations, caring for the under-privileged, poverty-reduction and disaster relief efforts. Recently, we announced nominations for the 8th Board of Directors, and the transition is proceeding in an orderly fashion. The 7th Board of Directors, over the past 3 years, performed their duties with due diligence conscientiously fulfilled its fiduciary responsibilities. Under its guidance, and with joint efforts of the Company's management and employees, CPIC delivered steady value growth and increase in its comprehensive strength. **I would like to express our sincere gratitude to all members of the Board for their hard work and contribution.**

The year 2017 marks the beginning of the Company's new 3-year development program. Looking ahead, we will continue to uphold the development of philosophy of "focusing on

the core business of insurance and pursuing sustainable value growth”. We will also start the implementation of the digitalization strategy, which is an extension of the customer-oriented transformation initiative and will be central to our efforts to lower costs, improve efficiency, strengthen weaknesses and promote collaboration. In the next 3 years, under the leadership of the new Board, the Company will work hard to translate into realities the mission of “innovating digital experience, improving digital supply, and sharing the digital eco-system”, and continue to drive value growth so as to give back even more to our shareholders, customers and the society.

Notes:

1. Based on PRC GAAP.
2. Attributable to equity holders of the parent.

Review and analysis of operating results

Company Business Overview

I. Key Businesses

We are a leading integrated insurance group in China, and provide, through our subsidiaries and along the insurance value chain, a broad range of risk protection solutions, financial planning and wealth management services.

In particular, we provide life insurance products & services through CPIC Life, property and casualty insurance products & services through CPIC P/C and CPIC HK and health insurance products & services through CPIC Allianz Health. We manage insurance funds, including third-party assets, through our investment arm, CPIC AMC. We conduct pension business, manage insurance funds, including third-party assets via Changjiang Pension. Besides, we engage in agricultural insurance and other related insurance business via Anxin Agricultural.

In 2016, China’s insurance market realized a premium income of RMB3.1 trillion, a growth of 27.5%. Of this, premium from property and casualty companies amounted to RMB926.617 billion, up 10.0% compared with 2015, and that from life insurance companies RMB2,169.281 billion, up 36.8%. Measured by primary insurance premiums, CPIC Life and CPIC P/C are both China’s 3rd largest insurer for life and property and casualty insurance respectively.

II. Core Competitiveness

We are a leading integrated insurance group in China, ranking 251 among Fortune Global 500.

We persist in customer-orientation, focus on insurance, and commit ourselves to the pursuit of sustainable value growth, striving to create sustainable value and generate stable returns for our shareholders.

- Our life business delivered robust growth in both value and volume, driven predominantly by the individual business, marking a fundamental shift in its development mode; our property and casualty business delivered continued improvement in underwriting profitability, with continued increase in the number of high quality customers.
- We deepened ALM, putting in place market-based mechanisms for asset entrustment which serve to curb the cost of liabilities.
- We have markedly improved our capabilities in Customer Profile Delineation based on data governance, in the supply of insurance products & services based on customer segmentation and in the optimisation of customer interfaces driven by new technologies.
- We have achieved collaboration and synergy across various business segments such as life, property and casualty, pension, health, agricultural insurance and asset management.
- We have a leading insurance franchise in China, with over 100 million customers, a nation-wide distribution network and an integrated service platform.
- We boast sound and efficient governance, committed to delivering value to all stakeholders such as shareholders, customers and employees. We established an industry-leading system for risk management and internal control, which is instrumental in the healthy and sustainable development of the Company.
- With state-of-the-art and reliable IT systems and investment in enterprise-level applications, we have fostered market-leading capabilities in operational support and new technology application.
- We have established a scientific decision-making process for modern enterprises, with an experienced management team and a Group-centralized platform of management.

Performance Overview

We persisted in customer-orientation, stayed focused on insurance, and committed ourselves to the pursuit of sustainable value growth, and delivered sustained value growth and solid financial results for the reporting period.

I. Performance highlights

During the reporting period, Group operating revenues amounted to RMB267.014 billion, of which, GWPs reached RMB234.018 billion, a growth of 15.1%, with total assets of RMB1.02

trillion, exceeding the mark of one trillion for the first time in our history. We reported Group net profits^{note 1} of RMB12.057 billion, down by 32.0%, due to lower investment income and changes to reserve discount rate. CPIC Life delivered RMB19.041 billion in one-year NBV, up 56.5%. CPIC P/C recorded a combined ratio of 99.2%, down by 0.6pt. Group embedded value stood at RMB245.939 billion, an increase of 19.6% from the end of 2015. Of this, value of in-force business^{note 2} reached RMB101.288 billion, up 11.8% from the end of 2015.

Life business persisted in value-oriented strategy with robust growth in value and volume.

- CPIC Life realized one-year NBV of RMB19.041 billion, up 56.5%. Of this, NBV from agency channel amounted RMB17.93 billion, up 63.9% and accounting for 94.1% of total NBV. The NBV margin rose by 3.4pt to reach 32.9%. The surrender ratio fell by 2.2pt to 2.0%.
- CPIC Life delivered RMB137.362 billion in GWPs, up 26.5%. Of this, the agency channel under the individual customer business reported GWPs of RMB115.410 billion, up 33.9%, and its share of total life GWPs reached 84.0%. FYPs of the individual customer business from the agency channel amounted to RMB37.393 billion, a growth of 45.5%.
- Monthly average number of agents stood at 653,000, an increase of 35.5% year-on-year. FYPs per agent per month reached RMB5,084, up 6.4%. Sales force mix continued to improve, with active and high-performing agents exceeding the mark of 200,000 and 100,000 for the first time.
- CPIC Allianz Health vigorously explored the model of “health insurance + health management”, continued to focus on mid and high-end customers, stepped up product innovation, deepened channel collaboration, and realized RMB519 million in GWPs, a growth of 248.3%.

Property and casualty business achieved underwriting profitability, with continued improvement in the combined ratio.

- CPIC P/C reported a combined ratio of 99.2%, an improvement of 0.6pt from 2015. Of this, the loss ratio went down by 3.6pt to 61.2%.
- CPIC P/C registered GWPs of RMB76.177 billion from the automobile business, up 1.6%, with a combined ratio of 97.2%, down by 0.8pt from 2015.
- Agricultural insurance^{note 3} realized RMB2.523 billion in premiums, with a fast increase in market share. Of this, CPIC P/C vigorously promoted its “e-agricultural insurance” system, stepped up innovation of index-based products and recorded GWPs of RMB1.871 billion,

up 66.3%. Anxin Agricultural pushed for closer co-operation with CPIC P/C, realizing GWPs of RMB652 million, up 26.1%.

Net investment yield rose year-on-year, with fast growth of third-party assets under management (AuM)

- Group in-house assets delivered a net investment income^{note 4} of RMB46.607 billion, an increase of 17.1% over 2015, with net investment yield^{note 4} of 5.4%, up 0.2pt.
- Third-party AuM amounted to RMB293.612 billion, an increase of 25.8% from the end of 2015, with a fee income of RMB802 million, up 22.8%. Of this, third-party assets managed by CPIC AMC rose by 12.1% from the end of 2015 to reach RMB167.837 billion, and Changjiang Pension by 50.3% to reach RMB125.775 billion, with the pension subsidiary qualifying for the investment outsourcing of China's social security pension fund.

Notes:

1. Attributable to shareholders of the Company.
2. Based on Group's share of CPIC Life's value of in-force business after solvency.
3. Based on primary insurance business, excluding premium income ceded-in.
4. Figures for the same period of the previous year have been restated.

II. Key performance indicators

Indicators	Unit: RMB million		
	As at 31	As at 31	Changes (%)
	December	December	
	2016/for the	2015/for the	
period between	period between		
	January and	January and	
	December in	December in	
	2016	2015	
Key value indicators			
Embedded value of the Group	245,939	205,624	19.6
Value of in-force business ^{note 1}	101,288	90,559	11.8
Net assets of the Group ^{note 2}	131,764	133,336	(1.2)
NBV of CPIC Life ^{note 4}	19,041	12,170	56.5
New business margin of CPIC Life (%) ^{note 4}	32.9	29.5	3.4pt
Combined ratio of CPIC P/C (%)	99.2	99.8	(0.6pt)
Growth rate of investments' net asset value (%)	4.0	8.2	(4.2pt)
Key operating indicators			
GWPs	234,018	203,305	15.1
CPIC Life	137,362	108,589	26.5
CPIC P/C	96,195	94,615	1.7
Number of Group customers (in thousand) ^{note 3}	104,435	94,356	10.7

Average number of insurance policies per customer	1.64	1.58	3.8
Monthly average agent number (in thousand)	653	482	35.5
Monthly average first year premiums per agent (RMB)	5,084	4,776	6.4
Total investment yield (%)	5.2	7.3	(2.1pt)
Net investment yield (%)^{note 4}	5.4	5.2	0.2pt
Third-party AuM	293,612	233,474	25.8
Third-party AuM by CPIC AMC	167,837	149,786	12.1
Assets under investment management by Changjiang Pension	125,775	83,688	50.3
Key financial indicators			
Net profit attributable to equity holders of the parent	12,057	17,728	(32.0)
CPIC Life	8,542	10,582	(19.3)
CPIC P/C	4,540	5,331	(14.8)
Comprehensive solvency margin ratio (%)			
CPIC Group	294	299	(5pt)
CPIC Life	257	262	(5pt)
CPIC P/C	296	285	11pt

Notes:

1. Based on Group's share of life's value of in-force business after solvency.
2. Attributable to equity holders of the parent.
3. The number of Group customers refers to the number of applicants and insureds who hold at least one insurance policy within the insurance period issued by one or any of CPIC subsidiaries as at the end of the period/year. In the event that the applicants and insureds are the same person, they shall be deemed as one customer.
4. Figures for the same period of the previous year have been restated.

Life Insurance Business

In 2016, CPIC Life continued to strengthen its capabilities in “customer operation”, i.e, acquisition of new customers and up-sell to existing ones, and further entrenched the individual business as the key driver of both value and volume growth, which paved the way for rapid NBV growth. CPIC Allianz Health, targeting mid and high-end customers, stepped up product innovation and distribution channel collaboration, and delivered rapid business growth.

I. CPIC Life

(I) Business analysis

In 2016, CPIC Life persisted in a business philosophy centering on sustainable value growth, deepened the implementation of the development strategy of “focusing on the agency channel and regular premium business”, and forged ahead with the customer-oriented transformation initiative. For the reporting period, it reported GWPs of RMB137.362 billion, up 26.5%. Its one-year NBV amounted to RMB19.041 billion, up 56.5%. The NBV margin reached 32.9%, up by 3.4pt .

1. Analysis by channels

		Unit: RMB million		
For 12 months ended 31 December		2016	2015	Changes (%)
Individual customers		133,094	105,134	26.6
Agency channel		115,410	86,174	33.9
New policies		37,393	25,707	45.5
Regular premium business		35,881	24,699	45.3
Renewed policies		78,017	60,467	29.0
Other channels		17,684	18,960	(6.7)
Group clients		4,268	3,455	23.5
Total GWPs		137,362	108,589	26.5

(1) Business from individual customers

For the reporting period, we realized RMB133.094 billion in GWPs from individual customers, up 26.6%, representing 96.9% of total life GWPs. Of this, new policies from agency channel contributed RMB37.393 billion, up 45.5%, and renewal business RMB78.017 billion, an increase of 29.0%.

We persisted in the “dual-driver” model, namely, focusing on both the quality and productivity of our sales force. To be specific, we stepped up selection during recruitment, pushing for new recruits to “qualify for active agents” in their first month of recruitment and to “pass validation” in the first quarter. We revamped agency management rules to drive sales force mix improvement, with intensified efforts to increase the share of active and high-performing agents. Monthly average number of agents for 2016 stood at 653,000, an increase of 35.5% year-on-year. FYPs per agent per month reached RMB5,084, up 6.4%. The number of active and high-performing agents exceeded the mark of 200,000 and 100,000 respectively for the first time, testifying to continued improvement in agency force mix.

For 12 months ended 31 December	2016	2015	Changes (%)
Monthly average agent number (in thousand)	653	482	35.5
Monthly average first-year GWPs per agent (RMB)	5,084	4,776	6.4
Average number of new long-term life insurance policies per agent per month	1.72	1.37	25.5

We upgraded “customer operation” via enhanced customer insights and product customization. For example, we expanded the scope of coverage and launched *Huayang Nianhua*, a critical illness product specifically for women which provides, on top of traditional cancer protection, mental health cover. There was *Shao'er Chaonengbao*, a critical illness product tailor-made for children, offering a wider range of minor illnesses protection. Such products, with increased protection, helped agents acquire new customers. In the meantime, the Targeted Marketing Initiative boosted our capabilities in up-sell to target customer segments.

(2) Business from group clients

In 2016, the segment realized RMB4.268 billion in GWPs, up by 23.5%, which mainly stemmed

from more stringent business selection and continued efforts in business transformation. We gave priority to the development of health and pension business, pressed ahead with improvement in institutions & mechanisms and business innovation. The health and pension business has been restructured into a stand-alone business unit, while other business lines in the segment given more autonomy in business operation.

2. Analysis by product types

We focus on risk protection and long-term savings products and prudently control cost of liabilities.

For 12 months ended 31 December		2016	2015	Unit: RMB million Changes (%)
GWPs		137,362	108,589	26.5
Traditional		40,725	23,778	71.3
Long-term health insurance		13,667	9,347	46.2
Participating		87,479	77,204	13.3
Universal		42	40	5.0
Short-term accident and health		9,116	7,567	20.5

Information of the top five products

For 12 months ended 31 December				
Ranking	Name	Type	Premiums	Sales channel
1	<i>Jin You Ren Sheng Whole Life A (2014)</i> 金佑人生終身壽險（分紅型）A款（2014版）	Participating	14,212	Individual customer business
2	<i>Xingfu Xiangban Endowment</i> 幸福相伴（尊享型）兩全保險	Traditional	7,744	Individual customer business
3	<i>Li Ying Nian Nian Annuity</i> 利贏年年年金保險（分紅型）	Participating	6,403	Individual customer business
4	<i>Hong Fa Nian Nian Annuity</i> 鴻發年年全能定投年金（分紅型）	Participating	5,523	Individual customer business
5	<i>Anxingbao Endowment</i> 安行寶兩全保險	Traditional	5,272	Individual customer business

3. Policy persistency ratio

For 12 months ended 31 December	2016	2015	Changes (%)
Individual life insurance customer 13-month persistency ratio (%) ^{note 1}	92.3	90.3	2.0pt
Individual life insurance customer 25-month persistency ratio (%) ^{note 2}	86.6	85.6	1.0pt

Notes:

- 13-month persistency ratio: premiums from in-force policies 13 months after their issuance as a percentage of premiums from policies which entered into force during the same period.
- 25-month persistency ratio: premiums from in-force policies 25 months after their issuance as a percentage of premiums from policies which entered into force during the same period.

The Company's policy persistency maintained an overall healthy level, with 13-month and 25-month persistency ratios up by 2.0pt and 1.0pt respectively year-on-year.

4. Top 10 regions for GWPs

The Company's GWPs mainly came from economically developed regions or populous areas.

For 12 months ended 31 December		2016	2015	Unit: RMB million Changes (%)
GWPs		137,362	108,589	26.5

Jiangsu	14,497	11,342	27.8
Henan	13,867	10,561	31.3
Shandong	12,008	9,513	26.2
Zhejiang	9,673	7,650	26.4
Guangdong	8,838	7,310	20.9
Hebei	8,095	6,318	28.1
Shanxi	6,759	5,512	22.6
Hubei	5,972	4,915	21.5
Heilongjiang	4,959	3,406	45.6
Beijing	4,426	3,950	12.1
Subtotal	89,094	70,477	26.4
Others	48,268	38,112	26.6

(II) Financial analysis

For 12 months ended 31 December	Unit: RMB million		
	2016	2015	Changes (%)
Net premiums earned	134,899	106,553	26.6
Investment income ^{note}	39,839	43,761	(9.0)
Other operating income	1,822	1,214	50.1
Total income	176,560	151,528	16.5
Net policyholders' benefits and claims	(124,796)	(105,410)	18.4
Finance costs	(2,107)	(2,235)	(5.7)
Interest credited to investment contracts	(1,803)	(1,436)	25.6
Other operating and administrative expenses	(36,623)	(28,011)	30.7
Total benefits, claims and expenses	(165,329)	(137,092)	20.6
Profit before tax	11,231	14,436	(22.2)
Income tax	(2,689)	(3,854)	(30.2)
Net profit	8,542	10,582	(19.3)

Note: Investment income includes investment income on financial statements and share of profit in equity accounted investees.

Investment income for the reporting period was RMB39.839 billion, down by 9.0%, due to lower securities trading gains.

Net policyholders' benefits and claims amounted to RMB124.796 billion, up 18.4%, largely due to higher death and other benefit pay-outs.

Other operating and administrative expenses for the reporting period amounted to RMB36.623 billion, up 30.7%, mainly caused by rapid business growth.

As a result, CPIC Life recorded a net profit of RMB8.542 billion for 2016.

II. CPIC Allianz Health

The company is positioned as a specialized health insurance entity within the Group, and has a mandate to establish the platform for commercial health insurance product development, centralized operation and health services for the Group, in order to promote resource-sharing and concentrated management. In 2016, CPIC Allianz Health, given its focus on mid and high-end customers, tested the waters with *Aijia Youyue*, a health insurance scheme which

targets high-end households and offers better experience when the insured seek medical advice. It stepped up product innovation and distribution channel collaboration, and delivered GWPs of RMB519 million, a growth of 248.3%. At the same time, it put in place an integrated operational and risk control platform across business segments under the Group, explored the model of “health insurance + health management”, laying a sound foundation for future growth and resources-sharing within the Group.

Property and Casualty Insurance

In 2016, the property and casualty business^{note1} reported RMB96.607 billion in GWPs^{note2}, up 2.0%, with the combined ratio at 99.2%, down by 0.6pt from 2015. CPIC P/C^{note3} focused on the core channels of automobile insurance, improved its capabilities in serving high quality customers and boosted the development of emerging business lines like agricultural insurance, with continued improvement in the combined ratio. Anxin Agricultural adjusted its business mix, focusing on agricultural business, with improved business results.

Note:

1. Property and casualty business here includes CPIC P/C, Anxin Agricultural and CPIC HK.
2. GWPs include income from both primary business and reinsurance.
3. In this report applies only to CPIC P/C, excluding Anxin Agricultural.

I. CPIC P/C

(I) Business analysis

In 2016, CPIC P/C adhered to the development strategy of “improving quality, enhancing foundation and boosting long-term growth potential”, and reported GWPs of RMB96.195 billion, up 1.7%, with a combined ratio of 99.2%, down by 0.6pt.

1. Analysis by lines of business

For 12 months ended 31 December	2016	2015	Unit: RMB million Changes (%)
GWPs	96,195	94,615	1.7
Automobile insurance	76,177	74,961	1.6
Compulsory motor insurance	16,346	16,219	0.8
Commercial automobile insurance	59,831	58,742	1.9
Non-automobile insurance	20,018	19,654	1.9
Commercial property insurance	5,104	5,433	(6.1)
Liability insurance	3,823	3,768	1.5
Accident insurance	2,275	2,502	(9.1)
Agricultural insurance	1,908	1,155	65.2
Others	6,908	6,796	1.6

(1) Automobile insurance

For the reporting period, we reported GWPs of RMB76.177 billion from automobile business, up 1.6%, with a combined ratio of 97.2%, a decrease of 0.8pt from 2015, due to improved

business quality on the back of increased focus on the core channels and high quality customers, enhanced control of business quality and claims cost, and optimized resource allocation.

In 2016, the Company continued to enhance consolidated channel management, with progress in the building of the core distribution channels and resource allocation. First, it proactively responded to the commercial automobile insurance deregulation and achieved stable development of telemarketing & internet. Second, it continued to improve the cross-sell system, promoted resource-sharing, and delivered rapid growth of the channel. Third, it stepped up head-office to head-office co-operation with car dealerships for mainstream car brands, with increased efforts in joint marketing campaigns to drive the development of the car dealership channel. As a result, the 3 core channels as a share of the automobile business grew by 0.2pt and reached 55.7%.

For 12 months ended 31 December	Unit: RMB million		
	2016	2015	Changes (%)
GWPs	76,177	74,961	1.6
Core channels	42,398	41,568	2.0
Non-core channels	33,779	33,393	1.2

Next, we'll continue to strengthen the channel management system focusing on the 3 core channels and supplemented by other channels based on local market realities. A top-down channel strategy will be enhanced, with different channels for different customer segments. The development of the 3 core channels will be further accelerated. To further improve capabilities in risk selection and pricing, we'll step up the use of big data to improve business quality control. Resource allocation will be contingent on business quality to maximize input and output ratio. Other priorities include continued efforts to increase the penetration and level of protection for commercial automobile insurance, enhancement of quality control of group business to ensure a stable share of high quality clients and consolidating the progress in claims cost reduction while improving customer service and customer loyalty. We believe these measures will help us achieve sustainable value growth of automobile business.

(2) Non-automobile insurance

For the reporting period, GWPs from non-automobile business amounted to RMB20.018 billion, up by 1.9%. Due to the impact of intensified market competitions and frequent natural disasters, its combined ratio went up by 0.7pt and reached 109.6%. Of this, accident insurance became the first major non-auto business line to deliver underwriting profitability, with a combined ratio of 94.9%, on the back of elimination of high loss ratio business and improved business mix. Agricultural insurance continued to expand the geographical scope of business, rolled out the "e-agricultural insurance" system, enhanced its market competitiveness and reported RMB1.908 billion in GWPs, up 65.2%. Meanwhile it maintained decent business

quality, with a combined ratio of 96.8%.

Next, we will continue to enhance capability in specialized management, step up adjustment of the mix of traditional business lines, deepen integrated operation of the front-end, middle and back offices and establish a differentiated model for different customer segments. We will also seize opportunities of the new *Guo Shi Tiao* (Opinions on Accelerating the Development of Modern Insurance Industry by the State Council) and foster our development capabilities in emerging market niches, emerging and innovative business lines to capture growth opportunities. We will continue to explore the new operational model for corporate clients, enhancing quality management of *Caifu U Bao* to achieve a leading position in SME business. As for agricultural insurance, we will make continuous efforts to increase management and technology innovation to drive a fundamental shift in its development mode.

(3) Key financials of major business lines

Unit: RMB million

For 12 months ended 31 December 2016

Name of insurance	GWPs	Amounts Insured	Claims paid	Reserves	Underwriting profit	Combined ratio (%)
Automobile insurance	76,177	14,418,311	46,374	50,088	1,932	97.2
Commercial property insurance	5,104	11,795,952	3,601	6,030	(504)	116.5
Liability insurance	3,823	8,238,370	2,285	4,342	(477)	116.8
Accident insurance	2,275	34,000,612	1,233	1,990	119	94.9
Agricultural insurance	1,908	107,242	982	996	41	96.8

2. Top 10 regions for GWPs

We rely on our nationwide distribution network to implement differentiated regional development strategies based on factors like market potential and operational efficiency.

Unit: RMB million

For 12 months ended 31 December

	2016	2015	Changes (%)
GWPs	96,195	94,615	1.7
Guangdong	12,026	12,660	(5.0)
Jiangsu	11,271	10,999	2.5
Zhejiang	9,674	9,493	1.9
Shanghai	7,378	7,459	(1.1)
Shandong	5,492	5,671	(3.2)
Beijing	5,463	5,435	0.5
Sichuan	3,178	2,955	7.5
Chongqing	3,143	3,028	3.8
Fujian	3,078	3,149	(2.3)
Guangxi	2,968	2,747	8.0
Subtotal	63,671	63,596	0.1
Others	32,524	31,019	4.9

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2016	2015	Changes (%)
Net premiums earned	83,569	82,362	1.5
Investment income ^{note}	5,516	7,132	(22.7)
Other operating income	409	424	(3.5)
Total income	89,494	89,918	(0.5)
Claims incurred	(51,198)	(53,337)	(4.0)
Finance costs	(302)	(295)	2.4
Interest credited to investment contracts	-	-	/
Other operating and administrative expenses	(32,016)	(29,247)	9.5
Total benefits, claims and expenses	(83,516)	(82,879)	0.8
Profit before tax	5,978	7,039	(15.1)
Income tax	(1,438)	(1,708)	(15.8)
Net profit	4,540	5,331	(14.8)

Note: Investment income includes investment income on the financial statements and share of profit in equity accounted investees.

Investment income for the reporting period amounted to RMB5.516 billion, down by 22.7%, mainly attributable to decrease in securities trading gains.

Other operating and administrative expenses amounted to RMB32.061 billion, up 9.5%, mainly due to business growth and market competitions.

Hence, a net profit of RMB4.540 billion was booked for CPIC P/C for 2016.

II. Anxin Agricultural

In August 2016, CIRC approved a rights issue by Anxin Agricultural, and upon its completion, CPIC P/C increased its stake in the company to 52.13%, achieving financial consolidation. In 2016, the agricultural insurance subsidiary followed the Group's value-oriented strategy, took the initiative to adjust its business mix, and withdrew from the automobile insurance which was not its core competitiveness. For the reporting period, it delivered RMB1.044 billion in GWPs, of which, agricultural insurance generated RMB685 million, up 29.2%. Its combined ratio stood at 94.1%, down by 4.4pt, with net profits of RMB116 million, a growth of 2.7%.

III. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December 2016, its total assets stood at RMB1.102 billion, with net assets of RMB432 million. GWPs for the reporting period amounted to RMB475 million, with a combined ratio of 82.6%, down by 6.4pt, and a net profit of RMB88 million.

Asset Management

As of the end of 2016, Group AuM totaled RMB1,235.372 billion, rising 13.6% from the end of

2015. Of this, Group in-house assets reached RMB941.760 billion, a growth of 10.2% from the end of 2015, with fixed income investments accounting for 82.3%, maintaining a largely stable asset allocation based on profiles of liabilities. Net investment yield reached 5.4% and total investment yield 5.2%.

I. Group AuM

As of the end of 2016, Group AuM totaled RMB1,235.372 billion, rising 13.6% from the end of 2015. Of this, third-party AuM totaled RMB293.612 billion, up 25.8% from the end of 2015, with a fee income of 802 million, up 22.8% year-on-year.

	Unit: RMB million		
	31 December 2016	31 December 2015	Changes (%)
Group AuM	1,235,372	1,087,932	13.6
Group in-house assets	941,760	854,458	10.2
Third-party AuM	293,612	233,474	25.8
Third-party AuM by CPIC AMC	167,837	149,786	12.1
Assets under investment management by Changjiang Pension	125,775	83,688	50.3

II. Group in-house assets

During the reporting period, China's economy, having experienced a slow-down, showed signs of stabilization and recovery. The equity market continued to be volatile and yields on fixed income assets remained low. In response to changes of the capital market conditions, we strived to mitigate the impact of market volatility via more proactive trading, and to stabilize portfolio yields through diversification of asset allocation such as non-standard assets (NSAs).

(I) Consolidated investment portfolios

	Unit: RMB million			
	31 December 2016	Share (%)	Share change from end of 2015 (pt)	Changes (%)
Group investment assets (Total)	941,760	100.0	-	10.2
By investment category				
Fixed income investments	774,582	82.3	0.2	10.6
– Debt securities	471,075	50.0	(0.4)	9.4
– Term deposits	132,226	14.1	(4.0)	(14.4)
– Debt investment plans	61,397	6.5	0.3	15.8
– Wealth management products ^{note 1}	43,962	4.7	1.7	74.2
– Preferred shares	32,000	3.4	2.0	171.2
– Other fixed income investments ^{note 2}	33,922	3.6	0.6	32.8
Equity investments	115,900	12.3	(1.7)	(3.3)
– Equity funds	18,788	2.0	(1.1)	(29.1)
– Bond funds	19,397	2.1	0.2	21.0
– Equity securities	31,185	3.3	(0.6)	(7.3)
– Wealth management products ^{note 1}	22,808	2.4	(0.6)	(11.3)
– Preferred shares	4,544	0.5	0.2	105.0

– Other equity investments ^{note 3}	19,178	2.0	0.2	21.8
Investment properties	8,657	0.9	0.2	36.5
Cash, cash equivalents and others	42,621	4.5	1.3	54.3
By investment purpose				
Financial assets at fair value through profit or loss	27,190	2.9	0.3	22.4
Available-for-sale financial assets	258,711	27.5	2.0	18.6
Held-to-maturity financial assets	304,874	32.4	(3.9)	(1.8)
Interests in associates	115	-	-	(62.4)
Investment in joint ventures	36	-	-	100.0
Loans and other investments ^{note 4}	350,834	37.2	1.6	15.6

Notes:

1. Wealth management products include wealth management products issued by commercial banks, collective trust plans by trust firms, special asset management plans by securities firms and credit assets backed securities by banking institutions, etc.
2. Other fixed income investments include restricted statutory deposits and policy loans, etc.
3. Other equity investments include unlisted equities, etc.
4. Loans and other investments include term deposits, cash and short-term time deposits, securities purchased under agreements to resell, policy loans, restricted statutory deposits, and investments classified as loans and receivables, and investment properties, etc.

1. By investment category

In the reporting period, we remained cautious about equity investments, and focused on NSAs for fixed income investments targeting liquidity spread while moderately controlling duration to ensure flexibility in asset allocation. Based on this strategy, in addition to bonds and equities, new money and re-investments were mainly allocated in debt investment schemes, preferred shares, collective trust plans by trust firms and wealth management products issued by commercial banks.

As of the end of the reporting period, the share of bond holdings was 50.0%. Of these, 99.7% of enterprise bonds and financial bonds issued by non-government-sponsored banks had an issuer or debt rating of AA/A-1 or above. We adhered to prudent investment, and exercised stringent control of credit risk. Our corporate/enterprise bond holdings were concentrated in transport infrastructure, power utilities, construction & engineering and industrial groups, with relatively strong competitiveness, stable business performances and resilience across economic cycles. For bond investment, we have put in place comprehensive risk management and a sound delegation system with approval procedures, focusing on risk control before transactions to ensure effective management of credit risk. In response to rising defaults and market volatility, we've strengthened the mechanism for post-investment monitoring and tracking to enhance the early-warning system.

The share of equity investments stood at 12.3%, down by 1.7pt from the end of 2015. Of this, equity securities and equity funds accounted for 5.3%, down by 1.7pt.

Overall, the credit risk on NSAs is under control, with underlying assets concentrated in the financing of infrastructure projects, real estate and non-bank financial institutions. As of the end of the reporting period, NSAs totaled RMB124.09 billion, up 20.4% from the end of 2015,

and accounting for 13.2% of our total Group in-house assets. We took effective measures to enhance the credit-worthiness of NSAs. Except for issuers which are exempt from enhancement requirements under regulatory regulations, the vast majority of our NSA holdings are covered by guarantees and repurchase agreements by companies with AAA ratings or pledge of assets. As of the end of the reporting period, for those NSAs with an external credit-rating, 99.9% were rated AA or above, and of this, 94.1% AAA.

2. By investment purposes

By investment purposes, our in-house assets are mainly in three categories, namely, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments as well as loans and other investments. Of this, financial assets at fair value through profit or loss rose 22.4% from the end of 2015, mainly because of increased allocation in financial products for trading. AFS financial assets grew by 18.6%, primarily due to increased investment in debt securities.

(II) Group consolidated investment income

For the reporting period, net investment income totaled RMB46.607 billion, up by 17.1% year-on-year. This stemmed mainly from higher interest income from fixed income investments and increased dividend income on equity securities. Net investment yield reached 5.4%, up by 0.2pt.

Total investment income amounted to RMB44.473 billion, down by 20.5%, mainly attributable to a steep fall in trading gains on equity securities, with total investment yield at 5.2%, down by 2.1pt.

The growth rate of investments' net asset value fell by 4.2pt to 4.0%, as a result of equity market volatility.

For 12 months ended 31 December	2016	2015	Changes (%)
			Unit: RMB million
Interest income from fixed income investments	37,523	36,274	3.4
Dividend income from equity securities ^{note 1}	8,508	2,937	189.7
Rental income from investment properties	576	588	(2.0)
Net investment income	46,607	39,799	17.1
Realized (losses)/gains	(930)	15,906	(105.8)
Unrealized (losses)/gains	(768)	52	(1,576.9)
Charge of impairment losses on investment assets	(965)	(282)	242.2
Other income ^{note 1, 2}	529	435	21.6
Total investment income	44,473	55,910	(20.5)
Net investment yield (%) ^{note 1, 3}	5.4	5.2	0.2pt
Total investment yield (%) ^{note 3}	5.2	7.3	(2.1pt)
Growth rate of investments' net asset value (%) ^{notes 3, 4}	4.0	8.2	(4.2pt)

Notes:

1. Figures for the same period last year have been restated.

2. Other income includes interest income on cash and short-term time deposits, securities purchased under agreements to resell, share of profit in equity accounted investees and investment income through the step acquisition of a subsidiary, etc.

3. The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets as the denominator in the calculation of net/total investment yield and growth rate of investments'

net value are computed based on the Modified Dietz method.

4. Growth rate of investments' net asset value = total investment yield + net of fair value changes of AFS booked as other comprehensive (loss)/income/average investment assets.

(III) Total investment yield on a consolidated basis

For 12 months ended 31 December	2016	2015	Unit: % Changes
Total investment yield	5.2	7.3	(2.1pt)
Fixed income investments ^{note 1}	5.2	5.6	(0.4pt)
Equity investments ^{note 1, 2}	4.7	20.0	(15.3pt)
Investment properties ^{note 1}	8.8	9.5	(0.7pt)
Cash, cash equivalents and others ^{note 1}	1.8	1.8	-

Notes:

1. The impact of securities sold under agreements to repurchase was not considered.
2. Figures for the same period last year have been restated.

III. Third-party AuM

(I) Third-party AuM by CPIC AMC

CPIC AMC, in line with the Group's customer-oriented transformation initiative, strives to build itself into an asset manager with market-mechanisms, targeting China's wealth management market while leveraging the Group resources. It's committed to fostering core business capabilities such as investment, product design, distribution, customer service and risk control in a bid to grow its third-party business. As of the end of the reporting period, its third-party AuM rose by 12.1% from the end of 2015, reaching RMB167.837 billion, with a fee income of RMB416 million, up 11.5% versus 2015.

In alternative investments, in the face of lower interest rates, the scarcity of high quality assets and rising credit risk in certain industries, CPIC AMC continued to serve China's real economy, focusing on government sponsored projects in infrastructure, community resettlement and affordable housing. In particular, it gave priority to co-operation with financing platforms of major cities and economically-developed regions, enhancing co-operation with SOEs with stable sector outlook and closely tracking potential business opportunities emerging from the recovery of certain industries in the context of China's supply-side reform. In 2016, it registered a total of 11 alternative products, raising RMB21.771 billion. As of the end of 2016, its third-party alternative AuM amounted to RMB71.7 billion.

As for third-party asset management products, while improving existing offerings, CPIC AMC leveraged its edge in investment capability and strategies to step up product innovation. It launched a series of equity-based products which are mostly senior tranche of structured funds and convertible bonds, liquidity management products with a good balance between liquidity and yields, equity-based total return products with manageable risks and "universal" equity products. It also studied the feasibility of issuing products under the "Hong Kong Stock Market

Connect Program”. Besides, the Company launched a number of private placement, quantitative hedge and multiple strategy products.

(II) Assets under investment management by Changjiang Pension

In 2016, in the face of opportunities and challenges against the backdrop of the reform of China’s pension system and rapid market development, Changjiang Pension leveraged Group resources, deepened reform of institutions and mechanisms, stepped up capacity-building and product innovation, vigorously expanded its business scope, considerably improved its investment performances, continued to enhance operational efficiency and services, strengthened risk management in an all-around way and delivered sustained growth of assets under investment management.

In government-sponsored business, the Company qualified as the investment manager of China’s social security pension funds, marking a breakthrough in “the first pillar” of the country’s pension system. It continued to improve co-operation mechanisms with CPIC Life and CPIC P/C, and established 30 “Pacific-Changjiang Business Co-operation Centers” to pave the way for the occupational annuity business. In enterprise annuity, the Company delivered impressive results in the renewal of existing customers and acquired a number of major clients in its development of new business. In retirement plans, Changjiang Pension vigorously pushed forward its employee ownership product, with cumulative AuM ranking 3rd in the industry. It also made great efforts to grow the individual retirement plan business, and continued to enhance co-operation with internet platforms. In insurance asset management, the Company stepped up innovation, engaging for the first time in third-party investment outsourcing from banks, insurance companies and insurance security fund. In alternative investment, the Company registered RMB29 billion in debt investment plans, ranking 2nd in the industry, with marked improvement in competitiveness and market share.

As of the end of the reporting period, Changjiang Pension’s third-party assets under investment management reached RMB125.775 billion, rising by 50.3% from the end of 2015, with assets under custody of RMB70.336 billion, up 15.6% from the end of 2015.

Analysis of Specific Items

I. Key consolidated results

Unit: RMB million

	31 December 2016/Year 2016	31 December 2015/Year 2015	Changes (%)	Main Reasons
Total assets	1,020,692	923,843	10.5	Business expansion
Total liabilities	885,929	788,161	12.4	Business expansion

Total equity	134,763	135,682	(0.7)	Profit for the period, fair value change on available-for-sale financial assets
Net profit attributable to equity holders of the parent	12,057	17,728	(32.0)	Decrease in investment yield and change to traditional life insurance reserve discount rate

II. Liquidity analysis

(I) Cash flow statement

For 12 months ended 31 December	2016	2015	Changes (%)
Net cash inflow from operating activities	63,138	40,895	54.4
Net cash outflow from investing activities	(43,929)	(38,554)	13.9
Net cash (outflow)/inflow from financing activities	(7,085)	7,746	(191.5)

Unit: RMB million

(II) Gearing ratio

	31 December 2016	31 December 2015	Changes
Gearing ratio (%)	87.1	85.6	1.5pt

Note: Gearing ratio = (total liabilities + non-controlling interests)/total assets.

(III) Liquidity analysis

We centralize liquidity management including that of our subsidiaries at the Group level. As the parent company, our cash flows mainly stem from dividends from our subsidiaries and gains from our own investment activities.

Our liquidity mainly comes from premiums, investment income, sales or maturity of financial assets and cash from financing activities. The demand for liquidity primarily arises from surrenders, withdrawals or other forms of earlier termination of insurance policies, insurance claims or benefit pay-outs, payment of dividends to shareholders and cash required for daily operation.

We usually record net cash inflows from our operating activities due to growing premium income. Meanwhile, adhering to ALM, and in line with our SAA, we would maintain an appropriate level of allocation in highly liquid assets to meet liquidity requirement.

Financing abilities also form a major part of our liquidity management. We have access to additional liquidity through securities repurchase arrangement and other financing arrangements.

We believe that our current liquidity level is sufficient for our needs in the foreseeable future.

III. Solvency

We calculate and disclose our core capital, actual capital, minimum required capital and solvency margin ratio in accordance with requirements by CIRC. The solvency margin ratio of domestic insurance companies in the PRC shall meet certain prescribed levels as stipulated by CIRC.

Unit: RMB million

	31 December 2016	31 December 2015	Reasons of change
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CPIC Group			
Core capital	280,012	255,940	
Actual capital	285,512	264,540	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	97,247	88,419	Growth of insurance business
Core solvency margin ratio (%)	288	289	
Comprehensive solvency margin ratio (%)	294	299	
CPIC Life			
Core capital	213,017	192,824	
Actual capital	214,517	197,424	Profit for the period, profit distribution to the shareholders, and change of fair value of investment assets
Minimum required capital	83,516	75,295	Growth of insurance business
Core solvency margin ratio (%)	255	256	
Comprehensive solvency margin ratio (%)	257	262	
CPIC P/C			
Core capital	34,702	33,146	
Actual capital	38,702	37,146	Profit for the period, profit distribution to the shareholders, and change of fair value of investment assets
Minimum required capital	13,069	13,016	Growth of insurance business
Core solvency margin ratio (%)	266	255	
Comprehensive solvency margin ratio (%)	296	285	
CPIC Allianz Health			
Core capital	741	912	
Actual capital	741	912	
Minimum required capital	122	46	Growth of insurance business
Core solvency margin ratio (%)	607	1,971	
Comprehensive solvency margin ratio (%)	607	1,971	
Anxin Agricultural			
Core capital	1,389	893	
Actual capital	1,389	893	Profit for the period, profit distribution to shareholders, capital injection and change of fair value of investment assets
Minimum required capital	469	404	Growth of insurance business
Core solvency margin ratio (%)	296	221	
Comprehensive solvency margin ratio (%)	296	221	

Please refer to the summaries of 2016 the fourth quarterly solvency reports published on the websites of SSE (www.sse.com.cn), SEHK (www.hkexnews.hk) and the Company (www.cpic.com.cn) for information about the solvency of CPIC Life, CPIC P/C, CPIC Allianz Health and Anxin Agricultural.

IV. Price sensitivity analysis

Sensitivity analysis of price risk

The following table shows the sensitivity analysis of price risk, i.e. the impact^{note 1} of fair value changes of all equity assets^{note 2} in the case of a 10% change in stock prices as at the end of the reporting period on our total profits and shareholders' equity (assuming the fair value of equity

assets^{note 2} moves in proportion to stock prices), other variables being equal.

Unit: RMB million

Market value	Year 2016 / 31 December 2016	
	Impact on profit before tax	Impact on equity
+10%	484	3,575
-10%	(484)	(3,575)

Notes:

1. After policyholder participation.

2. Equity assets do not include bond funds, money market funds, wealth management products, preferred shares and other equity investments.

V. Insurance contract liabilities

Insurance contract liabilities include unearned premium reserves, claim reserves and long-term life insurance contract liabilities. All three are applicable in life insurance business, while only the first two are applicable in property and casualty insurance.

As at 31 December 2016, insurance contract liabilities of CPIC Life amounted to RMB620.583 billion, representing an increase of 13.1% from the end of 2015. Those of CPIC P/C amounted to RMB72.143 billion, basically the same level as that of the end of 2015. The rise in insurance contract liabilities was mainly caused by business expansion and accumulation of insurance liabilities.

We also tested the adequacy of reserves at the balance sheet date. Testing results showed that reserves set aside for each type of insurance contracts were sufficient and no additional provision was required.

Unit: RMB million

	31 December 2016	31 December 2015	Changes (%)
CPIC Life			
Unearned premiums	2,469	2,094	17.9
Claim reserves	2,067	1,604	28.9
Long-term life insurance contract liabilities	616,047	545,127	13.0
CPIC P/C			
Unearned premiums	38,207	37,606	1.6
Claim reserves	33,936	34,541	(1.8)

VI. Investment contract liabilities

Investment contract liabilities mainly cover the non-insurance portion of insurance contracts, and those contracts which fail to pass the testing of significant insurance risk.

Unit: RMB million

	31 December 2015	Increase for the period			Decrease for the period		31 December 2016
		Deposit received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	40,033	13,050	1,803	112	(6,010)	(192)	48,796

VII. Reinsurance business

In 2016, premiums ceded to reinsurers are shown below:

			Unit: RMB million
For 12 months ended 31 December	2016	2015	Changes (%)
CPIC Life	2,140	1,864	14.8
Traditional insurance	1,579	1,484	6.4
Long-term health insurance	1,067	1,090	(2.1)
Participating insurance	219	238	(8.0)
Universal insurance	6	2	200.0
Short-term accident and health insurance	336	140	140.0
CPIC P/C	12,203	11,989	1.8
Automobile insurance	6,115	5,943	2.9
Non-automobile insurance	6,088	6,046	0.7

In 2016, premiums ceded inwardly are set out below:

			Unit: RMB million
For 12 months ended 31 December	2016	2015	Changes (%)
CPIC P/C	124	177	(29.9)
Automobile insurance	1	-	/
Non-automobile insurance	123	177	(30.5)

As at the end of 2016, assets under reinsurance are set out below:

			Unit: RMB million
	31 December 2016	31 December 2015	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	118	65	81.5
Claim reserves	72	15	380.0
Long-term life insurance contract liabilities	9,173	7,743	18.5
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	4,481	4,304	4.1
Claim reserves	6,579	6,442	2.1

We determine retained insured amounts and reinsurance ratio according to insurance regulations and our business development needs. To lower the concentration risk of reinsurance, we also entered into reinsurance agreements with various leading international reinsurance companies. The criteria for the selection of reinsurance companies include their financial strength, service level, insurance clauses, claims settlement efficiency and price. Generally speaking, only domestic reinsurance companies with proven records or international reinsurance companies of ratings of A- or above would qualify as our reinsurance partners. Besides China Reinsurance (Group) Corporation and its subsidiaries, i.e, China Life Reinsurance Company Ltd., and China Property & Casualty Reinsurance Company Ltd., our reinsurance partners also include international giants like Swiss Reinsurance Company (瑞士再保險公司) and Munich Reinsurance Company (慕尼黑再保險公司).

VIII. Main subsidiaries & associates and equity participation

Unit: RMB million

Company	Main business scope	Registered capital	Group shareholding ^{note 2}	Total assets	Net assets	Net profit
China Pacific Life Insurance Co., Ltd.	Personal insurance including life insurance, health insurance, accident insurance, etc. denominated in RMB or foreign currencies; reinsurance of the above said insurance; statutory life insurance; agency and business relationships with domestic and overseas insurers and organizations, loss adjustment, claims and other business entrusted from overseas insurance organizations; insurance funds investment as prescribed by Insurance Law of the PRC and relevant laws and regulation; international insurance activities as approved; other business as approved by the CIRC.	8,420	98.292%	850,195	66,681	8,542
China Pacific Property Insurance Co., Ltd.	Property insurance; liability insurance; credit and guarantee insurance; short term health insurance and casualty insurance; reinsurance of the above said insurance; insurance funds investment as approved by relevant laws and regulations; other business as approved by the CIRC.	19,470	98.501%	131,581	35,241	4,540
Pacific Asset Management Co. Ltd.	Management of capital and insurance funds, outsourcing of asset management, consulting	1,300	99.667%	2,664	2,185	306

	services relating to asset management, and other asset management business as allowed by the PRC laws and regulations					
Changjiang Pension Insurance Co., Ltd.	Group pension and annuity business; individual pension and annuity business; short-term health insurance; accident insurance; reinsurance of the aforementioned business; outsourced money management business denominated in RMB or foreign currencies for the purpose of elderly provisions; other business pertaining to insurance fund management as allowed by PRC laws and regulations; other business as approved by CIRC	788	50.869%	1,220	941	96
Anxin Agricultural Insurance Co., Ltd.	Agricultural insurance; property damage insurance; liability insurance; statutory liability insurance; credit and guarantee insurance; short term health insurance and casualty insurance; countryside and farmer related property insurance; reinsurance of the above said insurance; insurance funds investment as approved by relevant laws and regulations;	700	51.348%	2,646	1,294	116
CPIC Allianz Health Insurance Co., Ltd.	Health insurance, accident insurance denominated in RMB or foreign currencies and health insurance sponsored by the government or supplementary to state	1,000	77.051%	1,444	780	(145)

	<p>medical insurance policies; reinsurance of the above said insurance; health insurance-related distribution and consulting business; insurance funds investment as approved by relevant laws and regulations; other business as approved by the CIRC.</p>					
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Notes:

1. Figures for companies in the table are on an unconsolidated basis.
2. Figures for Group shareholding include direct and indirect shareholdings.

IX. Top five customers and customer relations

During the reporting period, the top 5 customers accounted for 0.4% of the Company’s GWPs. The Company does not have any supplier that is specific to its business given the business nature of the Company.

In 2016, we continued to implement the customer-oriented transformation initiative, which seeks to understand customer needs, improve customer interfaces and enhance customer experience, and have maintained good relations with customers.

X. Seizure, attachment, and freeze of major assets or their pledge as collateral

The Company’s assets are mainly financial assets. The repurchase of bonds forms part of the Company’s day-to-day securities investment activities, and as of the end of the reporting period, no abnormality was detected.

XI. Employee engagement and environmental policies

For employee engagement and environmental policies, please refer to the section “Report of the Board of Directors and significant events” of the annual report of the Company.

OUTLOOK

I. Market environment

The year 2017 will see further deepening of China’s supply-side reform, and “achieving progress amid steadiness” will be government’s guiding principle. Therefore, we can reasonably expect a largely stable economic growth in 2017, with more balanced mix and more pronounced features of “the new normal”. This offers ample room of development for

the insurance industry. To be more specific, people's demand for diversified protection and wealth management solutions will continue to grow. On the one hand, mid and high income people are becoming insurance consumers, underpinning strong demand growth. Personalized and diversified insurance consumption will be the mainstream. On the other hand, governments are increasingly using insurance to improve public administration. The state has been pushing for mandatory liability insurance, terminal illness schemes, catastrophe insurance to promote innovation in modes of social management. The government has also been pushing for the pilot program of tax-deferred pension plans, the integration of the pension system and the launch of pilot program of long-term care insurance, which highlights a bigger role insurance can play in improving the quality of economic growth, people's well-being and social administration. The insurance regulator upholds the basic value proposition of insurance and adheres to its mandate as the industry regulator. It has been deepening market-based reform, improving market rules, enhancing insurance supply and safeguarding market discipline and order, in order to strengthen the sector's capability in serving China's social and economic development.

II. Business plans

In 2017, we will continue to uphold protection as the unique insurance value proposition and further deepen supply-side reform. In the context of our 3-year development program, we will focus on value creation, innovate supply, improve customer service, enhance risk control and implement the digital strategy to lower cost, enhance efficiency, and promote collaboration between business segments in a bid to drive sustainable value growth.

Focusing on value creation means adherence to the basic value proposition of insurance, staying focused on the core business of insurance to deliver sustainable value growth. It also requires news drivers of growth, and in particular, maintaining the NBV margin, improving the combined ratio and deepening ALM.

Innovating supply makes it necessary for us to implement the digital strategy, and in particular, digitalize customer journeys and business management processes to improve the supply of products and services. To this end, we will make investment in new areas, new technologies and new business models to promote collaborative development.

By **improving service** we mean continued efforts in customer segmentation to better support differentiation in marketing and customer service. We will increase value per customer and the share of high-quality customers, expand into new areas such as mid and high-end customers and SMEs. We will also roll our differentiated measures for serving high-quality

customers, optimizing key customer journeys in order to enhance customer experience and improve the Company's ranking in customer service evaluation.

Enhancing risk control calls for prevention of material risks in a complicated market environment. To this end, we will continue to strengthen "the 3 lines of defense" internal control system, improve long-term mechanism for risk prevention and in particular, focus on the prevention of major cases of breach and internal frauds.

We seek to maintain market leadership in NBV growth via both new customer acquisition and up-sell. On the side of property and casualty business, we will continue to control business quality, enhance foundation to drive long-term growth, while narrowing the gap in the combined ratio. As for asset management, the priority is to enhance our value proposition for customers to drive sustained growth of AuM. In health and pension business, we'll put in place a group-level management platform to promote collaborative development.

III. Major risks and mitigating measures

One is the high frequency of natural catastrophes. In 2017, we will continue to face the challenge of natural disasters caused by extreme weather, and major artificial accidents. Second is the volatility of the financial market triggered by "black swans", which means uncertainty for investment income. Third is the potential impact of fin-tech, which is increasingly re-shaping financial innovation and the market competitive landscape. While instilling vitality and change into the traditional financial services industry, it may also be a potentially disruptive force.

To mitigate these risks, we will make sound reinsurance arrangements, deepen ALM to improve SAA and implement the digital strategy.

Change in accounting estimates

When measuring the insurance contract liabilities and other policy-related liabilities, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expense assumptions and policy dividend assumptions based on information currently available as at the balance sheet date.

As at 31 December 2016, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2016 by approximately RMB9.292 billion and a decrease in profit before tax for 2016 by approximately RMB9.292 billion.

Embedded Value

Summary of embedded value and value of one year's sales

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2016, and the value of one year's sales of CPIC Life in the 12 months to 31 December 2016 at a risk discount rate of 11%.

Unit: RMB Million

Valuation Date	31 December 2016	31 December 2015
Group Adjusted Net Worth	144,651	115,065
Adjusted Net Worth of CPIC Life	78,556	59,785
Value of In Force Business of CPIC Life Before Cost of Required Capital Held	113,727	109,259
Cost of Required Capital Held for CPIC Life	(10,680)	(17,127)
Value of In Force Business of CPIC Life After Cost of Required Capital Held	103,048	92,132
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Required Capital Held attributable to the shareholders of CPIC Group	101,288	90,559
Group Embedded Value	245,939	205,624
CPIC Life Embedded Value	181,603	151,918

Valuation Date	31 December 2016	31 December 2015 (restated)	31 December 2015
Value of One Year's Sales of CPIC Life Before Cost of Required Capital Held	23,151	14,893	14,180
Cost of Required Capital Held	(4,109)	(2,723)	(2,158)
Value of One Year's Sales of CPIC Life After Cost of Required Capital Held	19,041	12,170	12,022

Notes:

1. Figures may not be additive due to rounding
2. Results in column "31 December 2015" are those reported in the 2015 annual report
3. Results in column "Restated" are the 2015 value of one year's sales restated for adopting "Appraisal of Embedded Value" standard and 2016 economic assumptions.

The Group Adjusted Net Worth represents the shareholder net equity of the Company based on the China Accounting Standards, inclusive of adjustments of the value of certain assets to market value and adjusted for the relevant differences, such as difference between China Accounting Standards reserves and policy liabilities valued under "Appraisal of Embedded Value" standard published by the CAA. It should be noted that the Group Adjusted Net Worth incorporates the shareholder net equity of the Company as a whole (including CPIC Life and other operations of the Company), and the value of in force business and the value of one year's sales are of CPIC Life only. The Group Embedded Value also does not include the value of in force business that is attributable to minority shareholders of CPIC Life.

New business volumes and value of one year's sales

The table below shows the volume of new business sold in terms of first year annual premium and value of one year's sales of CPIC Life after cost of required capital held at a risk discount rate of 11% for year 2016.

Unit: RMB Million

	First Year Annual Premium (FYAP)		Value of One Year's Sales After Cost of Required Capital Held	
	2016	2015	2016	2015 (restated)
Total	57,816	41,194	19,041	12,170
Of which: Traditional	21,312	7,930	10,026	4,637
Participating	20,539	22,275	8,627	7,354

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2015 to 31 December 2016.

Unit: RMB millions

No.	Item	Value	Comments
1	Embedded Value of the life business at 31 December 2015	151,918	
2	Restatement for applying "Appraisal of Embedded Value" standard	7,553	
3	Expected Return on Embedded Value	14,082	Expected returns on the 2015 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2016
4	Value of One Year's Sales	19,041	Value of one year's sales in respect of new business written in the 12 months prior to 31 December 2016
5	Investment Experience Variance	(967)	Reflects the difference between actual and assumed investment return in 2016
6	Operating Experience Variance	509	Reflects the difference between actual and assumed operating experience
7	Change in methodology, assumptions and models	(5,090)	Reflects assumption and methodology changes, together with model enhancements
8	Diversification effects	4,145	Changes in diversification benefits on cost of required capital from new business and different business mix
9	Change in market value adjustment	(1,391)	Reflects the change in value of certain assets not valued on a market value basis
10	Shareholder Dividends	(8,420)	Shareholder dividends distributed to

		shareholders of CPIC Life
11	Others	224
12	Embedded Value of the life business at 31 December 2016	181,603
13	Adjusted net worth of businesses other than CPIC Life as at 31 December 2015	57,319
14	Restatement for applying "Appraisal of Embedded Value" standard	9,295
15	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	12,479
16	Shareholder dividends	(9,235)
		Dividend distributed to shareholders of CPIC Group
17	Change in market value adjustment	(542)
		Reflects the change in value of assets not valued on a market value basis
18	Adjusted net worth of businesses other than CPIC Life as at 31 December 2016	69,315
19	Minority interests relating to equity and market value adjustments	(4,979)
		Minority interests on Embedded Value as at 31 December 2016
20	Group Embedded Value as at 31 December 2016	245,939
21	Embedded Value as at 31 December 2016 per share (RMB)	27.14

Compliance with Corporate Governance Code

During the reporting period, the Company was in compliance with all code provisions and the majority of the recommended best practices of Corporate Governance Code.

Purchase, redemption or sale of the Company's listed securities

During the year ended 31 December 2016, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

Proposed final dividend

On 29 March 2017, the Board recommended a final dividend of RMB0.70 per share (including tax) for the year ended 31 December 2016, amounting to approximately RMB6.343 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2016 annual general meeting of the Company ("AGM"). If approved, it is expected that the payment of the final dividend will be made on or about Wednesday, 16 August 2017 to the shareholders.

Withholding of dividend income tax

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (PRC) and its implementation rules enacted in 2008, the Company is required to withhold and pay 10% of corporate income tax when it distributes the final dividend to H Share shareholders eligible for the proposed final dividend.

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC and its implementation rules and confirmed by the relevant tax authorities in the PRC after consulting with them by the Company, the Company will withhold and pay individual income tax at the tax rate of 10% when it distributes the final dividend to H Share shareholders eligible for the proposed final dividend. However, if it is otherwise stated in the tax regulations and relevant tax treaties, the Company will withhold and pay individual income tax in accordance with the required tax rate and procedures set out in the relevant regulations and treaties. If the applicable dividend tax rate is less than 10%, the individual H Share shareholders are entitled to apply for refund of the over-deducted amount on their own or appoint an agent to act on their behalf according to the tax treaty entered into between their countries of domicile and the PRC and the regulations of the relevant PRC tax authorities.

The Company will withhold and pay the enterprise income tax as well as the individual income tax as required by law. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share shareholders or any disputes over the withholding and payment mechanism or arrangements.

Withholding of Income Tax for Holders of H Shares via the Hong Kong Stock Connect

Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81 號)) promulgated on 17 November 2014:

- In respect of the dividends received by Mainland individual investors who invest in the H shares of the Company via the Shanghai-Hong Kong Stock Connect Program, the Company will withhold individual income tax at the rate of 20%. Individual investors may, by producing valid tax payment proofs, apply to the competent tax authority of China Securities Depository and Clearing Company Limited for tax credit relating to the

withholding tax already paid abroad. In respect of the dividends received by Mainland securities investment funds that invest in the H shares of the Company via the Shanghai-Hong Kong Stock Connect Program, the Company will withhold individual income tax in the same way as the foregoing requirements;

- In respect of the dividends received by Mainland corporate investors that invest in the H shares of the Company via the Shanghai-Hong Kong Stock Connect Program, the Company will not withhold any income tax from the dividend and the Mainland corporate investors shall file the tax returns on their own.

Withholding of Income Tax for Holders of A Shares via the Shanghai Stock Connect

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A shares of the Company listed on the Shanghai Stock Exchange (the “Shanghai Stock Connect”), the dividends received by them will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such A shares. Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), the Company will withhold income tax at the rate of 10% on behalf of those investors and will undertake the reporting procedures on the tax withholding and payment with the tax authorities, and the after-tax cash dividend will be RMB0.63 per share. For investors of Shanghai Stock Connect who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the amount paid in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

All investors should read this announcement carefully. Shareholders are recommended to consult their tax advisors on the PRC, Hong Kong and other tax effects regarding their holding and disposing of H shares of the Company.

The eligibility for attending the AGM and eligibility for proposed final dividend and closure of H share register of members

The Company will announce further details in relation to the eligibility for attending the AGM, the eligibility for the proposed final dividend and the closure of register of member for H Shares after the arrangement of AGM is finalized.

The Company will announce details on A Share shareholders' qualification for attending the annual general meeting and the payment of the final dividend for the year 2016 to A Share shareholders on the Shanghai Stock Exchange.

Review of accounts

The audit committee of the Company has reviewed the principal accounting policies of the Group and the audited financial statements for the year ended 31 December 2016 in the presence of internal and external auditors.

Publication of results on the websites of the Hong Kong Stock Exchange and the

Company

The annual report of the Company for the year ended 31 December 2016 will be dispatched to shareholders in due course and will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.cpic.com.cn).

Definitions

"The Company", "the Group",	China Pacific Insurance (Group) Co., Ltd.
"CPIC" or "CPIC Group"	
"CPIC Life"	China Pacific Life Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC P/C"	China Pacific Property Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC AMC"	Pacific Asset Management Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC HK"	China Pacific Insurance Co., (H.K.) Limited, a wholly-owned subsidiary of China Pacific Insurance (Group) Co., Ltd.
"Changjiang Pension"	Changjiang Pension Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC Online"	Pacific Insurance Online Services Technology Co., Ltd., a wholly-owned subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC AII"	Pacific Insurance Aging Industry Investment Management Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"Anxin Agricultural"	Anxin Agricultural Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.

“CPIC Allianz Health”	CPIC Allianz Health Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
“New Guo Shi Tiao”	Several Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry
“C-ROSS”	China Risk Oriented Solvency System
“CIRC”	China Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“SSE”	Shanghai Stock Exchange
“SEHK”	The Stock Exchange of Hong Kong Limited
“PRC GAAP”	China Accounting Standards for Business Enterprises issued by Ministry of Finance of the People's Republic of China, and the application guide, interpretation and other related regulations issued afterwards
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi
“pt”	Percentage point

By Order of the Board

China Pacific Insurance (Group) Co., Ltd.

GAO Guofu

Chairman

Hong Kong, 29 March 2017

As of the date of this announcement, the Executive Directors of the Company are Mr. GAO Guofu and Mr. HUO Lianhong; the Non-executive Directors of the Company are Mr. WANG Jian, Mr. WANG Chengran, Ms. SUN Xiaoning, Mr. WU Jumin, Mr. WU Junhao, Mr. ZHENG Anguo and Ms. HA Erman; and the Independent Non-executive Directors of the Company are Mr. BAI Wei, Mr. LEE Ka Sze, Carmelo, Mr. LAM Chi Kuen, Mr. ZHOU Zhonghui and Mr. GAO Shanwen.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

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Independent Auditor's Report

To the Shareholders of China Pacific Insurance (Group) Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 8 to 126, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Key Audit Matters

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

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

- Valuation of life insurance contract liabilities
- Valuation of non-life insurance contract liabilities
- Valuation of level 3 investments

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of life insurance contract liabilities</p> <p>Refer to note 2.2(23) Summary of principal accounting policies – Insurance contracts liabilities and note 39 Insurance contracts liabilities.</p> <p>Refer to note 3.2 (1) Estimation uncertainty- Valuation of insurance contract liabilities.</p> <p>The Group had significant life insurance contract liabilities stated at RMB 616 billion as at December 31, 2016, representing 70% of the Group’s total liabilities.</p> <p>The valuation of life insurance contract liabilities involves complex models and a high degree of judgement by management in setting the assumptions. The key assumptions used in measuring life insurance contract liabilities include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), loss ratios, surrender rates, expense and policy dividend, etc.</p> <p>We focused on this area due to the significant quantum amount of life insurance contract liabilities to the consolidated financial statements and because the relevant key assumptions applied in valuation involved significant judgements and estimates.</p>	<p>With the assistance of our actuarial experts, we performed the audit procedures listed below.</p> <ul style="list-style-type: none"> • We evaluated and tested the internal controls over the actuarial process including management’s determination and approval process for actuarial assumptions setting, data collection and analysis, and actuarial models change. • We tested the actuarial models of certain products considering the coverage of different channels, lines of business and amount of liabilities. We performed independent modelling on selected actuarial models and checked the best estimate liabilities, risk margin and residual margin respectively at the point of policy issuance and evaluation. • We challenged key actuarial assumptions such as discount rates, mortality, morbidity, loss ratios, surrender rates, expense assumptions and policy dividend assumptions considering management’s rationale for the actuarial judgments applied along with comparison to the Group’s historical data and applicable industry experiences. • We evaluated the overall reasonableness of the life insurance contract liabilities by performing variation and movement analysis to check the impact of key changes and compare actual results to expected results. <p>Based on our audit work, we found the methodologies applied to be appropriate and the key assumptions adopted to be supportable by the evidence we gathered.</p>

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of non-life insurance contract liabilities</p> <p>Refer to note 2.2(23) Summary of principal accounting policies – Insurance contracts liabilities and note 39 Insurance contracts liabilities.</p> <p>Refer to note 3.2 (1) Estimation uncertainty- Valuation of insurance contract liabilities.</p> <p>The Group had claim reserves which included non-life insurance contract liabilities stated at RMB 37 billion at December 31, 2016, representing 4% of the Group’s total liabilities.</p> <p>We focused on this area because the valuation of claim reserves involved a high degree of judgement by management in selecting the models and setting the assumptions including the development of paid and incurred losses and ultimate loss ratios.</p>	<p>With the assistance of our actuarial experts, we performed the audit procedures listed below.</p> <p>We evaluated and tested the internal controls over data collection and analysis and the assumptions setting processes.</p> <p>We performed independent modelling analysis for claim reserves as follows:</p> <ul style="list-style-type: none"> • We compared the underlying data used in the valuation models to the source systems, including earned premiums to accounting records and reported claims to the claims system. • We set up the actuarial assumptions such as claims development and loss ratio, considering both the Group’s historical data and applicable industry experiences. • We evaluated the overall reasonableness of claim reserves by comparing the calculation result through independent modelling. <p>Based on our audit work, we found management judgements in the valuation of claim reserves to be supportable by the evidence we gathered.</p>

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of level 3 investments</p> <p>Refer to note 3.2(2) Estimation uncertainty – Fair values of financial assets and derivative financial instruments determined using valuation techniques and note 48 Fair Value Measurement.</p> <p>The Group’s investment measured at fair value that were classified in level 3 stated at RMB 19 billion as at December 31, 2016, representing 2% of the Group’s total assets.</p> <p>We focused on this area because level 3 investments were valued based on models and inputs/assumptions that are not observable by third parties. The valuation involved significant audit effort and management judgement.</p>	<p>We evaluated and tested the internal controls over the investment valuation process including management’s determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and choice for internally operated valuation models and management’s review of valuations provided by data vendors.</p> <p>With the assistance of our valuation experts, our audit work over the measurement of level 3 investments included:</p> <ul style="list-style-type: none"> • We assessed valuation model methodologies against industry practice and valuation guidelines. • We performed our own independent price checks using unobservable inputs from external sources where available for illiquid investments. • We compared assumptions used against appropriate public third party pricing sources such as public stocks price and bond yields. <p>Based on our audit work, we found that the valuation methodologies applied were consistent with industry practice and that the inputs and assumptions used were supportable by the evidence we gathered.</p>

Other Information

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

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

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

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

Responsibilities of Directors and 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LEUNG KWOK WAI, JIMMY.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2017

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2016	2015
Gross written premiums	6(a)	234,018	203,305
Less: Premiums ceded to reinsurers	6(b)	(13,649)	(13,405)
Net written premiums	6	220,369	189,900
Net change in unearned premium reserves		(796)	(524)
Net premiums earned		219,573	189,376
Investment income	7	43,879	55,287
Other operating income		2,629	2,300
Other income		46,508	57,587
Total income		266,081	246,963
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(40,779)	(49,490)
Claims incurred	8	(56,102)	(56,734)
Changes in long-term life insurance contract liabilities	8	(71,178)	(46,623)
Policyholder dividends	8	(7,735)	(7,054)
Finance costs	9	(2,444)	(2,640)
Interest credited to investment contracts		(1,803)	(1,436)
Other operating and administrative expenses		(69,973)	(58,710)
Total benefits, claims and expenses		(250,014)	(222,687)
Share of profit in equity accounted investees		18	35
Profit before tax	10	16,085	24,311
Income tax	14	(3,801)	(6,273)
Net profit for the year		12,284	18,038
Attributable to:			
Equity holders of the parent		12,057	17,728
Non-controlling interests		227	310
		12,284	18,038
Basic earnings per share	15	RMB1.33	RMB1.96
Diluted earnings per share	15	RMB1.33	RMB1.96

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

<u>Group</u>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Net profit for the year		12,284	18,038
Other comprehensive (loss)/income			
Exchange differences on translation of foreign operations	16	32	23
Available-for-sale financial assets	16	(6,253)	4,070
Income tax relating to available-for-sale financial assets	16	1,566	(1,036)
Share of other comprehensive (loss)/income in equity accounted investees	16	(19)	9
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(4,674)	3,066
Other comprehensive (loss)/income for the year	16	(4,674)	3,066
Total comprehensive income for the year		<u>7,610</u>	<u>21,104</u>
Attributable to:			
Equity holders of the parent		7,490	20,736
Non-controlling interests		120	368
		<u>7,610</u>	<u>21,104</u>

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

<u>Group</u>	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
ASSETS			
Goodwill	17	962	962
Property and equipment	18	16,664	14,254
Investment properties	19	8,657	6,344
Other intangible assets	20	1,172	1,048
Prepaid land lease payments	21	56	57
Interests in associates	22	115	306
Investment in joint ventures	23	36	18
Held-to-maturity financial assets	24	304,874	310,343
Investments classified as loans and receivables	25	139,634	93,033
Restricted statutory deposits	26	6,078	5,938
Term deposits	27	132,226	154,398
Available-for-sale financial assets	28	258,711	218,062
Financial assets at fair value through profit or loss	29	27,204	22,251
Securities purchased under agreements to resell	30	21,138	14,691
Policy loans		27,844	19,610
Interest receivables	31	17,003	15,764
Reinsurance assets	32	20,141	18,257
Deferred income tax assets	33	1,382	80
Insurance receivables	34	12,267	8,091
Other assets	35	9,269	10,835
Cash and short-term time deposits	36	15,259	9,501
Total assets		<u>1,020,692</u>	<u>923,843</u>

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET (continued)
31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

<u>Group</u>	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	37	9,062	9,062
Reserves	38	83,930	86,546
Retained profits	38	38,772	37,728
Equity attributable to equity holders of the parent		131,764	133,336
Non-controlling interests		2,999	2,346
Total equity		<u>134,763</u>	<u>135,682</u>
Liabilities			
Insurance contract liabilities	39	693,826	621,079
Investment contract liabilities	40	48,796	40,033
Policyholders' deposits		75	75
Subordinated debts	41	11,498	19,497
Securities sold under agreements to repurchase	42	39,104	28,981
Deferred income tax liabilities	33	937	2,499
Income tax payable		3,145	2,974
Premium received in advance		22,326	17,265
Policyholder dividend payable		21,735	19,014
Payables to reinsurers		5,775	3,396
Other liabilities	43	38,712	33,348
Total liabilities		<u>885,929</u>	<u>788,161</u>
Total equity and liabilities		<u>1,020,692</u>	<u>923,843</u>

GAO Guofu
Director

HUO Lianhong
Director

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

Group	2016										
	Attributable to equity holders of the parent										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Share of other comprehensive income in equity accounted investees					
At 1 January 2016	9,062	66,742	4,171	7,105	8,549	(40)	19	37,728	133,336	2,346	135,682
Total comprehensive income	-	-	-	-	(4,580)	32	(19)	12,057	7,490	120	7,610
Dividend declared ¹	-	-	-	-	-	-	-	(9,062)	(9,062)	-	(9,062)
Changes due to the step acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	706	706
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(173)	(173)
Appropriations to general reserves	-	-	-	1,287	-	-	-	(1,287)	-	-	-
Appropriations to surplus reserves	-	-	664	-	-	-	-	(664)	-	-	-
At 31 December 2016	9,062	66,742	4,835	8,392	3,969	(8)	-	38,772	131,764	2,999	134,763

¹ Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2015, amounting to RMB9,062 million (RMB1.00 per share).

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

Group	2015										
	Attributable to equity holders of the parent										Total equity
	Reserves							Retained profits	Total	Non-controlling interests	
Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Share of other comprehensive income in equity accounted investees					
At 1 January 2015	9,062	66,742	3,574	5,539	5,573	(63)	10	26,694	117,131	2,064	119,195
Total comprehensive income	-	-	-	-	2,976	23	9	17,728	20,736	368	21,104
Dividend declared ¹	-	-	-	-	-	-	-	(4,531)	(4,531)	-	(4,531)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(86)	(86)
Appropriations to general reserves	-	-	-	1,566	-	-	-	(1,566)	-	-	-
Appropriations to surplus reserves	-	-	597	-	-	-	-	(597)	-	-	-
At 31 December 2015	9,062	66,742	4,171	7,105	8,549	(40)	19	37,728	133,336	2,346	135,682

¹ Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2014, amounting to RMB4,531 million (RMB0.50 per share).

The accompanying notes form an integral part of these consolidated financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2016	2015
OPERATING ACTIVITIES			
Cash generated from operating activities	49	68,038	45,922
Income tax paid		(4,900)	(5,027)
Net cash inflow from operating activities		63,138	40,895
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(6,079)	(3,257)
Proceeds from sale of property and equipment, intangible assets and other assets		57	46
Purchases of investments, net		(83,467)	(73,981)
Acquisition of a subsidiary and other business entities, net		(132)	(27)
Proceeds from sale of a subsidiary and other business entities, net		2	-
Interest received		36,907	35,941
Dividends received from investments		8,627	3,054
Other cash receipts related to investing activities		163	-
Other cash payment related to investing activities		(7)	(330)
Net cash outflow from investing activities		(43,929)	(38,554)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		10,123	2,073
Repayment of borrowings		(8,002)	(187)
Interest paid		(1,859)	(2,111)
Dividends paid		(9,235)	(4,617)
Proceeds from NCI of consolidated structured entities		1,888	12,588
Net cash (outflow)/inflow from financing activities		(7,085)	7,746
Effects of exchange rate changes on cash and cash equivalents		81	63
Net increase in cash and cash equivalents		12,205	10,150
Cash and cash equivalents at beginning of year		24,192	14,042
Cash and cash equivalents at end of year		36,397	24,192
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		9,717	8,124
Time deposits with original maturity of no more than three months		4,633	439
Other monetary assets		909	938
Investments with original maturity of no more than three months		21,138	14,691
Cash and cash equivalents at end of year		36,397	24,192

The accompanying notes form an integral part of these consolidated financial statements.

(All amounts expressed in RMB million unless otherwise specified)

1. CORPORATE INFORMATION

China Pacific Insurance (Group) Co., Ltd. (the “Company”) was established in Shanghai, the People’s Republic of China (the “PRC”) in May 1991, under the original name of China Pacific Insurance Co., Ltd. Pursuant to the approval of the State Council of the PRC and Circular [2001] No. 239 issued by the China Insurance Regulatory Commission (the “CIRC”), the Company was restructured as a joint stock limited company in October 2001 with an issued capital of RMB2,006.39 million. The Company increased its issued capital to RMB6,700 million through issuing new shares to its then existing shareholders and new shareholders in 2002 and 2007.

In December 2007, the Company conducted a public offering of 1,000 million A shares in the PRC. Upon the completion of the A share offering, the issued capital was increased to RMB7,700 million. The Company’s A shares are listed on the Shanghai Stock Exchange and trading of its A shares commenced on 25 December 2007.

In December 2009, the Company conducted a global offering of overseas listed foreign shares (“H shares”). Upon the completion of the H share offering, the issued capital was increased to RMB8,600 million. The Company’s H shares are listed on the Hong Kong Stock Exchange and trading of its H shares commenced on 23 December 2009.

In November 2012, the Company conducted a non-public offering of 462 million H shares. Upon completion of the H share offering, the issued capital was increased to RMB9,062 million, which was approved by the CIRC in December 2012.

The authorized business scope of the Company includes investing in insurance enterprises, supervising and managing domestic and overseas reinsurance businesses of subsidiaries and utilizing funds, participating in global insurance activities upon approval. The principal activities of the Company and its subsidiaries (the “Group”) are property and casualty businesses, life insurance businesses, pension and annuity businesses, as well as asset management, etc.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

These 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 (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention other than financial instruments that have been measured at fair values and insurance contract liabilities that have been measured primarily based on actuarial methods. These consolidated financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(1) Changes in accounting policy and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's consolidated financial statements. Though in certain cases, giving rise to new or revised accounting policies, the adoption of these revised HKFRSs currently has had no significant impact on these consolidated financial statements.

HKFRS 11 Amendments	Accounting for acquisitions of interests in joint operations
HKAS 16 and HKAS 38 Amendments	Clarification of acceptable methods of depreciation and amortisation
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture
HKAS 27 Amendments	Equity method in separate financial statements
Annual improvements 2014	Amendments to a number of HKFRSs Issued from the 2012 – 2014 reporting cycle
HKAS 1 Amendments	Disclosure initiative

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

(2) New and revised standards not yet adopted

All HKFRSs that remain in effect which are relevant to the Group have been applied. The Group has not applied the following key new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements:

Amendments to HKAS 12	Income taxes ¹
Amendments to HKAS 7	Statement of cash flows ¹
HKFRS 15	Revenue from contracts with customers ²
HKFRS 9	Financial instruments ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

None of these HKFRS is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(2) New and revised standards not yet adopted (continued)

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through income statement. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI which are not recycled to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of HKFRS 9.

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is currently assessing the impact of HKFRS 15.

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that almost all operating leases will be accounted for on balance sheet for lessees, and the only optional exemptions are for certain short-term leases and leases of low-value assets. The standard replaces HKAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted but only in conjunction with adopting HKFRS 15 'Revenue from contracts with customers' at the same time. The Group is currently assessing the impact of HKFRS 16.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of these consolidated financial statements is set out below.

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2016. The financial statements of the subsidiaries for the purpose of preparing the consolidated financial statements are prepared for the same reporting period, using consistent accounting policies. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. However, when non-controlling interests arise through the non-controlling interest in consolidated structured entities, they are recognised as a liability reflecting the net assets of the consolidated entity. Losses within a subsidiary are attributed to the non-controlling interests even if this results in a deficit balance.

The acquisition of subsidiaries not under common control is accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

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 described in the accounting policy for subsidiaries below. The changes in the Company's ownership interest in a subsidiary that do not result in the change of control are accounted for as equity transactions (i.e., transactions between owners acting in their capacity as owners), whereby the carrying amounts of the non-controlling interests shall be adjusted to reflect the changes in their interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received shall be recognized directly in equity (as capital reserves). If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(2) Foreign currency translation

These consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement or other comprehensive income.

The functional currencies of certain overseas operations are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these overseas operations are translated into RMB at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences arising on the retranslation are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas operations are translated into RMB at the weighted average exchange rates for the period.

(3) Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(3) Subsidiaries (continued)

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

Structured entities include trust products, debt investment schemes, equity investment plans, asset backed plans and wealth management products, etc. Trust products, equity investment plans and asset backed plans are managed by affiliated or unaffiliated trust companies or asset managers and invest the funds raised in loans or equities of other companies. Wealth management products are managed by affiliated or unaffiliated asset managers and invest in negotiation deposits and public investment funds. Debt investment schemes are managed by affiliated or unaffiliated asset managers and their major investment objectives are infrastructure and real estate funding projects. Trust products, debt investment schemes, equity investment plans, asset backed plans and wealth management products finance their operations by signing contracts and entitle the holders to a proportional stake in the respective trust products', debt investment schemes', equity investment plans', asset backed plans' and wealth management products' income. The Group holds contracts in each of its trust products, debt investment schemes, equity investment plans, asset backed plans and wealth management products.

(4) Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(4) Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates and joint ventures are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

(5) Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it reassesses all assets and liabilities acquired to determine their classification or designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. However, no reclassification of leases and insurance contracts is required for business combination unless the contractual terms are modified at the acquisition date.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss. Any related amount that was previously recognised in other comprehensive income shall be reclassified to profit or loss.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognised as measurement period adjustments if new information is obtained about facts and circumstances that existed as of the acquisition date. If the contingent consideration is classified as equity, it will not be remeasured and its subsequent settlement will be accounted for within equity.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (groups of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the income statement.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(6) 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 its parent.

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) 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);
 - (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).

(7) Property and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	1.39% to 4.04%
Motor vehicles	12.13% to 32.33%
Office furniture and equipment	10% to 33.33%
Leasehold improvements	Over the shorter of the lease terms and 20%

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(7) Property and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each year end.

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.

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

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

(8) Investment properties

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

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment loss.

Depreciation is computed on the straight-line basis over the estimated useful life. The estimated useful life of the investment properties is 30 to 70 years.

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

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

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(9) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each year end. Intangible assets are amortised over their estimated useful lives of three to ten years.

(10) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

(11) Investments and other financial assets

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 financial assets, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognized 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 receipt or delivery of assets within the period generally established by regulation or convention in the marketplace.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. 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 also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for “Revenue recognition” below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise different kinds of account receivables, policy loans, term deposits, investments classified as loans and receivables, restricted statutory deposits and securities purchased under agreements to resell. After initial measurement, such assets are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in the income statement as “Investment income” when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in the income statement as “Investment income” when the investments are derecognized or impaired, as well as through the amortization process.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserves until the investments are derecognized or until the investments are determined to be impaired, at which time the cumulative gain or loss is recognized in the income statement and removed from the available-for-sale investment revaluation reserves. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognized in the income statement as “Investment income”.

(12) Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through profit or loss.

(13) 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(13) Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models. For discounted cash flow techniques, estimated future cash flows are based on directors' best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair values of floating rate and overnight deposits with credit institutions are their carrying values. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

(14) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, 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 (excluding future credit losses that have not been incurred). The related collateral value shall also be taken into account. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition or the current effective interest rate if a loan has a variable interest rate).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Assets carried at amortized cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. The Group uses the weighted average method to calculate the initial costs of available-for-sale equity investments. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. The Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group usually considers a significant decline to be one in which the fair value is below the weighted average cost by more than 50% or a prolonged decline to be one in which fair value is below the weighted average cost for a continuous period of more than twelve months.

The Group also considers qualitative evidence that includes, but is not necessarily limited to the following:

- Significant financial difficulty of the investee, including failure to comply with contractual obligations, financial restructuring, deterioration of going concern expectations;
- Adverse changes relative to the investee’s technology, market, customer base, macroeconomic indicators relative to the business, and significant legal or regulatory matters.

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 recognized directly in other comprehensive income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(15) 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 derecognized 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 asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from a financial asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes 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.

(16) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(17) Securities purchased under agreements to resell

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as loans and receivables. The amounts advanced under these agreements are reflected as assets in the balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(18) Impairment of non-financial assets other than deferred tax assets and goodwill

Where an indication of impairment exists, or when impairment testing for an asset is required at least at each year end (other than deferred tax assets, 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 to sell, 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 recognized 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.

An assessment is made at the end of each period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(19) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance agreements that transfer significant insurance risk are treated as reinsurance contracts; reinsurance agreements that do not transfer significant insurance risk are not treated as reinsurance contracts. Reinsurance assets primarily represent balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(19) Reinsurance (continued)

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. Premiums and claims on assumed reinsurance are recognized as income 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. Amounts payable to reinsurers are estimated in a manner consistent with that of the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance unless a legal right and the intention of offset exist.

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

(20) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(21) 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 determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Contracts that only transfer insurance risk are treated as insurance contracts. If the Group signs contracts with policyholders which transfer insurance risk as well as other risks, the treatments would depend on:

- (a) If the insurance risk portion and other risk portion are distinct and separately measurable, the insurance risk portion and other risk portion should be unbundled. The portion with insurance risk should be treated as an insurance contract, while the portion with other risks should not be treated as an insurance contract.
- (b) If the insurance risk portion and other risk portion cannot be distinct, or if they are distinct but cannot be separately measurable, the whole contract should be treated as an insurance contract if the insurance risk is significant; the whole contract should not be treated as an insurance contract if the insurance risk is insignificant.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(22) Testing the significance of insurance risk

For contracts issued by the Group which require testing the significance of insurance risk, it should be performed at the initial recognition of such contracts, and based on a group of contracts with a similar nature.

When testing the significance of insurance risk, the Group makes judgements in this sequence: (i) whether the contract transfers insurance risk; (ii) whether the contract has commercial substance; (iii) whether the insurance risk transferred is significant.

When determining whether the contracts (or policies) transfer significant insurance risk, the Group considers: (i) annuity contracts that transfer longevity risk are treated as insurance contracts; (ii) for non-annuity contracts, if the insurance risk ratio is greater than or equal to 5% at certain points of time during the duration of the contracts, they are treated as insurance contracts; the insurance risk ratio is derived by comparing the benefits paid with the benefits payable if the insured event did not occur. For property and casualty and short-term life policies that obviously transfer significant risk, the Group recognizes them as insurance contracts directly.

When determining whether reinsurance policies transfer significant insurance risk, the Group considers thoroughly the commercial substance and other relevant contracts and agreements, and if the insurance risk ratio of reinsurance policies is greater than 1%, they are treated as reinsurance contracts. The insurance risk ratio of reinsurance policies is derived by comparing the present value of probability-weighted expected loss with the present value of expected reinsurance premiums. If the reinsurance policies obviously transfer significant insurance risk, the Group directly recognizes them as reinsurance contracts.

For the purpose of testing the significance of insurance risk, contracts of a similar nature are grouped together. Through considering the risk distribution and characteristics, the Group selects sufficient representative samples to test the significance of insurance risk. If most samples transfer significant insurance risk, all contracts in the group are treated as insurance contracts.

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

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities

The Group's insurance contract liabilities include unearned premium reserves, claim reserves and long-term life insurance contract reserves.

When measuring long-term life insurance contract reserves, the Group classifies insurance contracts whose insurance risks are of a similar nature as a measurement unit. The Group mainly considers product characteristics, effective year and risk profile of contracts in this regard.

When measuring property and casualty and short-term life 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 property and casualty and short-term life insurance contracts are classified into certain measurement units by type of insurance.

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments when the Group fulfils relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts.

- Expected future cash outflows represent reasonable cash outflows which are necessary for the Group to fulfil relevant obligations under the insurance contracts, and mainly include: (a) guaranteed benefits or claims under the insurance contracts, including mortality benefits, disability benefits, morbidity benefits, survival benefits, maturity benefits and claims payments, etc; (b) non-guaranteed benefits under the insurance contracts in respect of constructive obligations, including policyholder dividends, etc; (c) reasonable expenses necessary for maintaining and serving the insurance contracts, claims handling, including policy maintenance expenses, claim expenses, etc.
- Expected future cash inflows represent cash inflows from assuming insurance contractual obligations, including premiums and other charges.

Reasonable estimate of expected net future cash flows is determined based on information currently available at the balance sheet date.

Margin factor is considered and separately measured when determining insurance contract reserves as at the balance sheet date. Margins are released to profit or loss over the coverage period using systematic and reasonable approach. Initial recognition of an insurance contract issued should not result in the recognition of a Day-One gain. However, a Day-One loss should be recorded in profit or loss at inception when it occurs.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

Margins for long-term life insurance contract reserves include a risk adjustment and a residual margin. The risk adjustment represents provision for the uncertainty associated with the future cash flows. The residual margin is provided to eliminate any gain at inception of the contract and is amortized over the life of the contract in a systematic manner. For non-life insurance contracts, the Group amortizes the residual margin on a time basis during the whole insurance coverage period and records it in profit or loss. For life insurance contracts, the Group amortizes the residual margin on the basis of the sums insured, sums at risk or other appropriate carriers during the whole insurance coverage period. Upon initial recognition, the residual margin is separately measured from expected future cash outflows and the risk adjustment, and will not be adjusted for future changes in assumptions.

The risk adjustment for property and casualty and short-term life insurance contract liabilities is determined by reference to the industry benchmark and the Group's experience.

When measuring insurance contract liabilities as at the balance sheet date, time value of money is considered. The related future cash flows should be discounted when the impact of time value of money is significant. The discount rate used in the measurement of time value of money should be determined with reference to information currently available at the balance sheet date.

The Group uses information currently available as at the balance sheet date to derive the following assumptions used for measuring related reserves:

- For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on the market interest rate which is in line with the period and risk of liability cash outflows. For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates of the portfolios backing the liabilities.
- The Group reasonably estimates the insurance incident occurrence rate, surrender rate and expense rate based on actual experience and future development trends.
- Policy dividend assumption is determined based on expected investment return rates of participating accounts, the Group's participating dividend policy, reasonable expectations of policyholders, etc.

When measuring related reserves, expected future net cash flows should cover the entire insurance period.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

Unearned premium reserves for property and casualty and short-term life insurance contracts are also measured by using the unearned premium approach. At inception of the contract, unearned premium reserves are measured based on premiums received minus relevant acquisition costs. After initial recognition, the reserve is released over the term of the contract using a 365-day basis, risk distribution method, etc. When evaluating unearned premium reserves for property and casualty and short-term life insurance contracts, expected future claims cost is also considered.

Claim reserves include incurred and reported claim reserves, incurred but not reported (“IBNR”) claim reserves and claim expense reserves.

Incurred and reported claim reserves represent insurance contract provisions for the claims incurred and reported to the Group. The Group uses case-by-case estimate method, average claim per case method, etc, to measure incurred and reported claim reserves based on a reasonable estimate of the ultimate claim amount and the margin factor.

IBNR claim reserves represent insurance contract provisions for the claims incurred but not reported to the Group. The Group uses chain ladder method, average claim per case method, development of reserves method, Bornhuetter-Ferguson method, etc, to measure IBNR claim reserves based on a reasonable estimate of the ultimate claim amount and the margin factor, and after considering the nature and distribution of insurance risk, claims developments, experience data, etc.

Claim expense reserves represent insurance contract provisions for related claims handling costs. The Group measures claim expense reserves based on a reasonable estimate of necessary claim expenses in the future. The Group uses case-by-case estimate method and ratio allocation method to measure claim expense reserves.

When evaluating insurance contract liabilities, the Group performs liability adequacy tests based on information currently available as at the balance sheet date. Additional insurance contract liabilities should be made and recognized in the income statement if any deficiency exists.

Acquisition costs in relation to the sale of new contracts such as commissions are recorded as expenses in profit or loss, but the residual margin is calibrated to offset the impacts of the relevant acquisition costs incurred.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(24) Discretionary participation features (“DPF”) in long-term life insurance contracts and investment contract

DPF are contained in certain long-term insurance contracts and investment contracts. These contracts are collectively called participating contracts. Under the current PRC insurance regulations, the Group is obligated to pay to the policyholders of participating contracts at least 70% of the distributable surplus in each period, which includes net investment spread arising from the assets supporting these contracts and mortality gains or losses on the pool of contracts to which the participating contract belongs. A shadow adjustment is applied to recognize the unrealized gains or losses on available-for-sale financial assets that are attributable to policyholders in OCI. The surplus owed to policyholders is recognized as the long-term life insurance contract reserves and investment contract liabilities as long as it has not been declared and paid. The amount and timing of distribution to individual policyholders of participating contracts are subject to future declarations by the Group.

(25) Investment contract liabilities

Investment contract liabilities mainly represent liabilities with regard to the non-insurance portion of related contracts, and those contracts which do not pass the testing of significant insurance risk. For those non-life investment type policies without guaranteed benefits, the related contract liabilities are measured at fair value and the related transaction costs are recognized in the statement of income. For other investment contracts, the related liabilities are initially measured at fair value and subsequently measured at amortized cost. Commissions and other expenses incurred, net of receipts from initial charges that are meant to compensate such costs, are recognized as transaction costs in the initial amount of the liabilities.

(26) Financial liabilities

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

Financial liabilities at amortized cost are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized in the income statement as finance costs.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(26) Financial liabilities (continued)

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 sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any interest charged on these financial liabilities.

(27) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

(28) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are financial liabilities and are recorded at amortized cost. The Group may be required to provide additional collateral based on the fair value of the underlying securities and such collateral assets continue to be carried on the balance sheet.

(29) Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(29) Provisions (continued)

Other than insurance contracts for which potential future losses are already considered in establishing the insurance contract liabilities, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligation exceed the expected future economic benefits.

(30) Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(30) Income tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

(31) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Gross premiums

Premium income and reinsurance premium income is recognized when all of the following criteria are met:

- The insurance contracts are issued;
- The 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.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(31) Revenue recognition (continued)

(a) Gross premiums (continued)

Premiums from direct life insurance contracts with instalment or single payments are recognized as revenue when due. Premiums from direct non-life insurance contracts are recognized as revenue based on the amount of total premium stated in the contracts.

Reinsurance premiums are recognized as revenue in accordance with the terms stated in the reinsurance contracts.

(b) Income from investment contracts

Investment contracts issued by the Group are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholders' balance. The fees are recognized as revenue in the period in which they are collected unless they relate to services to be provided in future periods which would be deferred and recognized as the service is provided. Initiation and other front-end fees are charged for certain investment contracts recorded at amortized cost and are mainly recognized through an adjustment to the effective yield.

Income from investment contracts is included in other operating income.

(c) Investment income

Investment income includes interest from term deposits, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from investment funds and securities, etc.

Interest income is recognized on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Dividends are recognized when the shareholders' right to receive payment is established.

(32) Employee benefits

(a) Pension schemes

The employees of the Group participate in various defined contribution pension plans principally organized by municipal and provincial governments. The Group makes and accrues contributions to the pension plans based on certain percentages of the salaries of the employees on a monthly basis. Certain employees also participate in enterprise annuity plans. The Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred.

(All amounts expressed in RMB million unless otherwise specified)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Summary of principal accounting policies (continued)

(32) Employee benefits (continued)

(a) Pension schemes (continued)

The Group pays early retirement benefits to those employees who accept early retirement arrangements approved by management. Early retirement benefits are paid to those employees who voluntarily retire before the normal retirement date. The related benefit payments are made from the date of early retirement through the normal retirement date. The Group records a liability for the present value of its early retirement obligation when employees retire early.

(b) Housing benefits

The employees of the Company and its subsidiaries which operate in the PRC are entitled to participate in various government-sponsored housing funds. The Company and these subsidiaries contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Medical benefits

The Group makes contributions for medical benefits to the local authorities in accordance with the relevant local regulations.

(d) Deferred bonus plans

The Group also operates deferred bonus plans for senior management and some of the key employees. The employee benefits under the deferred bonus plans are accrued during the periods when employees provide services and are paid gradually.

(33) Borrowing costs

Borrowing costs are recognized as expenses in the income statement in the period in which they are incurred.

(34) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires directors to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

3.1 Significant judgements

In the process of applying the Group's accounting policies, the directors have made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(1) Classification of financial assets

The Group classifies its financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. These classifications require judgements of the directors. In making these judgements, the Group considers the intention of holding these financial assets, the requirements of HKAS 39 and their implications to the presentation in the financial statements.

(2) Unbundling and classification of hybrid contracts

The Group makes significant judgements on whether a written policy contains both an insurance component and a deposit component and whether the insurance component and deposit component are distinct and separately measurable. The result of such judgement affects the unbundling of insurance contracts.

In addition, the Group makes significant judgements on whether the contract transfers insurance risk, whether transfer of insurance risk has commercial substance, and whether the transferred insurance risk is significant when performing significant insurance risk tests. The result of such judgement affects the classification of insurance contracts. Whether to unbundle a contract and different contract classifications would affect the accounting treatment and the Group's financial position and operating results.

(3) Measurement unit for insurance contracts

The Group shall make judgments on whether a group of insurance contracts' insurance risks are of the same nature. Different measurement units would affect the measurement results of insurance contract liabilities.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Significant judgements (continued)

(4) Impairment of available-for-sale equity financial instruments

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement of directors. When making such judgement, the Group considers the normal volatility of the security price, the length of the period over which the fair value is lower than cost, the magnitude of the decline in fair value and the financial position of the investee, etc.

(5) Determination of control over structured entities

When determining whether the Group controls the structured entities in which it acts as an asset manager, the Group considers all relevant facts and circumstances in assessing whether it is acting as agent or principal to make decisions. If the Group is acting as principal, it controls the structured entities. In assessing whether the Group is acting as principal, the Group considers factors such as scope of the asset manager's decision-making authority in structured entities; substantial rights held by other parties; remuneration to which it is entitled; and exposure to variability of returns by holding interest in structured entities. Once the factors change because of the changes of relevant facts and circumstances, the Group will reassess.

3.2 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are detailed below.

(1) Valuation of insurance contract liabilities

When measuring the insurance contract liabilities, the Group needs to make a reasonable estimate of the amounts that the Group is required to pay in fulfilling the obligations under the insurance contracts. Such estimates are determined by calculating various possible outcomes and relevant probabilities based on information currently available as at the balance sheet date.

At the balance sheet date, the Group makes estimates of the assumptions used in the measurement of insurance contract liabilities. The Group determines such assumptions based on information currently available as at the balance sheet date and a risk adjustment is considered.

Unearned premium and long-term life insurance contract reserves

The main assumptions used in measuring unearned premium reserves and long-term life insurance contract reserves include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), loss ratios, surrender rates, expense assumptions and policy dividend assumptions, etc.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and long-term life insurance contract reserves (continued)

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by reference to the 750-day moving average bond yield curve, published on the “China Bond” website. A premium is added by considering the liquidity, taxation impacts and other relevant factors. The ranges of discount rates used as at 31 December 2015 and 2016 were from 3.47% to 5.96% and from 3.23% to 5.69%, respectively.

For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates in consideration of the time value of money. The ranges of discount rates used as at 31 December 2015 and 2016 were from 5.10% to 5.20% and from 4.85% to 5.00%, respectively.

The discount rate assumption is affected by certain factors, such as future macro-economy, capital market, availability of investment channel of insurance funds, investment strategy and other factors. The Group determines discount rate assumption based on the information available as at the balance sheet date.

(b) Mortality and morbidity

Mortality assumption is determined based on the Group’s historical mortality experience and future development trends, etc. The Group bases its mortality assumptions on the China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group’s recent historical mortality experience.

Morbidity assumption is determined based on the Group’s products pricing assumptions, analysis of historical morbidity experience and expectations of future developments, etc.

Mortality and morbidity assumptions are affected by certain factors, such as wide-ranging lifestyle changes in future, future development of medical technologies, continuing advancements in social conditions and other factors. A risk adjustment is considered in the Group’s mortality and morbidity assumptions.

(c) Loss ratios

The Group develops its loss ratio assumption on analysis of its historical claims payments experience and future development trends.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and long-term life insurance contract reserves (continued)

(d) Surrender rates

Surrender rates are determined based on product type, the Group's historical experience and future expectation, and vary by interest rate, product type and sale channel.

The surrender rate assumption is affected by certain factors, such as future macro-economy, market competition and other factors. The Group determines surrender rate assumption based on the information available as at the balance sheet date and a risk adjustment is considered.

(e) Expenses

The Group develops its expense assumption on its expense analysis and future expectation for policy acquisition costs and maintenance expenses.

The Group's expense assumption is affected by certain factors, such as inflation, market competition and other factors. The Group uses information currently available as at the balance sheet date to determine expense assumption and a risk adjustment is considered.

(f) Policy dividend

Policy dividend assumption is determined based on expected investment return rates of participating accounts, the Group's participating dividend policy, reasonable expectations of policyholders, etc.

The Group's policy dividend assumption is affected by the above factors and is determined based on the information available as at the balance sheet date and a risk adjustment is considered.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Claim reserves

The main assumption in measuring claim reserves is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident year, but can also be further analysed by geographical area, as well as by significant business line and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the probability-weighted ultimate cost of claims.

(2) Fair values of financial assets and derivative financial instruments determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as reference to prices used in most recent market transactions between knowledgeable and willing parties, reference to the current fair value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to other financial instruments, instruments must have similar credit ratings.

For a discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions, concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.3 Change in accounting estimates

When measuring the insurance contract liabilities and other policy-related liabilities, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expense assumptions and policy dividend assumptions based on information currently available as at the balance sheet date.

As at 31 December 2016, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2016 by approximately RMB9,292 million and a decrease in profit before tax for 2016 by approximately RMB9,292 million.

4. SEGMENT INFORMATION

The Group presents segment information based on its major operating segments.

For management purpose, the Group is organized into business units based on their products and services. Different operating segments provide products and services with different risks and rewards.

The Group's operating segments are listed as follows:

- The life insurance segment offers a wide range of RMB life insurance;
- The property and casualty insurance segment (including Mainland China segment and Hong Kong segment) provides a wide range of RMB and foreign-currency property and casualty insurance;
- Other businesses segment provides management services and usage of fund services.

Intersegment sales and transfers are measured based on the actual transaction price.

More than 99% of the Group's revenue is derived from its operations in the PRC. More than 99% of the Group's assets are located in the PRC.

In 2016, gross written premiums from transactions with the top five external customers amounted to 0.38% (2015: 0.31%) of the Group's total gross written premiums.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2016

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
	Mainland China	Hong Kong	Eliminations	Sub-total				
Gross written premiums	137,565	96,498	475	(366)	96,607	-	(154)	234,018
Less: Premiums ceded to reinsurers	(1,901)	(12,227)	(46)	371	(11,902)	-	154	(13,649)
Net written premiums	135,664	84,271	429	5	84,705	-	-	220,369
Net change in unearned premium reserves	(397)	(417)	4	-	(413)	-	14	(796)
Net premiums earned	135,267	83,854	433	5	84,292	-	14	219,573
Investment income	39,883	5,605	27	-	5,632	11,602	(13,238)	43,879
Other operating income	1,833	421	10	-	431	3,238	(2,873)	2,629
Other income	41,716	6,026	37	-	6,063	14,840	(16,111)	46,508
Segment income	176,983	89,880	470	5	90,355	14,840	(16,097)	266,081
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(40,779)	-	-	-	-	-	-	(40,779)
Claims incurred	(4,556)	(51,380)	(202)	-	(51,582)	-	36	(56,102)
Changes in long-term life insurance contract liabilities	(71,885)	-	-	-	-	-	707	(71,178)
Policyholder dividends	(7,735)	-	-	-	-	-	-	(7,735)
Finance costs	(2,107)	(302)	-	-	(302)	(43)	8	(2,444)
Interest credited to investment contracts	(1,803)	-	-	-	-	-	-	(1,803)
Other operating and administrative expenses	(36,945)	(32,173)	(164)	-	(32,337)	(3,546)	2,855	(69,973)
Segment benefits, claims and expenses	(165,810)	(83,855)	(366)	-	(84,221)	(3,589)	3,606	(250,014)
Segment results	11,173	6,025	104	5	6,134	11,251	(12,491)	16,067
Share of profit in equity accounted investees	-	29	-	-	29	(5)	(6)	18
Profit before tax	11,173	6,054	104	5	6,163	11,246	(12,497)	16,085
Income tax	(2,658)	(1,430)	(16)	-	(1,446)	(130)	433	(3,801)
Net profit for the year	8,515	4,624	88	5	4,717	11,116	(12,064)	12,284

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2016

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
		Mainland China	Hong Kong	Eliminations				
Investment in associates	92	14	-	-	14	9	-	115
Investment in joint ventures	-	31	-	-	31	5	-	36
Financial assets *	638,800	66,467	420	-	66,887	24,736	-	730,423
Term deposits	110,469	21,111	-	-	21,111	646	-	132,226
Others	98,047	46,033	682	(528)	46,187	43,851	(30,193)	157,892
Segment assets	847,408	133,656	1,102	(528)	134,230	69,247	(30,193)	1,020,692
Insurance contract liabilities	620,742	73,092	344	(233)	73,203	-	(119)	693,826
Investment contract liabilities	48,796	-	-	-	-	-	-	48,796
Policyholders' deposits	10	65	-	-	65	-	-	75
Subordinated debts	7,500	3,998	-	-	3,998	-	-	11,498
Securities sold under agreements to repurchase	37,460	990	-	-	990	654	-	39,104
Others	69,363	19,594	326	(304)	19,616	9,206	(5,555)	92,630
Segment liabilities	783,871	97,739	670	(537)	97,872	9,860	(5,674)	885,929

* Financial assets comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the year ended 31 December 2016

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
		Mainland China	Hong Kong	Eliminations				
Depreciation and amortization	828	733	2	-	735	309	-	1,872
Capital expenditure	3,061	2,383	1	-	2,384	955	-	6,400
Impairment loss charges	605	251	-	-	251	285	-	1,141
Interest income	32,437	4,389	26	-	4,415	1,003	(22)	37,833
Unrealized gains from financial assets at fair value through profit or loss	(734)	(24)	-	-	(24)	(10)	-	(768)

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2015

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
		Mainland China	Hong Kong	Eliminations				Sub-total
Gross written premiums	108,628	94,615	456	(361)	94,710	-	(33)	203,305
Less: Premiums ceded to reinsurers	(1,771)	(11,989)	(43)	365	(11,667)	-	33	(13,405)
Net written premiums	106,857	82,626	413	4	83,043	-	-	189,900
Net change in unearned premium reserves	(263)	(264)	3	-	(261)	-	-	(524)
Net premiums earned	106,594	82,362	416	4	82,782	-	-	189,376
Investment income	43,765	7,096	23	-	7,119	9,755	(5,352)	55,287
Other operating income	1,231	424	10	-	434	2,775	(2,140)	2,300
Other income	44,996	7,520	33	-	7,553	12,530	(7,492)	57,587
Segment income	151,590	89,882	449	4	90,335	12,530	(7,492)	246,963
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(49,490)	-	-	-	-	-	-	(49,490)
Claims incurred	(3,172)	(53,337)	(223)	(2)	(53,562)	-	-	(56,734)
Changes in long-term life insurance contract liabilities	(45,741)	-	-	-	-	-	(882)	(46,623)
Policyholder dividends	(7,054)	-	-	-	-	-	-	(7,054)
Finance costs	(2,235)	(295)	-	-	(295)	(110)	-	(2,640)
Interest credited to investment contracts	(1,436)	-	-	-	-	-	-	(1,436)
Other operating and administrative expenses	(28,149)	(29,247)	(157)	-	(29,404)	(2,930)	1,773	(58,710)
Segment benefits, claims and expenses	(137,277)	(82,879)	(380)	(2)	(83,261)	(3,040)	891	(222,687)
Segment results	14,313	7,003	69	2	7,074	9,490	(6,601)	24,276
Share of profit in equity accounted investees	53	36	-	-	36	(1)	(53)	35
Profit before tax	14,366	7,039	69	2	7,110	9,489	(6,654)	24,311
Income tax	(3,840)	(1,708)	(10)	-	(1,718)	(464)	(251)	(6,273)
Net profit for the year	10,526	5,331	59	2	5,392	9,025	(6,905)	18,038

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2015

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
		Mainland China	Hong Kong	Eliminations				
Investment in associates	-	301	-	-	301	5	-	306
Investment in joint ventures	-	11	-	-	11	7	-	18
Financial assets *	551,184	65,551	384	-	65,935	26,570	-	643,689
Term deposits	129,490	22,662	-	-	22,662	2,246	-	154,398
Others	76,590	36,454	505	(372)	36,587	41,262	(29,007)	125,432
Segment assets	757,264	124,979	889	(372)	125,496	70,090	(29,007)	923,843
Insurance contract liabilities	548,859	72,147	346	(243)	72,250	-	(30)	621,079
Investment contract liabilities	40,033	-	-	-	-	-	-	40,033
Policyholders' deposits	10	65	-	-	65	-	-	75
Subordinated debts	15,500	3,997	-	-	3,997	-	-	19,497
Securities sold under agreements to repurchase	26,000	50	-	-	50	2,931	-	28,981
Others	58,884	15,165	180	(133)	15,212	7,282	(2,882)	78,496
Segment liabilities	689,286	91,424	526	(376)	91,574	10,213	(2,912)	788,161

* Financial assets comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.

Other segment information for the year ended 31 December 2015

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total	
		Mainland China	Hong Kong	Eliminations				
Depreciation and amortization	766	680	1	-	681	232	-	1,679
Capital expenditure	1,430	697	1	-	698	835	-	2,963
Impairment loss charges	265	52	-	-	52	3	-	320
Interest income	30,777	4,416	21	-	4,437	1,442	(64)	36,592
Unrealized gains from financial assets at fair value through profit or loss	64	(28)	-	-	(28)	192	(176)	52

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2016

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5. SCOPE OF CONSOLIDATION

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows:

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Limited company	Property and casualty insurance	Shanghai	The PRC	19,470,000	19,470,000	98.50	-	98.50	
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Limited company	Life insurance	Shanghai	The PRC	8,420,000	8,420,000	98.29	-	98.29	
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Limited company	Investment management	Shanghai	Shanghai	1,300,000	1,300,000	80.00	19.67	100.00	
China Pacific Insurance Co., (H.K.) Ltd.	Limited company	Property and casualty insurance	Hong Kong	Hong Kong	HK\$250,000 thousand	HK\$250,000 thousand	100.00	-	100.00	
Shanghai Pacific Real Estate Co., Ltd.	Limited company	Management of properties	Shanghai	Shanghai	115,000	115,000	100.00	-	100.00	
Fenghua Xikou Garden Hotel	Limited company	Hotel operations	Zhejiang	Zhejiang	8,000	8,000	-	98.39	100.00	
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Limited company	Pension business and investment management	Shanghai	Shanghai	787,610	787,610	-	50.87	51.75	(1)
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Limited company	Investment management	Hong Kong	Hong Kong	HK\$50,000 thousand	HK\$50,000 thousand	49.00	50.83	100.00	
City Island Developments Limited ("City Island")	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US\$50,000	US\$1,000	-	98.29	100.00	
Great Winwick Limited *	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US\$50,000	US\$100	-	98.29	100.00	

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows (continued):

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
Great Winwick (Hong Kong) Limited *	Limited company	Investment holding	Hong Kong	Hong Kong	HK\$10,000	HK\$1	-	98.29	100.00	
Newscott Investments Limited *	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US\$50,000	US\$100	-	98.29	100.00	
Newscott (Hong Kong) Investments Limited *	Limited company	Investment holding	Hong Kong	Hong Kong	HK\$10,000	HK\$1	-	98.29	100.00	
Shanghai Xinhui Real Estate Development Co., Ltd. *	Limited company	Real estate	Shanghai	Shanghai	US\$15,600 thousand	US\$15,600 thousand	-	98.29	100.00	
Shanghai Hehui Real Estate Development Co., Ltd. *	Limited company	Real estate	Shanghai	Shanghai	US\$46,330 thousand	US\$46,330 thousand	-	98.29	100.00	
Pacific Insurance Online Services Technology Co., Ltd.	Limited company	Consulting services, etc	Shandong	The PRC	200,000	200,000	100.00	-	100.00	
Tianjin Trophy Real Estate Co., Ltd. ("Tianjin Trophy")	Limited company	Real estate	Tianjin	Tianjin	353,690	353,690	-	98.29	100.00	
Pacific Insurance Aging Industry Investment Management Co., Ltd. ("CPIC Aging Investment")	Limited company	Pension business investment, etc	Shanghai	Shanghai	219,000	219,000	-	98.29	100.00	
CPIC Allianz Health Insurance Co., Ltd. ("CPIC Allianz Health")	Limited company	Health insurance	Shanghai	Shanghai	1,000,000	1,000,000	77.05	-	77.05	
Shanghai Nan Shan Ju Xuhong Nursing Home Co., Ltd. ("Nan Shan Ju")	Limited company	Pension services	Shanghai	Shanghai	20,000	15,000	-	98.29	100.00	
Anxin Agriculture Insurance Co., Ltd. (the "Anxin")	Limited company	Property and casualty insurance	Shanghai	Shanghai	700,000	700,000	-	51.35	52.13	(2)

* Subsidiaries of City Island.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows (continued):

- (1) On 25 December 2015, CPIC Life signed the share purchase agreement with CPIC Asset Management to acquire 75,500,000 shares of Changjiang Pension by RMB117.025 million. After this transaction, CPIC Life owns 51.75% shares of Changjiang Pension directly which results in the Company holding 50.87% of Changjiang Pensions equity indirectly. On 19 February 2016, the CIRC approved this transaction.
- (2) On 7 July 2014, CPIC Property signed the ownership transfer contract with Shanghai International Group and Shanghai State-owned Asset Management Co., Ltd. for transferring 171,669,200 shares of Anxin. After this transaction, the Company has an ownership percentage of 33.83%, which is held indirectly through CPIC Property. This provides CPIC Property for 34.34% of the voting rights in Anxin's. On 11 October 2014, the CIRC officially approved this transaction.

On 28 April 2016, CPIC Property signed a capital increase agreement with Anxin, whereby CPIC Property acquired approximately 193.23 million shares of common stocks at RMB2.06 per share issued by Anxin. After this capital injection, CPIC Property's ownership in Anxin will be 52.13% while the Company will hold 51.35% of Anxin's ownership indirectly through CPIC Property. On 15 August 2016, the CIRC officially approved this capital injection.

The business combination was a step acquisition, the information as at the transaction dates were set out below:

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows (continued):

(i) Business combinations not under common control

Acquiree	Transaction date		Purchase cost		Percentage of equity acquired		Acquisition method	Acquisition date	Acquisition date basis	Acquire's revenue from acquisition date to the year ended	Acquire's net profit from acquisition date to the year ended	Acquire's net cash flow from operating activities from acquisition date to the year ended	Acquire's net cash flow from acquisition date to the year ended	
Anxin	11 October 2014	15 August 2016	RMB224 million for acquiring 24.52% (diluted) on 11 October 2014	RMB398 million for acquiring 27.60% on 15 August 2016	Acquired 24.52% (diluted) on 11 October 2014	Acquired 27.60% on 15 August 2016	Acquired 24.52% (diluted) by assigning shares on 11 October 2014	Acquired 27.60% by subscribing for new shares on 15 August 2016	1 September 2016	Approved by the CIRC	346	16	(84)	(481)

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows (continued):

(ii) Acquisition cost and Goodwill

	Anxin
Acquisition cost	
Cash	398
Fair value of shareholding before acquisition date	362
Less:	
Fair value of net assets acquired by the Group	(769)
Goodwill	<u>(9)</u>

(iii) Profit generated by remeasuring shares held before acquisition date at fair value

	Anxin
Fair value of original shareholding	362
Less:	
Book value of original shareholding	(313)
Profit generated by remeasurement	<u>49</u>

The accumulated other comprehensive income of the shares held before acquisition which amounted to RMB20.27 million was transferred to investment income.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2016 are as follows (continued):

(iv) The fair values and carrying amounts of the identifiable assets and liabilities as at the acquisition date are as below:

	Acquisition date Fair values	Acquisition date Carrying amounts	31 December 2015 Carrying amounts
Property and equipment	238	130	135
Investment properties	146	26	27
Other intangible assets	5	5	6
Restricted statutory deposits	100	100	100
Term deposits	308	308	314
Available-for-sale financial assets	1,010	1,010	1,053
Securities purchased under agreements to sell	-	-	30
Interest receivables	82	82	68
Reinsurance assets	46	46	41
Deferred income tax assets	99	99	74
Insurance receivables	272	272	138
Other assets	71	71	28
Cash and short-term time deposits	561	561	48
Investments classified as loans and receivables	40	40	20
Less:			
Insurance contract liabilities	(1,085)	(1,085)	(916)
Deferred income tax liabilities	(71)	(14)	(13)
Income tax payable	(32)	(32)	(22)
Premium received in advance	(22)	(22)	(27)
Payables to reinsurers	(27)	(27)	(15)
Other liabilities	(266)	(266)	(264)
Net assets	<u>1,475</u>	<u>1,304</u>	<u>825</u>
Less: Non-controlling interests	<u>(706)</u>		
Net assets acquired	<u><u>769</u></u>		

When determining the fair values of the identifiable assets and liabilities as at the acquisition date, the Group adopted market approach on the building recognised in property and equipment and investment properties, and adopted replacement cost method on the equipments recognised in property and equipment.

Except the assets listed above, the fair values of Anxin's net assets approximated their carrying amounts as at the acquisition date.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(b) As at 31 December 2016, consolidated structured entities material to the Group are as followings:

Name	Collective Holding by the Group (%)	Product Scale (Units in thousand)	Principal activities
Pacific Excellent Wealth CSI 300 Index	100.00	3,359,640	Investing in financial instruments with good liquidity, including CSI 300 Index Constituent and Proxy Stocks. In addition, to successfully achieve the investment goal, this product also allocates a few investments in non-constituent stocks to be listed in CSI 300 Index Constituent Stocks, stocks newly-issued or additionally-issued in the primary market, government bond to be due within one year, exchange repo, demand deposits at band, funds in monetary market, etc. Product Manager may bring other financial instruments that are allowed by laws and regulations or regulators into the scope of investment after implementation of proper procedures.
Changjiang Pension Golden Wealth Management No. 6 Assets Management Product	100.00	1,000,000	This product, excluding monetary assets (with percentages no more than 10% of the product's net asset value), shall allocate to Huaxin Trust - Haorui No. 11 Assembled Funds Trust Plan in full amount.
Pacific Excellent Wealth Bond Funds Enhanced	24.68	997,296	Investing in fixed-income assets such as treasury bonds, central bank bills, local government bonds, policy bank bonds, commercial bank bonds, corporate bonds, medium term notes, commercial papers, subordinated debts, hybrid capital bonds, pure debt of warrant bonds, repo, bank deposit and deposit receipt; financial instruments such as asset-backed securities, bond funds and monetary market funds; financial products permitted by regulators such as infrastructure investments, real estate investments and project and asset support plans investments; and other fixed-income securities that permitted by laws and regulations or regulators.
Pacific Excellent Wealth Focus Dividend & Value Equity	99.17	884,733	Investing in financial instruments with strong liquidity including: legally listed domestic stocks (including: stocks listed in SME, GEM and others approved by CSRC), cash management products (including: cash, call deposits, short-term financing bonds, time deposits and certificate of deposits due within 1 year (inclusive), bond repurchase and central bank bill matured within 1 year (inclusive), bonds, asset-backed securities, medium term notes, monetary funds with residual maturity within 397 days (inclusive) and other cash management products approved by regulators.

Note: CPIC Asset Management and Changjiang Pension is the asset manager of the consolidated structured entities.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	<u>2016</u>	<u>2015</u>
Long-term life insurance premiums	128,258	101,022
Short-term life insurance premiums	9,152	7,573
Property and casualty insurance premiums	96,608	94,710
	<u>234,018</u>	<u>203,305</u>

(b) Premiums ceded to reinsurers

	<u>2016</u>	<u>2015</u>
Long-term life insurance premiums ceded to reinsurers	(1,804)	(1,724)
Short-term life insurance premiums ceded to reinsurers	(97)	(47)
Property and casualty insurance premiums ceded to reinsurers	(11,748)	(11,634)
	<u>(13,649)</u>	<u>(13,405)</u>

(c) Net written premiums

	<u>2016</u>	<u>2015</u>
Net written premiums	<u>220,369</u>	<u>189,900</u>

7. INVESTMENT INCOME

	<u>2016</u>	<u>2015</u>
Interest and dividend income (a)	46,472	39,611
Realized (losses)/gains (b)	(860)	15,906
Unrealized (losses)/gains (c)	(768)	52
Charge of impairment losses on financial assets	(965)	(282)
	<u>43,879</u>	<u>55,287</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	<u>2016</u>	<u>2015</u>
Financial assets at fair value through profit or loss		
- Fixed maturity investments	678	715
- Investment funds	127	48
- Equity securities	38	46
- Other equity investments	44	-
	<u>887</u>	<u>809</u>
Held-to-maturity financial assets		
- Fixed maturity investments	<u>15,322</u>	<u>15,699</u>
Loans and receivables		
- Fixed maturity investments	<u>16,345</u>	<u>15,400</u>
Available-for-sale financial assets		
- Fixed maturity investments	5,488	4,778
- Investment funds	6,298	1,368
- Equity securities	601	628
- Other equity investments	1,531	929
	<u>13,918</u>	<u>7,703</u>
	<u>46,472</u>	<u>39,611</u>

(b) Realized (losses)/gains

	<u>2016</u>	<u>2015</u>
Financial assets at fair value through profit or loss		
- Fixed maturity investments	109	427
- Investment funds	(59)	(37)
- Equity securities	(101)	2,616
- Other equity investments	1	3
- Derivative instruments	38	-
	<u>(12)</u>	<u>3,009</u>
Available-for-sale financial assets		
- Fixed maturity investments	473	344
- Investment funds	(2,686)	3,949
- Equity securities	1,266	8,583
- Other equity investments	29	21
	<u>(918)</u>	<u>12,897</u>
Investments in subsidiaries	<u>70</u>	<u>-</u>
	<u>(860)</u>	<u>15,906</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 31 December 2016

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(c) Unrealized (losses)/gains

	<u>2016</u>	<u>2015</u>
Financial assets at fair value through profit or loss		
- Fixed maturity investments	(373)	130
- Investment funds	(138)	-
- Equity securities	(264)	(76)
- Other equity investments	7	(2)
	<u>(768)</u>	<u>52</u>

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	<u>2016</u>		
	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
Life insurance death and other benefits paid	41,507	(728)	40,779
Claims incurred			
- Short-term life insurance	4,654	(153)	4,501
- Property and casualty insurance	58,375	(6,774)	51,601
Changes in long-term life insurance contract liabilities	72,608	(1,430)	71,178
Policyholder dividends	7,735	-	7,735
	<u>184,879</u>	<u>(9,085)</u>	<u>175,794</u>
	<u>2015</u>		
	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
Life insurance death and other benefits paid	50,177	(687)	49,490
Claims incurred			
- Short-term life insurance	3,147	(16)	3,131
- Property and casualty insurance	60,750	(7,147)	53,603
Changes in long-term life insurance contract liabilities	47,493	(870)	46,623
Policyholder dividends	7,054	-	7,054
	<u>168,621</u>	<u>(8,720)</u>	<u>159,901</u>

9. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	917	1,103
- Interest expense on policyholder dividends	514	505
	<u>1,431</u>	<u>1,608</u>
Non-current liabilities		
- Interest expense on subordinated debts	1,009	1,021
- Interest expense on asset-backed securities	4	-
- Long-term borrowings	-	11
	<u>1,013</u>	<u>1,032</u>
	<u>2,444</u>	<u>2,640</u>

(All amounts expressed in RMB million unless otherwise specified)

10. PROFIT BEFORE TAX

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

	<u>2016</u>	<u>2015</u>
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	17,417	15,400
Auditors' remuneration	24	19
Operating lease payments in respect of land and buildings	970	864
Depreciation of property and equipment (note 18)	1,179	1,086
Depreciation of investment properties (note 19)	245	219
Amortization of other intangible assets (note 20)	421	350
Amortization of prepaid land lease payments (note 21)	1	1
Amortization of other assets	26	23
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(23)	(30)
Charge of impairment loss on insurance receivables	176	38
Charge of impairment loss on financial assets (note 7)	965	282
Foreign exchange gain, net	<u>(117)</u>	<u>(109)</u>

11. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' AND SUPERVISORS' EMOLUMENTS)

	<u>2016</u>	<u>2015</u>
Salaries, allowances and other short-term benefits	14,474	12,791
Contributions to defined contribution plans (1)	2,763	2,489
Early retirement benefit obligation	179	54
Deferred bonus (2)	1	66
	<u>17,417</u>	<u>15,400</u>

(1) Contributions to defined contribution plans mainly include contributions made to the state pension schemes.

(2) In order to motivate senior management and certain key employees, the Group operates deferred bonus plans.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

<u>(in RMB thousand)</u>	<u>2016</u>	<u>2015</u>
Fees	1,400	1,288
Other remuneration		
- Salaries, allowances and other short-term benefits	5,767	6,171
- Contributions to defined contribution plans	353	665
- Deferred bonus (1)	-	-
- Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	-	-
	<u>6,120</u>	<u>6,836</u>
	<u>7,520</u>	<u>8,124</u>

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

Included in the fees is an amount of RMB 1,400 thousand paid to independent non-executive directors for the year ended 31 December 2016 (2015: RMB1,288 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2016.

(in RMB thousand)	2016					Total
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
LIN Zhiquan	300	-	-	-	-	300
ZHOU Zhonghui	300	-	-	-	-	300
BAI Wei	250	-	-	-	-	250
GAO Shanwen	300	-	-	-	-	300
LI Jiashi	250	-	-	-	-	250
	<u>1,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400</u>

(in RMB thousand)	2015					Total
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
LIN Zhiquan	300	-	-	-	-	300
ZHOU Zhonghui	300	-	-	-	-	300
BAI Wei	250	-	-	-	-	250
HUO Guangwen ¹	150	-	-	-	-	150
GAO Shanwen	267	-	-	-	-	267
LI Jiashi ²	21	-	-	-	-	21
	<u>1,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,288</u>

¹ Mr. HUO Guangwen, who passed away because of illness in June, 2015, no longer served as an independent non-executive director of the 7th Board of Directors of the Company

² Independent non-executive director since November 2015

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

(in RMB thousand)	2016				Total
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
Executive directors:					
GAO Guofu	-	1,196	92	-	1,288
HUO Lianhong	-	1,196	92	-	1,288
Non-executive directors:					
WANG Chengran	-	250	-	-	250
SUN Xiaoning	-	-	-	-	-
ZHENG Anguo	-	250	-	-	250
WU Jumin	-	250	-	-	250
WU Junhao	-	-	-	-	-
HA Erman	-	250	-	-	250
WANG Jian	-	-	-	-	-
	-	3,392	184	-	3,576

(in RMB thousand)	2015				Total
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
Executive directors:					
GAO Guofu	-	1,002	194	-	1,196
HUO Lianhong	-	1,008	188	-	1,196
Non-executive directors:					
YANG Xianghai ¹	-	-	-	-	-
WANG Chengran	-	250	-	-	250
SUN Xiaoning	-	-	-	-	-
ZHENG Anguo	-	250	-	-	250
WU Jumin	-	250	-	-	250
WU Junhao	-	250	-	-	250
HA Erman	-	250	-	-	250
WANG Jian ²	-	104	-	-	104
	-	3,364	382	-	3,746

¹ Resign from non-executive director since May 2015

² Non-executive director since July 2015

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB250,000 (before tax) per year. In May 2011, the 2010 annual general meeting resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. Except for SUN Xiaoning, the non-executive director, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2016(2015: SUN Xiaoning and YANG Xianghai).

(c) Supervisors

(in RMB thousand)	2016				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
DAI Zhihao	-	250	-	-	250
LIN Lichun	-	250	-	-	250
SONG Junxiang	-	539	46	-	585
YUAN Songwen	-	1,086	123	-	1,209
ZHANG Xinmei	-	250	-	-	250
	-	2,375	169	-	2,544

(in RMB thousand)	2015				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
DAI Zhihao	-	250	-	-	250
ZHANG Jianwei ¹	-	208	-	-	208
LIN Lichun	-	250	-	-	250
SONG Junxiang	-	903	173	-	1,076
YUAN Songwen	-	1,196	110	-	1,306
ZHANG Xinmei ²	-	-	-	-	-
	-	2,807	283	-	3,090

¹ Resign from supervisors since October 2015

² Supervisors since December 2015

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors (continued)

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing supervisors (excluding employees' representative supervisors) is RMB250,000 (before tax) per year. There was no arrangement under which a supervisor waived or agreed to waive any remuneration during 2016 and 2015.

(d) Directors' retirement benefits

There was no retirement benefits paid to the directors during 2016 and 2015.

(e) Directors' termination benefits

There was no termination benefits paid to directors during 2016 and 2015.

(f) Consideration provided to third parties for making available directors' services

There was no payment to third parties for making available directors' services during 2016 and 2015.

(g) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There was no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors entered into by the company or subsidiary undertaking of the company during 2016 and 2015.

(h) Directors' material interests in transactions, arrangements or contracts

There was no significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(All amounts expressed in RMB million unless otherwise specified)

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose remuneration was the highest for the years ended 31 December 2016 in the Group include no director (2015: no director) whose emoluments were reflected in the analysis presented in note 12.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is set out below:

	<u>2016</u>	<u>2015</u>
Nil to RMB1,000,000	-	-
RMB1,000,001 to RMB2,000,000	-	-
RMB2,000,001 to RMB3,000,000	-	-
RMB3,000,001 to RMB4,000,000	-	1
RMB4,000,001 to RMB5,000,000	4	3
RMB5,000,001 to RMB6,000,000	1	1
RMB6,000,001 to RMB7,000,000	-	-
RMB7,000,001 to RMB8,000,000	-	-
Total	<u>5</u>	<u>5</u>

Details of the remuneration of the highest paid non-director individuals are as follows:

(in RMB thousand)	<u>2016</u>	<u>2015</u>
Salaries, allowances and other short-term benefits	22,378	14,549
Contributions to defined contribution plans	712	1,083
Deferred bonus (1)	-	6,218
	<u>23,090</u>	<u>21,850</u>
The number of non-director individuals for the above remuneration	<u>5</u>	<u>5</u>

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

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(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	<u>2016</u>	<u>2015</u>
Current income tax	5,071	6,370
Deferred income tax (note 33)	(1,270)	(97)
	<u>3,801</u>	<u>6,273</u>

(b) Tax recorded in other comprehensive income

	<u>2016</u>	<u>2015</u>
Deferred income tax (note 33)	(1,566)	1,036

(c) Reconciliation of tax expense

Current income tax has been provided at the rate of 25% on the assessable profits arising in the PRC. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the PRC statutory income tax rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	<u>2016</u>	<u>2015</u>
Profit before tax	16,085	24,311
Tax computed at the statutory tax rate	4,021	6,078
Adjustments to income tax in respect of previous periods	18	(124)
Income not subject to tax	(2,974)	(1,432)
Expenses not deductible for tax	2,712	1,713
Others	24	38
Tax expense at the Group's effective rate	<u>3,801</u>	<u>6,273</u>

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	<u>2016</u>	<u>2015</u>
Consolidated net profit for the year attributable to equity holders of the parent	12,057	17,728
Weighted average number of ordinary shares in issue (million)	9,062	9,062
Basic earnings per share	RMB1.33	RMB1.96
Diluted earnings per share	RMB1.33	RMB1.96

The Company had no dilutive potential ordinary shares as at 31 December 2016 and 2015.

16. OTHER COMPREHENSIVE INCOME

	<u>2016</u>	<u>2015</u>
Exchange differences on translation of foreign operations	32	23
Available-for-sale financial assets		
(Losses)/gains arising during the year	(11,883)	19,145
Reclassification adjustments for gains/(losses) included in profit or loss	918	(12,897)
Fair value change on available-for-sale financial assets attributable to policyholders	3,747	(2,460)
Impairment charges reclassified to the income statement	965	282
	(6,253)	4,070
Income tax relating to available-for-sale financial assets	1,566	(1,036)
Share of other comprehensive (loss)/income in equity accounted investees	(19)	9
Other comprehensive income	(4,674)	3,066

17. GOODWILL

Cost

At 1 January 2015, 31 December 2015 and 2016 962

Impairment

At 1 January 2015, 31 December 2015 and 2016 -

Carrying Value

At 31 December 2015 and 2016 962

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18. PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2015	9,630	3,448	923	4,342	1,672	20,015
Additions	115	1,467	130	453	223	2,388
Transfer	784	(792)	-	-	8	-
Disposals	(13)	-	(69)	(220)	-	(302)
At 31 December 2015	10,516	4,123	984	4,575	1,903	22,101
Additions	95	4,752	125	566	287	5,825
Transfer	5,532	(5,976)	-	430	14	-
Transfer to investment properties, net (note 19)	(2,431)	-	-	-	-	(2,431)
Acquisition of a subsidiary	220	-	20	22	44	306
Disposals	(63)	-	(54)	(267)	-	(384)
At 31 December 2016	13,869	2,899	1,075	5,326	2,248	25,417
Accumulated depreciation and impairment						
At 1 January 2015	(2,129)	-	(520)	(3,253)	(1,153)	(7,055)
Depreciation charge	(327)	-	(116)	(440)	(203)	(1,086)
Disposals	8	-	66	220	-	294
At 31 December 2015	(2,448)	-	(570)	(3,473)	(1,356)	(7,847)
Depreciation charge	(357)	-	(126)	(471)	(225)	(1,179)
Transfer from investment properties, net (note 19)	19	-	-	-	-	19
Acquisition of a subsidiary	(23)	-	(9)	(18)	(18)	(68)
Disposals	9	-	53	260	-	322
At 31 December 2016	(2,800)	-	(652)	(3,702)	(1,599)	(8,753)
Net book value						
At 31 December 2015	8,068	4,123	414	1,102	547	14,254
At 31 December 2016	11,069	2,899	423	1,624	649	16,664

(All amounts expressed in RMB million unless otherwise specified)

19. INVESTMENT PROPERTIES

Cost	
At 1 January 2015	7,382
Transfer to property and equipment, net	-
	<hr/>
At 31 December 2015	7,382
Transfer from property and equipment, net	2,431
Acquisition of a subsidiary	159
	<hr/>
At 31 December 2016	9,972
	<hr/>
Accumulated depreciation	
At 1 January 2015	(819)
Depreciation charge	(219)
	<hr/>
At 31 December 2015	(1,038)
Depreciation charge	(245)
Transfer from property and equipment, net	(19)
Acquisition of a subsidiary	(13)
	<hr/>
At 31 December 2016	(1,315)
	<hr/>
Carrying amount	
At 31 December 2015	6,344
	<hr/>
At 31 December 2016	8,657
	<hr/> <hr/>

The fair values of investment properties of the Group as at 31 December 2016 amounted to RMB 11,387 million (31 December 2015: RMB8,542 million), respectively, which were estimated by the Company having regard to valuations performed by independent valuers. The Company leases part of its investment properties to CPIC Property, CPIC Life, Changjiang Pension and CPIC Aging Investment charges rentals based on the areas occupied by the respective entities. These properties are categorized as property and equipment of the Group in the consolidated balance sheet.

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31 December 2016

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20. OTHER INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2015	2,429
Additions	512
Disposals	(5)
	<hr/>
At 31 December 2015	2,936
Additions	540
Acquisition of a subsidiary	12
	<hr/>
At 31 December 2016	3,488
	<hr/>
Accumulated amortization	
At 1 January 2015	(1,543)
Amortization	(350)
Disposals	5
	<hr/>
At 31 December 2015	(1,888)
Amortization	(421)
Acquisition of a subsidiary	(7)
	<hr/>
At 31 December 2016	(2,316)
	<hr/>
Carrying amount	
At 31 December 2015	1,048
	<hr/>
At 31 December 2016	1,172
	<hr/>

21. PREPAID LAND LEASE PAYMENTS

Cost	
At 1 January 2015, 31 December 2015 and 31 December 2016	65
	<hr/>
Accumulated amortization	
At 1 January 2015	(7)
Amortization	(1)
	<hr/>
At 31 December 2015	(8)
Amortization	(1)
	<hr/>
At 31 December 2016	(9)
	<hr/>
Carrying amount	
At 31 December 2015	57
	<hr/>
At 31 December 2016	56
	<hr/>

Land use rights are acquired under the PRC laws for fixed periods, and the related costs are amortized on the straight-line basis. All of the Group's land use rights are related to pieces of land located in the PRC. The costs of the land use rights are amortized over the lease terms ranging from 30 to 50 years.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES

	31 December 2016							
	Historical cost	At 1 January 2016	Additions	Share of profit	Other comprehensive income	Dividend declared	Transfer out due to business combination	At 31 December 2016
Anxin Taiji (Shanghai) Information Technology Co., Ltd.(the "Taiji")	617	289	398	36	-	(12)	(711)	-
Shanghai Juche Information Technology Co., Ltd.(the "Juche")	2	1	-	-	-	-	-	1
Zhongdao Automobile Rescue Industry Co., Ltd.(the "Zhongdao")	3	2	-	(1)	-	-	-	1
Shanghai Proton and Heavy Ion Hospital(the "Zhizhong")	14	14	3	1	-	-	-	18
Shanghai Dedao Co., Ltd(the "Dedao")	100	-	100	(8)	-	-	-	92
	5	-	5	(2)	-	-	-	3
	<u>741</u>	<u>306</u>	<u>506</u>	<u>26</u>	<u>-</u>	<u>(12)</u>	<u>(711)</u>	<u>115</u>

As at 31 December 2016, the Company holds 51.35% of Anxin's ownership indirectly through CPIC Property after the transaction of the injection to Anxin. Particulars of the Company's subsidiaries are set out in note 5.

On 22 September 2014, CPIC Online Services and Zhonghe-Xintai (Fujian) Investment set up Taiji with operating period of 20 years and registered capital of RMB15 million. Among all, CPIC Online Services stands for 40% shares and its first capital contribution reaches RMB2.3 million.

On 10 September 2015, CPIC Property, CPIC Online Services, Shanghai Huizhong Investment Management LLP., Shanghai Taihui Investment Management LLP., and Suzhou Industrial Area 825 New Media Investment Management LLP., set up Juche with operating period of 20 years and registered capital of RMB5 million. Among all, CPIC Property stands for 32% shares and its first capital contribution reaches RMB1.6 million; CPIC Online Services stands for 16% shares and its first capital contribution reaches RMB0.8 million. In 2016, Ningbo Chunfeng Investment and Shanghai Huitian Car Services Limited became shareholders of Juche, and the total registered capital increased to RMB5.88 million. CPIC Property's holding of shares in Juche became 27.2%, and CPIC Online Services's holding of shares in Juche became 13.6%.

On 25 September 2015, CPIC Property, CPIC Online Services signed the ownership transfer contract with Shanghai Bochen Business Information Consulting Firm, Shanghai Shiji Investment Management LLP., and individual shareholders Jun Fan for transferring 33.6% shares of Zhongdao. After this transaction, CPIC Property held 25.6% shares of Zhongdao, and CPIC Online Services held 8% shares of Zhongdao, respectively. In 2016, CPIC Property paid the remaining balance of RMB2.56 million to complete its capital investment in Zhongdao, and CPIC Online Services paid the remaining balance of RMB0.80 million to complete its capital investment in Zhongdao.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

On 28 January 2016, CPIC Allianz Health signed the Capital injection contract with Shanghai Proton and Heavy Ion Hospital, Shanghai Electric (Group) Corporation, Jinjiang International and Shanghai Shengkang Investment company. After the completion of the transaction, CPIC Allianz Health holds 20% of the shares of Zhizhong.

On 23 November 2015, CPIC Online Services and Shenzhen Derun Electronic Company set up Shanghai Dedao Company with operating period of 10 years and registered capital of RMB20 million. Among all, CPIC Online Services stands for 25% shares and its first capital contribution reaches RMB5 million; Shenzhen Derun Electronic Company stands for 75% shares and its first capital contribution reaches RMB15 million. CPIC Online Services made the capital contribution of RMB5 million in March 2016.

Nature of investment in associates as at 31 December 2016

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Taiji	Shanghai	-	40.00%	40.00%	15,000	4,600	Technology development and consulting, etc.
Juche	Shanghai	-	40.39%	40.80%	5,882	5,882	Internet
Zhongdao	Shanghai	-	33.22%	33.60%	50,000	50,000	Automobile rescue services
Zhizhong	Shanghai	-	15.41%	20.00%	500,000	500,000	Oncology department and medical laboratory
Dedao	Shanghai	-	25.00%	25.00%	20,000	20,000	Information technology and automotive software

Summarised financial information for associates

	2016	2015
Net profit for the year	72	109
Other comprehensive income for the year	2	28
Total comprehensive income for the year	<u>74</u>	<u>137</u>
Total comprehensive income attributable to the Group	<u>26</u>	<u>45</u>
Carrying amount of the Group's interest	<u>115</u>	<u>306</u>

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Share of net assets	36	18

In November 2012, CPIC Property and a third party bid for the use right of the land located at Huangpu District, Shanghai. And in February 2013, both parties set up a project company named Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd. (“Binjiang-Xiangrui”) as the owner of the land use right to this parcel of land and construction development subject. Binjiang-Xiangrui finally acquired the enterprise business license in March 2013.

On 10 June 2015, CPIC Online Services and Jiaying-Taiyi Technology and Jiaying-Taizhong Investment set up Taiyi (Shanghai) Information Technology Co., Ltd. (“Taiyi”) with operating period of 20 years and registered capital of RMB10 million. Among all, CPIC Online Services stands for 48% shares and its first capital contribution reaches RMB4.8 million.

On 6 September 2015, CPIC Online Services and Hangzhou Fujing Investment Management LLP. set up Hangzhou Dayu Internet Technology Co., Ltd. (“Dayu”) with registered capital of RMB7 million. Among all, CPIC Online Services stands for 42.86% shares and its first capital contribution reaches RMB3 million. In April 2016, Hangzhou Fujing Investment Management LLP. injected another RMB3 million into Dayu. After the transaction, Dayu’s registered capital increased to RMB10 million, and CPIC Online Services’s holding shares was diluted to 30%. In August 2016, CPIC transferred 3% of its holding shares to other shareholders. By 31 December 2016, CPIC Online Services stands for 27% shares of Dayu, and its capital contribution changed to RMB2.7 million.

On 11 July 2016, CPIC Online Services, Shenzhen Zhongshunyi Financial Services, and Xianghu (Shanghai) Business Consulting Center LLP., and Shanghai Duoduoa Business Management Consultant LLP. set up Aizhu (Shanghai) Information Technology Co., Ltd. (“Aizhu”) with operating period of 20 years and registered capital of RMB10 million. CPIC Online Services stands for 35% shares and its first capital contribution reaches RMB1 million.

On 15 April 2016, CPIC Property and Euler Hermes Hong Kong set up Pacific Euler Hermes Insurance Sales Co., Ltd. (“Euler Hermes”) with operating period of 20 years and registered capital of RMB50 million. CPIC Property stands for 51% shares and its first capital contribution reaches RMB25.50 million.

Particulars of the joint venture as at 31 December 2016 are as follow:

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Binjiang-Xiangrui	Shanghai	-	35.16%	35.70%	150,000	30,000	Real estate Used car information service platform Technology development services,
Taiyi	Shanghai	-	48.00%	48.00%	10,000	10,000	consulting, etc. Internet technology, etc.
Dayu	Hangzhou	-	27.00%	33.33%	10,000	10,000	Insurance sales
Aizhu	Shanghai	-	35.00%	35.00%	10,000	10,000	
Euler Hermes	Shanghai	-	50.24%	50.00%	50,000	50,000	

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES (continued)

The main financial information of the Group's joint venture:

	2016 (RMB thousand)	2015 (RMB thousand)
The joint venture's net (loss)/income:	(14,640)	118
The joint venture's other comprehensive income:	<u>-</u>	<u>-</u>

As at 31 December 2016, the Group's investment in joint ventures had no impairment. The Group received no cash dividend from Binjiang-Xiangrui.

Commitments related to investment in joint ventures are mentioned in Note 51.

24. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets are stated at amortized cost and comprise the following:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Listed		
Debt investments		
- Government bonds	1,368	1,362
- Finance bonds	5,757	6,036
- Corporate bonds	<u>13,039</u>	<u>13,716</u>
	<u>20,164</u>	<u>21,114</u>
Unlisted		
Debt investments		
- Government bonds	70,387	70,386
- Finance bonds	106,058	107,470
- Corporate bonds	<u>108,265</u>	<u>111,373</u>
	<u>284,710</u>	<u>289,229</u>
	<u><u>304,874</u></u>	<u><u>310,343</u></u>

(All amounts expressed in RMB million unless otherwise specified)

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2016	31 December 2015
Debt investments		
- Finance bonds	2,899	3,419
- Debt investment scheme	61,397	53,025
- Wealth management products	43,338	24,789
- Preferred Shares	32,000	11,800
	<u>139,634</u>	<u>93,033</u>

As at 31 December 2016, CPIC Asset Management, a subsidiary of the Group, issued and existed 66 debt investment schemes with a total value of RMB101.70 billion. Of these, the existing amounts approximately RMB35.96 billion are recognized in the Group's consolidated financial information (As at 31 December 2015, CPIC Asset Management, a subsidiary of the Group, issued and existed 63 debt investment schemes with a total value of RMB106.86 billion. Of these, the existing amounts approximately RMB39.07 billion are recognized in the Group's consolidated financial information). As at 31 December 2016, Changjiang Pension, a subsidiary of the Group, issued and existed 22 debt investment schemes with a total value of RMB23.80 billion. Of these, the existing amounts approximately RMB5.67 billion are recognized in the Group's consolidated financial information (31 December 2015, Changjiang Pension, a subsidiary of the Group, issued and existed 7 debt investment schemes with a total value of RMB7.90 billion. Of these, the existing amounts approximately RMB440 million are recognized in the Group's consolidated financial information). Meanwhile, the Group also had investments in debt investment schemes launched by other insurance asset management companies with a value of approximately RMB19.77 billion (31 December 2015, RMB13.52 billion). The value guaranteed by third parties or pledge on debt investment schemes invested by the Group are RMB54.78 billion. For debt investment schemes launched by CPIC Asset Management and Changjiang Pension and invested by the Group, the Group did not provide any guarantees or financial support. The Group's maximum exposure to loss in the debt investment schemes is limited to its carrying amounts.

26. RESTRICTED STATUTORY DEPOSITS

	31 December 2016	31 December 2015
At the beginning of the year	5,938	5,580
Movement	140	358
At the end of the year	<u>6,078</u>	<u>5,938</u>

In accordance with relevant provision of Insurance Law of the PRC, CPIC Property, CPIC Life, Changjiang Pension, CPIC Allianz Health and Anxin should place 20% of its issued capital as restricted statutory deposits, respectively.

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26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2016		
	Amount	Storage	Period
<u>CPIC Property</u>			
Bank of Communications	1,318	Term deposit	5 years 5 years and
Industrial Bank	440	Term deposit	1 month
Bank of Shanghai	200	Term deposit	3 years
China Minsheng Bank	100	Term deposit	3 years
China Merchants Bank	274	Term deposit	5 years
China Merchants Bank	368	Term deposit	3 years
Shanghai Pudong Development Bank	200	Term deposit	3 years
Bank of China	294	Term deposit	5 years
Evergrowing Bank	200	Term deposit	5 years
Zheshang Bank	500	Term deposit	5 years
Subtotal	3,894		
<u>CPIC Life</u>			
Bank of Communications	880	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
China Construction Bank	464	Term deposit	5 years
Subtotal	1,684		
<u>Changjiang Pension</u>			
Bank of Communications	50	Term deposit	3 years
China Minsheng Bank	30	Term deposit	3 years
Bank of China	80	Term deposit	5 years and 1 month
Subtotal	160		
<u>CPIC Allianz Health</u>			
China Construction Bank	30	Term deposit	5 years
Bank of Communications	170	Term deposit	5 years
Subtotal	200		
<u>Anxin</u>			
Bank of Shanghai	40	Term deposit	3 years
China Construction Bank	20	Term deposit	3 years
China Everbright Bank	30	Term deposit	3 years
Shanghai Pudong Development Bank	10	Term deposit	3 years
Agricultural Bank of China	40	Term deposit	5 years
Subtotal	140		
Total	6,078		

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26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2015		
	Amount	Storage	Period
<u>CPIC Property</u>			
Bank of Communications	818	Term deposit	5 years
Industrial and Commercial Bank of China	100	Term deposit	5 years
China Construction Bank	100	Term deposit	5 years
China Minsheng Bank	240	Term deposit	5 years
China Merchants Bank	642	Term deposit	5 years
Shanghai Pudong Development Bank	1,000	Term deposit	5 years
China Everbright Bank	500	Term deposit	5 years
Bank of China	294	Term deposit	5 years
Evergrowing Bank	200	Term deposit	5 years
Subtotal	3,894		
<u>CPIC Life</u>			
Bank of Communications	680	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
Bank of China	500	Term deposit	5 years and 6 months
China Construction Bank	164	Term deposit	5 years
Subtotal	1,684		
<u>Changjiang Pension</u>			
Bank of Communications	50	Term deposit	3 years
China Minsheng Bank	30	Term deposit	3 years
Bank of China	80	Term deposit	5 years and 1 month
Subtotal	160		
<u>CPIC Allianz Health</u>			
China Construction Bank	30	Term deposit	5 years
Bank of Communications	170	Term deposit	5 years and 1 month
Subtotal	200		
Total	5,938		

27. TERM DEPOSITS

	31 December 2016	31 December 2015
1 month to 3 months (including 3 months)	35,683	24,122
3 months to 1 year (including 1 year)	10,078	23,541
1 to 2 years (including 2 years)	21,180	45,160
2 to 3 years (including 3 years)	25,030	21,180
3 to 4 years (including 4 years)	24,055	16,340
4 to 5 years (including 5 years)	16,200	24,055
	132,226	154,398

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28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are stated at fair value and comprise the following:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Listed		
Equity investments		
- Equity securities	25,469	29,292
- Investment funds	8,741	7,639
- Wealth management products	1,015	1,024
Debt investments		
- Government bonds	8,424	6,168
- Finance bonds	1,555	806
- Corporate bonds	31,138	14,917
	<u>76,342</u>	<u>59,846</u>
Unlisted		
Equity investments		
- Investment funds	29,571	33,939
- Wealth management products	20,232	24,501
- Other equity investments	19,005	15,402
- Preferred Shares	4,544	2,217
Debt investments		
- Government bonds	16,340	5,693
- Finance bonds	18,714	10,908
- Corporate bonds	73,339	65,105
- Wealth management products	624	451
	<u>182,369</u>	<u>158,216</u>
	<u>258,711</u>	<u>218,062</u>

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29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All the Group's financial assets at fair value through profit or loss are held for trading and were as follows:

	31 December 2016	31 December 2015
Listed		
Equity investments		
- Equity securities	5,716	4,353
- Investment funds	418	410
Debt investments		
- Government bonds	1	82
- Finance bonds	326	329
- Corporate bonds	5,770	7,126
	<u>12,231</u>	<u>12,300</u>
Unlisted		
Equity investments		
- Investment funds	5,682	3,969
- Wealth management products	1,561	190
- Other equity investments	30	29
Debt investments		
- Corporate bonds	5,993	4,691
- Finance bonds	1,281	1,064
- Government bonds	423	-
- Wealth management products	3	8
	<u>14,973</u>	<u>9,951</u>
	<u>27,204</u>	<u>22,251</u>

30. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2016	31 December 2015
Securities - bonds		
Inter-bank market	17,506	13,173
Stock exchange	3,632	1,518
	<u>21,138</u>	<u>14,691</u>

The Group does not sell or re-pledge the collateral underlying the securities purchased under agreements to resell.

(All amounts expressed in RMB million unless otherwise specified)

31. INTEREST RECEIVABLES

	31 December 2016	31 December 2015
Interest receivables from deposits	5,659	6,499
Interest receivables from debt investments	10,734	8,853
Interest receivables from loans	597	411
Interest receivables from securities purchased under agreements to resell	14	2
	<u>17,004</u>	<u>15,765</u>
Less: Bad debt provision	(1)	(1)
	<u>17,003</u>	<u>15,764</u>

32. REINSURANCE ASSETS

	31 December 2016	31 December 2015
Reinsurers' share of insurance contracts (note 39)	<u>20,141</u>	<u>18,257</u>

33. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

	31 December 2016	31 December 2015
Net deferred income tax assets, at beginning of year	(2,419)	(1,480)
Acquisition of subsidiary	28	-
Recognized in profit or loss (note 14(a))	1,270	97
Recognized in other comprehensive income (note 14(b))	1,566	(1,036)
Net deferred income tax assets/(liabilities), at end of year	<u>445</u>	<u>(2,419)</u>
	31 December 2016	31 December 2015
Insurance contract liabilities	546	450
Impairment of assets	361	226
Commissions and handling fees	371	308
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(1,325)	(3,432)
Fair value adjustments arising from acquisition of a subsidiary	(849)	(820)
Others	1,341	849
Net deferred income tax assets/(liabilities)	<u>445</u>	<u>(2,419)</u>
Represented by:		
Deferred tax assets	1,382	80
Deferred tax liabilities	(937)	(2,499)

(All amounts expressed in RMB million unless otherwise specified)

34. INSURANCE RECEIVABLES

	31 December 2016	31 December 2015
Insurance receivables	12,763	8,450
Provision for impairment of insurance receivables	(496)	(359)
	<u>12,267</u>	<u>8,091</u>

An aged analysis of the insurance receivables is as follows:

	31 December 2016	31 December 2015
Within 3 months (including 3 months)	9,287	5,620
Over 3 months and within 1 year (including 1 year)	2,188	1,782
Over 1 year	792	689
	<u>12,267</u>	<u>8,091</u>

Insurance receivables include premium receivables from policyholders or agents and receivables from reinsurers.

The credit terms for premium receivables from life insurance policyholders are 60 days. CPIC Property normally collects premium receivables from agents on a monthly or quarterly basis, and certain premiums are collected by CPIC Property in installments. According to the Group's credit policy, the credit terms for premium receivables cannot be longer than the insurance coverage period. The Group and reinsurers normally settle receivables and payables on a quarterly basis.

The Group's insurance receivables relate to a large number of counterparties, and there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

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34. INSURANCE RECEIVABLES (continued)

The following insurance receivables are individually determined to be impaired mainly because they are past due and were not collected before the end of the insurance coverage period. The Group does not hold any collateral or other enhancements over these balances.

	31 December 2016	31 December 2015
Insurance receivables that are individually determined to be impaired	96	68
Related provision for impairment	(68)	(59)
	<u>28</u>	<u>9</u>

35. OTHER ASSETS

	31 December 2016	31 December 2015
Due from a related-party (1)	1,318	1,206
Tax receivable other than income tax	99	580
Receivable for securities sold	3,983	5,953
Due from agents	763	712
Co-insurance receivable	81	106
Others	3,025	2,278
	<u>9,269</u>	<u>10,835</u>

(1) As at 31 December 2016, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses amounted to approximately RMB1,318 million (31 December 2015, RMB1,206 million).

(All amounts expressed in RMB million unless otherwise specified)

36. CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2016	31 December 2015
Cash at banks and on hand	9,717	8,124
Time deposits with original maturity of no more than three months	4,633	439
Other monetary assets	909	938
	<u>15,259</u>	<u>9,501</u>

The Group's bank balances denominated in RMB amounted to RMB13,953 million as at 31 December 2016 (31 December 2015: RMB8,395 million). Under PRC's foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business after obtaining approval from foreign exchange regulatory authorities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term time deposits approximate their fair values.

As at 31 December 2016, RMB881 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2015, RMB823 million).

37. ISSUED CAPITAL

	31 December 2016	31 December 2015
Number of shares issued and fully paid at RMB1 each (million)	<u>9,062</u>	<u>9,062</u>

(All amounts expressed in RMB million unless otherwise specified)

38. RESERVES AND RETAINED PROFITS

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

(a) Capital reserves

Capital reserves mainly represents share premiums from issuance of shares and the deemed disposal of an equity interest in CPIC Life to certain foreign investors in December 2005, and the subsequent repurchase of the said interest in the same subsidiary by the Company in April 2007.

(b) Surplus reserves

Surplus reserves consist of the statutory surplus reserve and the discretionary surplus reserve.

(i) Statutory surplus reserves (the "SSR")

According to the PRC Company Law and the articles of association of the Company and its subsidiaries in the PRC, the Company and its subsidiaries are required to set aside 10% of their net profit (after offsetting the accumulated losses incurred in previous years) determined under PRC GAAP, to the SSR until the balance reaches 50% of the respective registered capital.

The balance of SSR reaches 50% of the respective registered capital after the Company set aside RMB664 million to the SSR in 2016.

Subject to the approval of shareholders, the SSR may be used to offset the accumulated losses, if any, and may also be converted into capital, provided that the balance of the SSR after such capitalisation is not less than 25% of the registered capital.

Of the Group's retained profits, RMB7,088 million as at 31 December 2016 (31 December 2015: RMB6,584 million) represents the Company's share of its subsidiaries' surplus reserve fund. RMB504million as at 31 December 2016 (31 December 2015: RMB954 million) represents the Company's surplus reserve fund extracted by subsidiaries.

(ii) Discretionary surplus reserves (the "DSR")

After making necessary appropriations to the SSR, the Company and its subsidiaries in the PRC may also appropriate a portion of their net profit to the DSR upon the approval of the shareholders in general meetings.

Subject to the approval of the shareholders, the DSR may be used to offset accumulated losses, if any, and may be converted into capital.

(All amounts expressed in RMB million unless otherwise specified)

38. RESERVES AND RETAINED PROFITS (continued)

(c) General reserves

In accordance with the relevant regulations, general reserves should be set aside to cover catastrophic losses as incurred by companies operating in the insurance business. The Company's insurance subsidiaries in the PRC would need to make appropriations for such reserve based on their respective year end net profit determined in accordance with PRC GAAP, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer as capital injection.

Of the Group's reserves, RMB8,392 million as at 31 December 2016 (31 December 2015: RMB7,105 million) represents the Company's share of its subsidiaries' general reserves.

(d) Other reserves

The investment revaluation reserve records the fair value changes of available-for-sale financial assets. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries incorporated outside the PRC.

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. Pursuant to the resolution of the 16th meeting of the Company's 7th term of board of directors held on 29 March 2017, a final dividend of approximately RMB 6,343 million (equivalent to RMB0.7 per share (including tax)) was proposed after the appropriation of statutory surplus reserves and is subject to the approval of the forthcoming annual general meeting.

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39. INSURANCE CONTRACT LIABILITIES

	31 December 2016		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	616,059	(9,173)	606,886
Short-term life insurance contracts			
- Unearned premiums	2,485	(37)	2,448
- Claim reserves	2,079	(75)	2,004
	4,564	(112)	4,452
Property and casualty insurance contracts			
- Unearned premiums	38,639	(4,314)	34,325
- Claim reserves	34,564	(6,542)	28,022
	73,203	(10,856)	62,347
	693,826	(20,141)	673,685
Incurred but not reported claim reserves	6,376	(977)	5,399
	31 December 2015		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	545,127	(7,743)	537,384
Short-term life insurance contracts			
- Unearned premiums	2,118	(2)	2,116
- Claim reserves	1,615	(16)	1,599
	3,733	(18)	3,715
Property and casualty insurance contracts			
- Unearned premiums	37,618	(4,155)	33,463
- Claim reserves	34,601	(6,341)	28,260
	72,219	(10,496)	61,723
	621,079	(18,257)	602,822
Incurred but not reported claim reserves	6,086	(885)	5,201

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39. INSURANCE CONTRACT LIABILITIES (continued)

(a) Long-term life insurance contract liabilities

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2015	493,905	(6,873)	487,032
Increase	101,399	(1,557)	99,842
Decrease			
- Claims paid	(24,960)	563	(24,397)
- Surrender	(25,217)	124	(25,093)
At 31 December 2015	545,127	(7,743)	537,384
Increase	112,439	(2,158)	110,281
Decrease			
- Claims paid	(27,969)	656	(27,313)
- Surrender	(13,538)	72	(13,466)
At 31 December 2016	<u>616,059</u>	<u>(9,173)</u>	<u>606,886</u>

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2015	1,868	(11)	1,857
Premiums written	7,573	(47)	7,526
Premiums earned	(7,323)	56	(7,267)
At 31 December 2015	2,118	(2)	2,116
Premiums written	9,152	(91)	9,061
Premiums earned	(8,785)	56	(8,729)
At 31 December 2016	<u>2,485</u>	<u>(37)</u>	<u>2,448</u>

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2015	1,316	(11)	1,305
Claims incurred	3,156	(18)	3,138
Claims paid	(2,857)	13	(2,844)
At 31 December 2015	1,615	(16)	1,599
Claims incurred	4,604	(125)	4,479
Claims paid	(4,140)	66	(4,074)
At 31 December 2016	<u>2,079</u>	<u>(75)</u>	<u>2,004</u>

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39. INSURANCE CONTRACT LIABILITIES (continued)

(c) Property and casualty insurance contract liabilities

Movements of unearned premiums

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2015	37,322	(4,133)	33,189
Premiums written	94,710	(11,634)	83,076
Premiums earned	(94,414)	11,612	(82,802)
At 31 December 2015	37,618	(4,155)	33,463
Acquisition of a subsidiary	408	1	409
Premiums written	96,608	(11,748)	84,860
Premiums earned	(95,995)	11,588	(84,407)
At 31 December 2016	38,639	(4,314)	34,325

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2015	30,232	(6,139)	24,093
Claims incurred	60,735	(7,142)	53,593
Claims paid	(56,366)	6,940	(49,426)
At 31 December 2015	34,601	(6,341)	28,260
Acquisition of a subsidiary	665	-	665
Claims incurred	58,427	(6,816)	51,611
Claims paid	(59,129)	6,615	(52,514)
At 31 December 2016	34,564	(6,542)	28,022

40. INVESTMENT CONTRACT LIABILITIES

At 1 January 2015	35,662
Deposits received	7,365
Deposits withdrawn	(5,276)
Fees deducted	(151)
Interest credited	1,436
Others	997
At 31 December 2015	40,033
Deposits received	13,050
Deposits withdrawn	(6,010)
Fees deducted	(192)
Interest credited	1,803
Others	112
At 31 December 2016	48,796

(All amounts expressed in RMB million unless otherwise specified)

41. SUBORDINATED DEBTS

On 21 December 2011, CPIC Life issued a 10-year subordinated debt with a total face value of RMB8 billion. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 5.5% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.5% and would remain unchanged for the remaining term. CPIC Life exercised the early redemption option for the subordinated debt in 2016.

On 20 August 2012, CPIC Life issued a 10-year subordinated debt with a total face value of RMB7.5 billion. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 4.58% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 6.58% and would remain unchanged for the remaining term.

On 5 March 2014, CPIC Property issued a 10-year subordinated debt with a total face value of RMB4 billion. CPIC Property has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 5.9% per annum, payable annually in arrears. If CPIC property does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.9% and would remain unchanged for the remaining term.

	31 December 2015	Issuance	Premium amortization	Redemption	31 December 2016
CPIC Life	15,500	-	-	(8,000)	7,500
CPIC Property	3,997	-	1	-	3,998
	<u>19,497</u>	<u>-</u>	<u>1</u>	<u>(8,000)</u>	<u>11,498</u>

42. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2016	31 December 2015
Bonds		
Inter-bank market	23,172	20,709
Stock exchange	15,932	8,272
	<u>39,104</u>	<u>28,981</u>

As at 31 December 2016, bond investments of approximately RMB39,857 million (31 December 2015: RMB29,229million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

(All amounts expressed in RMB million unless otherwise specified)

43. OTHER LIABILITIES

	31 December 2016	31 December 2015
Annuity and other insurance payables	17,754	15,714
Salary and staff welfare payable	3,871	2,819
Payables for securities purchased but not settled	3,525	3,724
Commission and brokerage payable	3,470	2,781
Tax payable other than income tax	1,538	1,309
Accrued expenses	1,247	795
Payables to non-controlling interests of consolidated structured entities	915	1,762
Payables for asset-backed securities	908	-
Payables for construction and purchase of office buildings	519	93
Insurance guarantee fund	305	247
Co-insurance payable	285	253
Others	4,375	3,851
	<u>38,712</u>	<u>33,348</u>

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES

(a) Long-term life insurance contracts

Key assumptions

Judgements are required in the process of determining the liabilities and making the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Life insurance contract estimates are based on current assumptions or those made when signing contracts. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, expense assumptions and policy dividend assumptions.

(All amounts expressed in RMB million unless otherwise specified)

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities

The analysis below is performed to show the reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross long-term life insurance contract liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities; however, for the purpose of demonstrating the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

As at 31 December 2016				
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact on equity	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(11,620)	11,620	-1.89%
	-25 basis points	12,497	(12,497)	2.03%
Mortality rates	+10%	1,454	(1,454)	0.24%
	-10%	(1,434)	1,434	-0.23%
Morbidity rates	+10%	4,889	(4,889)	0.79%
	-10%	(4,991)	4,991	-0.81%
Surrender rates	+10%	(794)	794	-0.13%
	-10%	950	(950)	0.15%
Expenses	+10%	4,224	(4,224)	0.69%
	-10%	(4,224)	4,224	-0.69%
Policy dividend	+5%	10,743	(10,743)	1.74%

(All amounts expressed in RMB million unless otherwise specified)

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities (continued)

As at 31 December 2015				
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact on equity	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(9,198)	9,198	-1.69%
	-25 basis points	9,865	(9,865)	1.81%
Mortality rates	+10%	1,061	(1,061)	0.19%
	-10%	(1,047)	1,047	-0.19%
Morbidity rates	+10%	3,167	(3,167)	0.58%
	-10%	(3,235)	3,235	-0.59%
Surrender rates	+10%	(509)	509	-0.09%
	-10%	606	(606)	0.11%
Expenses	+10%	3,416	(3,416)	0.63%
	-10%	(3,416)	3,416	-0.63%
Policy dividend	+5%	9,461	(9,461)	1.74%

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in an identical fashion.

(b) Property and casualty and short-term life insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claim development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include explicit margin, delays in settlement, etc.

(All amounts expressed in RMB million unless otherwise specified)

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Sensitivities

The property and casualty and short-term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative changes, uncertainty in the estimation process, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2016 by RMB1,401 million and RMB100 million (31 December 2015: RMB1,413 million and RMB80 million), respectively.

Claim development tables

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					Total
	2012	2013	2014	2015	2016	
Estimate of ultimate claim cost as of:						
End of current year	40,238	49,591	55,880	58,926	57,960	
One year later	41,713	51,733	55,420	57,737		
Two years later	42,127	52,324	55,098			
Three years later	42,141	52,189				
Four years later	42,199					
Current estimate of cumulative claims	42,199	52,189	55,098	57,737	57,960	265,183
Cumulative payments to date	(41,754)	(51,190)	(52,792)	(50,133)	(35,834)	(231,703)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						1,084
Total gross claim reserves included in the consolidated balance sheet						34,564

(All amounts expressed in RMB million unless otherwise specified)

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Net property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					Total
	2012	2013	2014	2015	2016	
Estimate of ultimate claim cost as of:						
End of current year	33,978	42,287	46,868	51,435	50,934	
One year later	35,185	44,203	46,816	50,423		
Two years later	35,901	44,660	46,654			
Three years later	36,085	44,603				
Four years later	36,088					
Current estimate of cumulative claims	36,088	44,603	46,654	50,423	50,934	228,702
Cumulative payments to date	(35,838)	(43,900)	(44,960)	(44,623)	(32,331)	(201,652)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						972
Total net claim reserves included in the consolidated balance sheet						28,022

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					Total
	2012	2013	2014	2015	2016	
Estimate of ultimate claim cost as of:						
End of current year	1,500	1,612	1,939	2,072	2,496	
One year later	1,549	1,633	1,877	1,952		
Two years later	1,525	1,612	1,878			
Three years later	1,528	1,614				
Four years later	1,522					
Current estimate of cumulative claims	1,522	1,614	1,878	1,952	2,496	9,462
Cumulative payments to date	(1,521)	(1,595)	(1,823)	(1,802)	(1,446)	(8,187)
Risk adjustment and others						804
Total gross claim reserves included in the consolidated balance sheet						2,079

(All amounts expressed in RMB million unless otherwise specified)

44. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					Total
	2012	2013	2014	2015	2016	
Estimate of ultimate claim cost as of:						
End of current year	1,288	1,553	1,913	2,050	2,438	
One year later	1,348	1,579	1,843	1,916		
Two years later	1,333	1,552	1,826			
Three years later	1,323	1,547				
Four years later	1,317					
Current estimate of cumulative claims	1,317	1,547	1,826	1,916	2,438	9,044
Cumulative payments to date	(1,316)	(1,528)	(1,781)	(1,782)	(1,433)	(7,840)
Risk adjustment and others						800
Total net claim reserves included in the consolidated balance sheet						<u>2,004</u>

45. RISK MANAGEMENT

(a) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected.

Severity risk – the possibility that the cost of the events will differ from that 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 above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(a) Insurance risk (continued)

The businesses of the Group mainly comprise long-term life insurance contracts, short-term life insurance contracts and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

(b) Financial risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, which arise from foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

- A group market risk policy setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit set-up guidelines, which ensures that assets back specific policyholder liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain foreign currency insurance policies, bank deposits and securities denominated in United States dollar ("USD") or Hong Kong dollar ("HKD").

The following tables summarize the Group's exposure to foreign currency exchange rate risk at the balance sheet date by categorizing financial assets, financial liabilities, reinsurance assets and insurance contract liabilities by major currency.

	As at 31 December 2016			
	RMB	USD	HKD	Total
Held-to-maturity financial assets	304,745	129	-	304,874
Investments classified as loans and receivables	139,634	-	-	139,634
Term deposits	131,999	227	-	132,226
Available-for-sale financial assets	257,852	859	-	258,711
Financial assets at fair value through profit or loss	26,800	-	404	27,204
Reinsurance assets	20,076	-	65	20,141
Cash and short-term time deposits	13,953	1,061	245	15,259
Others	91,965	814	252	93,031
	987,024	3,090	966	991,080
Insurance contract liabilities	693,482	-	344	693,826
Investment contract liabilities	48,796	-	-	48,796
Policyholders' deposits	75	-	-	75
Subordinated debts	11,498	-	-	11,498
Securities sold under agreements to repurchase	39,104	-	-	39,104
Others	58,284	329	48	58,661
	851,239	329	392	851,960

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December 2015			
	RMB	USD	HKD	Total
Held-to-maturity financial assets	310,211	124	8	310,343
Investments classified as loans and receivables	93,033	-	-	93,033
Term deposits	154,037	361	-	154,398
Available-for-sale financial assets	217,763	295	4	218,062
Financial assets at fair value through profit or loss	22,233	-	18	22,251
Reinsurance assets	18,202	-	55	18,257
Cash and short-term time deposits	8,395	695	411	9,501
Others	73,629	823	19	74,471
	<u>897,503</u>	<u>2,298</u>	<u>515</u>	<u>900,316</u>
Insurance contract liabilities	620,977	-	102	621,079
Investment contract liabilities	40,033	-	-	40,033
Policyholders' deposits	75	-	-	75
Subordinated debts	19,497	-	-	19,497
Securities sold under agreements to repurchase	28,981	-	-	28,981
Others	49,861	284	-	50,145
	<u>759,424</u>	<u>284</u>	<u>102</u>	<u>759,810</u>

The Group has no significant concentration of currency risk.

Sensitivities

The analysis below is performed to show the reasonably possible movements in foreign currency exchange rates with all other assumptions held constant, showing the pre-tax impact on profit before tax of the Group (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity of the Group when the foreign exchange rates of USD and HKD vary. 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 variables, variables had to be changed on an individual basis.

Currency	Changes in exchange rate	31 December 2016	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	138	181
USD and HKD	- 5%	(138)	(181)
		<u>138</u>	<u>181</u>
		<u>(138)</u>	<u>(181)</u>
Currency	Changes in exchange rate	31 December 2015	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	123	124
USD and HKD	- 5%	(123)	(124)
		<u>123</u>	<u>124</u>
		<u>(123)</u>	<u>(124)</u>

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(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.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest 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. Interest on floating rate instruments is repriced when benchmark interest rates change. Interest on other instruments is either fixed during its term or repriced at intervals of less than one year if the benchmark interest rates change.

The Group has no significant concentration of interest rate risk.

The tables below summarize the contractual or estimated repricing/maturity date of the Group's financial instruments. Other financial instruments not included in the following tables are interest-free and not exposed to interest rate risk.

	As at 31 December 2016					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
<u>Financial assets:</u>						
Held-to-maturity financial assets	31,422	18,059	20,792	234,601	-	304,874
Investments classified as loans and receivables	19,189	27,252	27,331	55,733	10,129	139,634
Restricted statutory deposits	1,030	4,444	164	440	-	6,078
Term deposits	40,761	46,210	40,115	-	5,140	132,226
Available-for-sale financial assets	38,906	16,734	23,439	71,055	-	150,134
Financial assets at fair value through profit or loss	6,920	1,653	4,373	851	-	13,797
Securities purchased under agreements to resell	21,138	-	-	-	-	21,138
Policy loans	27,844	-	-	-	-	27,844
Deposits with original maturity of no more than three months	4,633	-	-	-	10,626	15,259
<u>Financial liabilities:</u>						
Investment contract liabilities	48,796	-	-	-	-	48,796
Policyholders' deposits	75	-	-	-	-	75
Subordinated debts	7,500	3,998	-	-	-	11,498
Securities sold under agreements to repurchase	39,104	-	-	-	-	39,104

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

	As at 31 December 2015					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
<u>Financial assets:</u>						
Held-to-maturity financial assets	19,212	22,269	25,996	242,866	-	310,343
Investments classified as loans and receivables	20,658	10,296	26,378	25,572	10,129	93,033
Restricted statutory deposits	2,808	2,192	938	-	-	5,938
Term deposits	47,214	59,240	39,754	-	8,190	154,398
Available-for-sale financial assets	29,409	21,821	15,258	37,560	-	104,048
Financial assets at fair value through profit or loss	4,984	1,375	3,007	3,934	-	13,300
Securities purchased under agreements to resell	14,691	-	-	-	-	14,691
Policy loans	19,610	-	-	-	-	19,610
Deposits with original maturity of no more than three months	439	-	-	-	9,062	9,501
<u>Financial liabilities:</u>						
Investment contract liabilities	40,033	-	-	-	-	40,033
Policyholders' deposits	75	-	-	-	-	75
Subordinated debts	8,000	7,500	3,997	-	-	19,497
Securities sold under agreements to repurchase	28,981	-	-	-	-	28,981

Interest rates on floating rate bonds/liabilities are re-priced when the benchmark interest rates are adjusted.

Sensitivities

The analysis below is performed for reasonably possible movements in interest rate with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit and equity. Since almost all financial instruments of the Group that bear interest rate risks are financial instruments denominated in RMB, the sensitivity analysis below only shows the pre-tax impact of RMB financial instruments on the Group's profit before tax and equity when RMB interest rate changes.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivities (continued)

Sensitivities on fixed-rate financial instruments

As at the balance sheet dates, the Group's fixed-rate financial instruments exposed to interest rate risk mainly include financial assets at fair value through profit or loss and available-for-sale financial assets. The following tables show the pre-tax impact on profit (fair value change on held-for-trading bonds) and equity (fair value change on held-for-trading bonds combined with fair value change on available-for-sale bonds).

	31 December 2016	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	(90)	(2,903)
-50 basis points	92	3,186
	<hr/> <hr/>	<hr/> <hr/>
	31 December 2015	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	(94)	(1,940)
-50 basis points	96	2,109
	<hr/> <hr/>	<hr/> <hr/>

The above impact on equity represents adjustments to profit before tax and changes in fair value of available-for-sale financial assets.

Sensitivities on floating-rate financial instruments

The following tables show the pre-tax impact of change in interest rate on profit and equity due to change in interest income or expense arising from floating-rate financial instruments as at the balance sheet dates.

	31 December 2016	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	124	124
-50 basis points	(124)	(124)
	<hr/> <hr/>	<hr/> <hr/>
	31 December 2015	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	134	134
-50 basis points	(134)	(134)
	<hr/> <hr/>	<hr/> <hr/>

The above impact on equity represents adjustments to profit before tax.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investment type.

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment funds and equity securities. The Group uses the 5-day market price value-at-risk ("VAR") technique to estimate its risk exposure for listed equity securities and equity investment funds. The Group adopts 5 days as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VAR calculation is made based on the normal market condition and a 95% confidence level impact on equity for listed equity securities and equity investments funds with 5-day reasonable market fluctuation and with a 95% confidence level.

As at 31 December 2016, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market was RMB1,547 million (31 December 2015: RMB2,470 million).

Credit risk

Credit risk is the risk that one party to a financial instrument (debt instrument) or reinsurance asset will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, reinsurance arrangements with reinsurers, premium receivables, securities purchased under agreements to resell, policy loans and investments classified as loans and receivables.

Majority of the Group's financial assets are government bonds, agency bonds, corporate bonds, fixed deposits, debt investment schemes and credit asset support programs. Fixed deposits saved in national commercial banks or comparatively sound financial institutions, and most of corporate bonds, debt investment schemes and credit asset support programs guaranteed by qualified institutions. Hence, the related credit risk of the investment business should be regarded as relatively low. Meanwhile, the Group will perform credit assessments and risk appraisals for each investment business before signing contracts, and determine to invest in those programs released by highly rated issuers and project initiators.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

For securities purchased under agreements to resell and policy loans, there is a security pledge and the maturity period is less than one year. For premium receivables from life insurance, it mainly include renew premium within grace period. Hence, the related credit risk should not have significant impact on the Group's consolidated financial statements. The credit risk associated with the premium receivables from property and casualty insurance mainly arises from corporate customers. The Group grants a short credit period and arranges installment payment to reduce the credit risk. The Group performs regular credit assessment of the reinsurance companies. Reinsurance of the Group is mainly placed with highly rated reinsurance companies.

The Group mitigates credit risk by utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits.

The carrying amount of financial assets included on the consolidated balance sheet represents the maximum credit risk exposure at the reporting date without taking account of the effect of mitigation through any collateral held or other credit enhancements.

	As at 31 December 2016					Total
	Not due and not impaired	Past due but not impaired			Impaired	
		Less than 30 days	31 to 90 days	More than 90 days		
Held-to-maturity financial assets	304,874	-	-	-	-	304,874
Investments classified as loans and receivables	139,634	-	-	-	-	139,634
Term deposits	132,226	-	-	-	-	132,226
Available-for-sale financial assets	150,040	-	-	-	94	150,134
Financial assets at fair value through profit or loss	13,797	-	-	-	-	13,797
Interest receivables	17,003	-	-	-	-	17,003
Reinsurance assets	20,141	-	-	-	-	20,141
Insurance receivables	10,511	-	-	-	1,756	12,267
Cash and short-term time deposits	15,259	-	-	-	-	15,259
Others	63,297	-	-	-	463	63,760
Total	866,782	-	-	-	2,313	869,095

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45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	As at 31 December 2015						Total
	Not due and not impaired	Past due but not impaired			Impaired	Total past due but not impaired	
		Less than 30 days	31 to 90 days	More than 90 days			
Held-to-maturity financial assets	310,343	-	-	-	-	310,343	
Investments classified as loans and receivables	93,033	-	-	-	-	93,033	
Term deposits	154,398	-	-	-	-	154,398	
Available-for-sale financial assets	103,996	-	-	-	52	104,048	
Financial assets at fair value through profit or loss	13,300	-	-	-	-	13,300	
Interest receivables	15,764	-	-	-	-	15,764	
Reinsurance assets	18,257	-	-	-	-	18,257	
Insurance receivables	6,735	-	-	-	1,356	8,091	
Cash and short-term time deposits	9,501	-	-	-	-	9,501	
Others	50,291	-	-	-	325	50,616	
Total	775,618	-	-	-	1,733	777,351	

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. 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 Group is exposed to liquidity risk on insurance policies that permit surrenders, withdrawals or other forms of early termination. The Group seeks to manage its liquidity risk by matching, to the extent possible, the duration of its investment assets with the duration of its insurance policies and ensuring that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- Implementing group liquidity risk policy by setting out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Setting out guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure that sufficient funding is available to meet insurance and investment contract obligations.
- Setting up contingency funding plans which specify the minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The tables below summarize the maturity profiles of the financial assets and financial liabilities of the Group based on remaining undiscounted cash flows, and insurance contract liabilities of the Group based on the estimated timing of the net cash outflows.

	As at 31 December 2016					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	32,726	104,831	394,813	-	532,370
Investments classified as loans and receivables	-	17,253	92,806	75,138	-	185,197
Restricted statutory deposits	-	1,320	5,012	691	-	7,023
Term deposits	10	56,976	94,329	-	-	151,315
Available-for-sale financial assets	116	38,302	71,005	143,053	79,026	331,502
Financial assets at fair value through profit or loss	-	4,892	10,724	1,978	11,815	29,409
Securities purchased under agreements to resell	-	21,150	-	-	-	21,150
Insurance receivables	2,371	9,908	417	67	-	12,763
Cash and short-term time deposits	10,452	4,807	-	-	-	15,259
Others	345	35,754	1,333	-	-	37,432
Total	13,294	223,088	380,457	615,740	90,841	1,323,420
Liabilities:						
Insurance contract liabilities	-	72,159	125,254	496,413	-	693,826
Investment contract liabilities	64	2,496	2,122	44,114	-	48,796
Policyholders' deposits	-	75	-	-	-	75
Subordinated debts	-	8,080	4,472	-	-	12,552
Securities sold under agreements to repurchase	-	39,176	-	-	-	39,176
Others	40,059	17,969	210	28	-	58,266
Total	40,123	139,955	132,058	540,555	-	852,691

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
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45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2015					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	20,532	117,944	414,686	-	553,162
Investments classified as loans and receivables	-	10,404	72,656	37,670	-	120,730
Restricted statutory deposits	-	3,088	3,410	-	-	6,498
Term deposits	-	51,610	82,812	29,689	-	164,111
Available-for-sale financial assets	-	35,011	60,687	78,280	82,748	256,726
Financial assets at fair value through profit or loss	-	2,704	8,517	4,917	8,731	24,869
Securities purchased under agreements to resell	-	14,695	-	-	-	14,695
Insurance receivables	1,786	6,422	242	-	-	8,450
Cash and short-term time deposits	9,051	451	-	-	-	9,502
Others	907	28,539	1,226	-	-	30,672
Total	11,744	173,456	347,494	565,242	91,479	1,189,415
Liabilities:						
Insurance contract liabilities	-	92,271	118,608	410,200	-	621,079
Investment contract liabilities	65	3,554	2,034	34,380	-	40,033
Policyholders' deposits	-	76	-	-	-	76
Subordinated debts	-	9,020	12,659	-	-	21,679
Securities sold under agreements to repurchase	-	28,993	-	-	-	28,993
Others	35,389	14,176	205	-	35	49,805
Total	35,454	148,090	133,506	444,580	35	761,665

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

The table below summarizes the expected utilisation or settlement of assets and liabilities.

	As at 31 December 2016		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	17,633	287,241	304,874
Investments classified as loans and receivables	9,596	130,038	139,634
Term deposits	45,761	86,465	132,226
Available-for-sale financial assets	110,951	147,760	258,711
Financial assets at fair value through profit or loss	16,124	11,080	27,204
Cash and short-term time deposits	15,259	-	15,259
Others	35,211	1,333	36,544
Total assets	250,535	663,917	914,452
Liabilities:			
Insurance contract liabilities	72,159	621,667	693,826
Investment contract liabilities	2,560	46,236	48,796
Policyholders' deposits	75	-	75
Subordinated debts	7,500	3,998	11,498
Securities sold under agreements to repurchase	39,104	-	39,104
Others	58,056	210	58,266
Total liabilities	179,454	672,111	851,565
As at 31 December 2015			
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	4,960	305,383	310,343
Investments classified as loans and receivables	5,200	87,833	93,033
Term deposits	47,663	106,735	154,398
Available-for-sale financial assets	113,000	105,062	218,062
Financial assets at fair value through profit or loss	10,762	11,489	22,251
Cash and short-term time deposits	9,501	-	9,501
Others	28,761	1,226	29,987
Total assets	219,847	617,728	837,575
Liabilities:			
Insurance contract liabilities	92,271	528,808	621,079
Investment contract liabilities	3,619	36,414	40,033
Policyholders' deposits	75	-	75
Subordinated debts	8,000	11,497	19,497
Securities sold under agreements to repurchase	28,981	-	28,981
Others	49,600	205	49,805
Total liabilities	182,546	576,924	759,470

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequacy or failure on business processes, human error, information system failure, etc. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group is exposed to many types of operational risks in the conduct of its business, from inadequate or failure to obtain proper authorizations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of compliance check and internal audit.

(d) Mismatching risk of assets and liabilities

Assets and liabilities mismatching risk is the risk due to the Group's inability to match its assets with its liabilities on the basis of duration, cash flow and investment return. Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its medium and long term life insurance liabilities. When the current regulatory and market environment permits, the Group will lengthen the duration of its assets and increase the profile of securities with fixed investment returns to narrow the gap of duration and investment returns of the existing liabilities.

In order to further enhance the management of matching of assets and liabilities, the Group has the Asset-Liability Management Committee to make significant decisions on asset-liability management. The committee has an asset-liability working group which analyzes the extent of assets and liabilities matching.

(e) Capital management risks

The CIRC monitors capital management risks mainly through a set of solvency regulatory rules to ensure insurance companies can maintain sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy solvency margin capital ratios in order to support its business objectives and maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Group has stepped up efforts to maintain a platform for sustained financing in order to meet solvency margin needs arising from future expansion in business activities. The Group continuously and proactively adjusts the business mix, optimizes the asset allocation, improves the asset quality and enhances the operating efficiency so as to underscore the role of profitability in relation to solvency margin.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

In practice, the Group manages its capital requirements mainly through monitoring the solvency margins of the Group and its major insurance subsidiaries. The solvency margins are computed based on the relevant regulations issued by the CIRC; actual capital are the excess of admitted assets over admitted liabilities as determined under the regulations.

The Group has formally implemented China Risk Oriented Solvency System since 1 January 2016 by reference to the 'Notice on the Formal Implementation of China Risk Oriented Solvency System by CIRC'.

The table below summarizes the core capital, actual capital and minimum required capital of the Group and its major insurance subsidiaries determined according to the CIRC's solvency rules.

<u>Group</u>	31 December 2016	31 December 2015 (Unaudited)
Core capital	280,012	255,940
Actual capital	285,512	264,540
Minimum required capital	97,247	88,419
Core solvency margin ratio	288%	289%
Comprehensive solvency margin ratio	294%	299%
<u>CPIC Property</u>	31 December 2016	31 December 2015 (Unaudited)
Core capital	34,702	33,146
Actual capital	38,702	37,146
Minimum required capital	13,069	13,016
Core solvency margin ratio	266%	255%
Comprehensive solvency margin ratio	296%	285%
<u>CPIC Life</u>	31 December 2016	31 December 2015 (Unaudited)
Core capital	213,017	192,824
Actual capital	214,517	197,424
Minimum required capital	83,516	75,295
Core solvency margin ratio	255%	256%
Comprehensive solvency margin ratio	257%	262%

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

<u>CPIC Allianz Health</u>	31 December 2016	31 December 2015 (Unaudited)
Core capital	741	912
Actual capital	741	912
Minimum required capital	122	46
Core solvency margin ratio	607%	1971%
Comprehensive solvency margin ratio	607%	1971%
<u>Anxin</u>	31 December 2016	31 December 2015 (Unaudited)
Core capital	1,389	893
Actual capital	1,389	893
Minimum required capital	469	404
Core solvency margin ratio	296%	221%
Comprehensive solvency margin ratio	296%	221%

46. STRUCTURED ENTITIES

The Group uses structured entities in the normal course of business for a number of purposes, for example, structured transactions for institutions, to provide finance to public and private section infrastructure projects, and to generate fees from managing assets on behalf of third-party investors. These structured entities are financed through the contracts. Refer to Note 2.2(3) for the Group's consolidation consideration related to structured entities.

The following table shows the total assets of the various types of unconsolidated structured entities and the amount of funding provided by the Group to these unconsolidated structured entities. The table also shows the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities. The maximum exposure is contingent in nature and approximates the sum of funding provided by the Group.

(All amounts expressed in RMB million unless otherwise specified)

46. STRUCTURED ENTITIES (continued)

As at 31 December 2016, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

	31 December 2016				Interest held by Group
	Size	Funding provided by the Group	Group's maximum exposure	Carrying amount of Group's investment	
Pension funds and endowment assurance products managed by affiliated parties	78,584	-	-	-	Management fee
Insurance asset management products managed by affiliated parties	248,234	47,450	47,986	47,479	Investment income and management fee
Insurance asset management products managed by third parties	Note 1	28,214	28,456	28,483	Investment income
Trust products managed by third parties	Note 1	39,594	39,673	39,627	Investment income
Bank wealth management products and asset management products managed by third parties	Note 1	22,095	22,097	22,360	Investment income
Total		<u>137,353</u>	<u>138,212</u>	<u>137,949</u>	

Note 1: The structured entities are sponsored by third party financial institutions and the information related to size of these structured entities were not publicly available.

The Group's investments in unconsolidated structured entities are disclosed in wealth management products and other equity investments under financial assets at fair value through profit or loss, wealth management products and other equity investments under available-for-sale financial assets, debt investment scheme and wealth management products under investments classified as loans and receivables.

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. When an active market exists, such as an authorized securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market, fair value is determined using valuation techniques (note 3.2(2)).

The Group's financial assets mainly include cash and short-term time deposits, financial assets at fair value through profit or loss, securities purchased under agreements to resell, policy loans, term deposits, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables, statutory deposits, etc.

The Group's financial liabilities mainly include securities sold under agreements to repurchase, policyholders' deposits, investment contract liabilities, subordinated debts, long-term borrowings, etc.

Fair value of financial assets and liabilities not carried at fair value

The following table summarizes the carrying values and estimated fair values of held-to-maturity debt securities, investments classified as loans and receivables, and subordinated debts whose fair values are not presented in the consolidated balance sheet.

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	As at 31 December 2016	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	304,874	327,997
Investments classified as loans and receivables	139,634	139,710
	<u> </u>	<u> </u>
Financial liabilities:		
Subordinated debts	11,498	11,978
	<u> </u>	<u> </u>
	As at 31 December 2015	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	310,343	343,030
Investments classified as loans and receivables	93,033	93,328
	<u> </u>	<u> </u>
Financial liabilities:		
Subordinated debts	19,497	20,361
	<u> </u>	<u> </u>

As permitted by HKFRS 7, the Group has not disclosed fair values for certain investment contract liabilities with DPF because fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

The carrying amounts of other financial assets and financial liabilities approximate their fair values.

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE MEASUREMENT

Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

- (a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities (“Level 1”);
- (b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (“Level 2”); and
- (c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) (“Level 3”).

The level of fair value calculation is determined by the lowest level input with material significance in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities. Debt securities traded among Chinese interbank market are classified as Level 2 when they are valued at recent quoted price from Chinese interbank market or from valuation service providers. Substantially most financial instruments classified within Level 2 of the fair value hierarchy are debt investments denominated in RMB. Fair value of debt investments denominated in RMB is determined based upon the valuation results by the China Central Depository & Clearing Co., Ltd. All significant inputs are observable in the market.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement, and valuation methodologies such as discounted cash flow models and other similar techniques. The Group’s valuation team may choose to apply internally developed valuation method to the assets or liabilities being measured, determine the main inputs for valuation, and analyse the change of the valuation and report it to management. Key inputs involved in internal valuation services are not based on observable market data. They reflect assumptions made by management based on judgements and experiences.

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	As at 31 December 2016			Total fair value
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	3,585	2,131	-	5,716
- Investment funds	5,614	486	-	6,100
- Debt securities	3,254	10,540	-	13,794
- Others	-	1,591	3	1,594
	<u>12,453</u>	<u>14,748</u>	<u>3</u>	<u>27,204</u>
Available-for-sale financial assets				
- Equity securities	22,195	3,274	-	25,469
- Investment funds	37,592	720	-	38,312
- Debt securities	30,912	118,598	-	149,510
- Others	-	26,832	18,588	45,420
	<u>90,699</u>	<u>149,424</u>	<u>18,588</u>	<u>258,711</u>
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 47)	-	3,355	136,355	139,710
Held-to-maturity financial assets (Note 47)	10,623	317,374	-	327,997
Investment properties (Note 19)	-	-	11,387	11,387
	<u>-</u>	<u>-</u>	<u>11,387</u>	<u>11,387</u>
Liabilities for which fair values are disclosed				
Subordinated debts (Note 47)	-	-	11,978	11,978
	<u>-</u>	<u>-</u>	<u>11,978</u>	<u>11,978</u>

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	As at 31 December 2015			Total fair value
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	4,148	205	-	4,353
- Investment funds	4,379	-	-	4,379
- Debt securities	5,520	7,772	-	13,292
- Others	-	219	8	227
	<u>14,047</u>	<u>8,196</u>	<u>8</u>	<u>22,251</u>
Available-for-sale financial assets				
- Equity securities	25,357	3,935	-	29,292
- Investment funds	41,398	180	-	41,578
- Debt securities	16,190	87,407	-	103,597
- Others	-	28,576	15,019	43,595
	<u>82,945</u>	<u>120,098</u>	<u>15,019</u>	<u>218,062</u>
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 47)	-	3,959	89,369	93,328
Held-to-maturity financial assets (Note 47)	10,057	332,973	-	343,030
Investment properties (Note 19)	-	-	8,542	8,542
	<u>-</u>	<u>-</u>	<u>8,542</u>	<u>8,542</u>
Liabilities for which fair values are disclosed				
Subordinated debts (Note 47)	-	-	20,361	20,361
	<u>-</u>	<u>-</u>	<u>20,361</u>	<u>20,361</u>

In 2016, due to changes in availability of quoted prices (unadjusted) in active markets, the Group transferred certain debt securities between Level 1 and Level 2. As at 31 December 2016, the Group transferred the debt securities with a carrying amount of RMB2,506 million from Level 1 to Level 2 and RMB4,897 million from Level 2 to Level 1. As at 31 December 2015, the Group also transferred the debt securities with a carrying amount of RMB11,632 million from Level 1 to Level 2 and RMB696 million from Level 2 to Level 1.

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	As at 31 December 2016			
	Beginning of year	Purchases/ decrease	Net unrealised gain recognized in other comprehensive income	End of year
Financial assets at fair value through profit or loss				
- Wealth management products	8	(5)	-	3
Available-for-sale financial assets				
- Other equity investments	<u>15,019</u>	<u>2,307</u>	<u>1,262</u>	<u>18,588</u>
	As at 31 December 2015			
	Beginning of year	Purchases	Net unrealised gain recognized in other comprehensive income	End of year
Financial assets at fair value through profit or loss				
- Wealth management products	-	8	-	8
Available-for-sale financial assets				
- Other equity investments	<u>10,354</u>	<u>4,363</u>	<u>302</u>	<u>15,019</u>

Valuation techniques

The fair value of the unquoted debt investments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities, with appropriate adjustment where applicable.

The fair value of the unquoted equity investments has been determined using valuation techniques such as discounted cash flow method, comparison method of listed companies, recent transaction prices of the same or similar instruments etc., with appropriate adjustments have been made where applicable, for example, for lack of liquidity using option pricing models. The valuation requires management to use major assumptions and parameters as unobservable inputs to the model. The major assumptions include estimated time period prior to the listing of the unquoted equity instruments, and the major parameters include discount rate from 5.63% to 15% etc.

The fair value of investment properties is determined using discounted cash flow method with unobservable inputs including estimated rental value per square meters per month and discount rate, etc. This method involves the projection of a series of cash flows from valuation date to economic life maturity date. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset.

(All amounts expressed in RMB million unless otherwise specified)

49. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation from profit before tax to cash generated from operating activities:

	<u>2016</u>	<u>2015</u>
Profit before tax	16,085	24,311
Investment income	(43,879)	(55,287)
Foreign currency income	(117)	(109)
Finance costs	1,930	2,135
Charge of impairment losses on insurance receivables and other assets, net	176	38
Depreciation of property and equipment	1,179	1,086
Depreciation of investment properties	245	219
Amortization of other intangible assets	421	350
Amortization of prepaid land lease payments	1	1
Amortization of other assets	26	23
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(23)	(30)
	<u>(23,956)</u>	<u>(27,263)</u>
Increase in reinsurance assets	(1,884)	(1,090)
(Increase)/decrease in insurance receivables	(4,176)	266
Decrease/(increase) in other assets	1,566	(3,391)
Change in insurance contract liabilities	73,342	52,702
Increase in other operating liabilities	23,146	24,698
Cash generated from operating activities	<u>68,038</u>	<u>45,922</u>

(b) Analysis of the net cash flow in respect of the acquisition:

	<u>2016</u>
Cash and cash equivalents paid for acquisition this year	(398)
Less: Cash and cash equivalents held by subsidiary on acquisition date	<u>561</u>
Net inflow in respect of the acquisition	<u>163</u>

50. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had the following major transactions with related parties:

(a) Sale of insurance contracts

	<u>2016</u>	<u>2015</u>
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	<u>22</u>	<u>33</u>

The Group's above related party transactions were entered into based on normal commercial terms during the normal course of insurance business.

(All amounts expressed in RMB million unless otherwise specified)

50. RELATED PARTY TRANSACTIONS (continued)

(b) Dividends paid

	<u>2016</u>	<u>2015</u>
Equity holders who individually own more than 5% of equity interests of the Company	3,073	1,489

(c) Compensation of key management personnel

	<u>2016</u>	<u>2015</u>
Salaries, allowances and other short-term benefits	28	23
Deferred bonus (1)	-	3
Total compensation of key management personnel	<u>28</u>	<u>26</u>

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

Further details of directors' emoluments are included in note 12.

(d) The Company had the following major transactions with the joint venture:

	<u>2016</u>	<u>2015</u>
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc	112	126

The receivable due from Binjiang-Xiangrui is interest free with no determined maturity date.

(e) Transactions with other government-related entities in the PRC

The Group mainly operates in an economic environment predominated by enterprises that are controlled, jointly controlled or significantly influenced by the PRC government through its authorities, affiliates or other organizations (collectively "government-related entities"). The Company is also a government-related entity.

In 2015 and 2016, the Group had certain transactions with some government-related entities primarily related to insurance, investment and other activities (including, but not limited to, issuing insurance policies, provision of asset management or other services, and the sale, purchase, issuance and redemption of bonds or equity instruments).

Management considers that those transactions with other 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 controlled, jointly controlled or significantly influenced 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.

(All amounts expressed in RMB million unless otherwise specified)

51. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

		<u>31 December 2016</u>	<u>31 December 2015</u>
Contracted, but not provided for	(1)(2)	850	918
Authorized, but not contracted for	(1)(2)	<u>1,150</u>	<u>944</u>
		<u>2,000</u>	<u>1,862</u>

Major projects with capital commitments are as follows:

- (1) The Company resolved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone and the expected total capital expenditure is approximately RMB2,000 million. As at 31 December 2016, the cumulative amount incurred by the Company amounted to RMB 1,399 million. Of the balance, RMB 240 million was disclosed as a capital commitment contracted but not provided for and RMB 361 million was disclosed as a capital commitment authorized but not contracted for.
- (2) In November 2012, CPIC Property and a third party bid for the use right of the land located at Huangpu District, Shanghai. And in February 2013, both parties set up a project company named Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd. (“Binjiang-Xiangrui”) as the owner of the land use right to this parcel of land and construction development subject. Total investment of this project approximated RMB2,090 million. As at 31 December 2016, the cumulative amount incurred by the Company amounted to RMB 1,318 million. Of the balance, RMB 149 million was disclosed as a capital commitment contracted but not provided for and RMB 623 million was disclosed as a capital commitment authorized but not contracted for.

(All amounts expressed in RMB million unless otherwise specified)

51. COMMITMENTS (continued)

(b) Operating lease commitments

The Group leases office premises and staff quarters under various operating lease agreements as the lessee. Future minimum lease payments under non-cancellable operating leases are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Within 1 year (including 1 year)	848	718
1 to 2 years (including 2 years)	644	493
2 to 3 years (including 3 years)	472	355
3 to 5 years (including 5 years)	473	359
More than 5 years	218	335
	<u>2,655</u>	<u>2,260</u>

(c) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancellable operating leases are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Within 1 year (including 1 year)	456	543
1 to 2 years (including 2 years)	359	363
2 to 3 years (including 3 years)	253	131
3 to 5 years (including 5 years)	235	82
More than 5 years	53	2
	<u>1,356</u>	<u>1,121</u>

52. CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Group is involved in the making of estimates for contingencies and legal proceedings in the ordinary course of business, both in the capacity as plaintiff or defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for the probable losses to the Group, including those claims where directors can reasonably estimate the outcome of the litigations taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or the probability of loss is so low.

In addition to the above legal proceedings, as at 31 December 2016, the Group was the defendant in certain pending litigation and disputes. Provisions have been made for the possible loss based on best estimate by the directors and the Group would only be contingently liable for any claim that is in excess of what had been provided.

(All amounts expressed in RMB million unless otherwise specified)

53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

<u>Company</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
ASSETS		
Investments in subsidiaries	62,834	62,079
Property and equipment	1,971	2,838
Investment properties	3,639	2,184
Intangible assets	97	59
Prepaid land lease payments	34	34
Held-to-maturity financial assets	900	900
Investments classified as loans and receivables	60	248
Term deposits	-	1,507
Available-for-sale financial assets	21,187	20,757
Financial assets at fair value through profit or loss	37	97
Securities purchased under agreements to resell	743	1,100
Interest receivables	335	422
Deferred income tax assets	44	-
Other assets	370	285
Cash and short-term time deposits	96	153
Total assets	92,347	92,663
EQUITY AND LIABILITIES		
Equity		
Issued capital	9,062	9,062
Reserves	70,814	70,623
Retained profits	11,291	10,487
Total equity	91,167	90,172
Liabilities		
Securities sold under agreements to repurchase	-	1,660
Deferred income tax liabilities	-	121
Income tax payable	15	40
Due to subsidiaries	48	20
Other liabilities	1,117	650
Total liabilities	1,180	2,491
Total equity and liabilities	92,347	92,663

GAO Guofu
 Director

HUO Lianhong
 Director

(All amounts expressed in RMB million unless otherwise specified)

53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

The movements in reserves and retained profits of the Company are set out below:

<u>Company</u>	Capital reserves	Surplus Reserves	Available- for-sale investment revaluation reserves	Total	Retained Profits
At 1 January 2015	66,164	3,270	252	69,686	9,641
Total comprehensive income for the year	-	-	340	340	5,974
Dividend declared	-	-	-	-	(4,531)
Appropriations to surplus reserves	-	597	-	597	(597)
At 31 December 2015	<u>66,164</u>	<u>3,867</u>	<u>592</u>	<u>70,623</u>	<u>10,487</u>
At 1 January 2016	66,164	3,867	592	70,623	10,487
Total comprehensive income for the year	-	-	(473)	(473)	10,530
Dividend declared	-	-	-	-	(9,062)
Appropriations to surplus reserves	-	664	-	664	(664)
At 31 December 2016	<u><u>66,164</u></u>	<u><u>4,531</u></u>	<u><u>119</u></u>	<u><u>70,814</u></u>	<u><u>11,291</u></u>

Dividends from subsidiaries amounting to RMB10,238 million were included in the Company's net profit for 2016 (2015: RMB4,966 million).

54. POST BALANCE SHEET EVENTS

On 24 March 2017, the CIRC issued the 'Notice of the CIRC on Optimizing the Discount Rate Curve Applicable to Insurance Contract Liabilities' (Bao Jian Fa [2017] No.23), which is effective from 1 January 2017. The Group is currently assessing the impact of the Notice.

The Group does not have other significant post balance sheet events.

55. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved and authorized for issue by the Company's directors on 29 March 2017.