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 2017

Letter from chairman to shareholders

Dear Shareholders:

2017 is a year of milestones. It marked the 10th anniversary of our listing, saw the smooth succession of the Board of Directors and senior management. The Company followed the path of high-quality development, and delivered solid business results, with encouraging signs of improvement and progress amid a steady performance.

- **We achieved improvement in development quality in an all-around way, with continued increase in overall strength.** First, in the face of the challenges of China's economic transitioning, we took matters into our own stride, and delivered a stable business performance and steady growth of profits. As of the end of 2017, Group total assets amounted to RMB1,171.224 billion, up 14.7% from the end of 2016. Group gross written premiums (GWPs) for 2017 amounted to RMB281.644 billion, a growth of 20.4% compared with 2016, the highest in the past 7 years. Group net profits attributable to equity holders of the parent reached RMB14.662 billion, up 21.6%. As of the end of 2017, Group embedded value amounted to RMB286.169 billion, a growth of 16.4% from the end of 2016. Of this, value of in-force business[note 1] stood at RMB134.414 billion, up 32.7%. Second, we persisted in protection as the central insurance value proposition and gave first priority to quality. Our life operation continued to diversify its risk-protection products and improved the level of protection for its customers. In 2017, it reported a growth of 34.5% in annualized first year premiums (FYPs) from long-term protection business[note 2], with further business mix improvement. New business value (NBV) margin increased to 39.4%, up 6.5pt, with NBV amounting to RMB26.723 billion, a growth of 40.3%. CPIC P/C continued to consolidate its progress in transformation, and achieved a combined ratio of 98.8%, down by 0.4pt year-on-year, with non-automobile business turning underwriting profits for the first time in 4 years. As for asset management, we adhered to prudent investment, value investment and long-term investment, enhanced asset liability management (ALM). We made good decisions about the timing and position of fixed income asset allocation. In 2017, Group in-house assets reached RMB1,081.282 billion. Total investment yield reached 5.4%, up by 0.2pt. Third, we continued to enhance customer experience, with industry top rankings at regulatory evaluations. As part of the "closed-loop" management system for customer experience, we introduced Net Promotional Score (NPS), and achieved improvement in key customer journeys and under-performing indicators. Both CPIC Life and CPIC P/C were rated AA, the top-notch ranking in the Customer Service Evaluation by CIRC for 2017. In particular, the claims turnaround for cases under RMB10,000 of CPIC P/C was shortened by over 50%, and that for self-service automobile insurance claims handling of individual customers reduced to a minimum of 15 minutes. CPIC Life launched mobile apps for self-service claims management, bringing much ease and convenience to customers, and the number of complaints per one hundred million yuan in premiums fell by over 70%.

- **We prevented major risks, and maintained consistent strategies in a challenging and changing market environment.** China's economic development has entered a new era, focusing more on the shift of the growth mode and better economic mix. The transformation would have a profound impact on risk management capabilities and business quality of the insurance industry. First, we deepened Enterprise Risk Management, raised risk & compliance awareness, improved risk monitoring system using big data technology, enhanced the identification of high risk areas and key levers, with follow-up rectification measures. All this effectively mitigated the impact of external risks, increased the capability and efficiency of our risk control effort. Besides, we maintained sound financial strength. Group comprehensive solvency margin ratio under C-ROSS reached 284%, and both CPIC Life and CPIC P/C received industry-leading scores in CIRC solvency risk management capability assessment, and an A ranking at the C-ROSS comprehensive risk evaluation. Both the Group and its 6 subsidiaries won the top-notch ranking at the corporate governance assessment by CIRC. Second, though under the pressure of market share, we never wavered in the pursuit of high-quality development. In the past 5 years, through Transformation 1.0, we achieved initial success in optimizing channel mix, with enhanced capability in customer-oriented operational model. Better business mix of life insurance, improved combined ratio of property and casualty insurance, and successful fixed income asset allocation all testified to our determination of pursuing high-quality development, and gave us more confidence in the endeavor.

- **We stepped up reform and innovation to drive sustainable development**. First, we forged ahead with digitalization, in a bid to improve the supply of insurance products and services. To strengthen the data processing capability, we launched the "*Jiayuan*" project, a big data platform with unified customer accounts, with the migration and consolidation of all customer data, and the real-time synchronization of huge amounts of data. We explored the combination of scenario application and innovative technologies. For example, based on big data and machine learning, we launched *Alpha Insurance*, an iconic robot-insurance adviser, capable of recommending customized insurance plans for households. CPIC P/C used wireless internet and AI technologies and developed fingertip series applications for automobile insurance claims management, covering inspection, payment, and direct supply of auto-parts, with improved service efficiency. CPIC Life launched the electronic policies for long-term life insurance, supporting a full on-line business process. The turnaround was reduced from an average 15 days for paper polices to up to 6 minutes for electronic ones, saving costs and improving efficiency. These are but some of the examples of our effort in leveraging technology to enhance customer experience. Second, we supported national strategies to seize opportunities of development. We provided over RMB500 billion in sum assured for the Belt and Road. We provided comprehensive risk solutions for China's state-of-the-art equipment such as "*Jiaolong*", China's first independently designed deep-water manned submersible, "*Shenhai Yongshi*", the first Made-in-China deep-diving scientific expedition equipment, and "*Shijian* No.13", China's first high-orbit, high-flux communications satellite, facilitating the implementation of the "Made in China 2025" Initiative. We served China's economy.

As of the end of 2017, we launched 129 debt investment schemes to fund major infrastructure projects, raising a total of RMB207.6 billion.

We vigorously pushed forward the collaboration and integration of business segments to enhance the competitiveness of the entire Group. We promoted collaborative marketing, striving to build an ecosystem for major clients. We planned and launched Transformation 2.0, aiming to be the best in customer experience, business quality and risk control capabilities. To this end, we will focus on talent and technology, close the gaps and deliver a shift in the mode of development.

A new stretch of journey now unfolds before us, and we are full of confidence. In the past 10 years, we navigated through complex macro-economic and industry cycles, and have thus gained profound insights into the insurance business, which will prepare us for future challenges and opportunities.

Where there is a will, there is a way. We know that what lies ahead will by no means be an easy ride, but we are determined to be a “long-distance runner” in the journey of Transformation. We are committed to further improve our business performance and give back even more to customers, employees, shareholders and society, and set a good example in healthy and sustainable development of the industry.

Notes:

1. Based on Group's share of life's value of in-force business after solvency.
2. Long-term protection business includes whole life, term life, long-term health and long-term accident insurance.

Review and analysis of operating results

Company business overview

I. Key businesses

We are a leading integrated insurance group in China, and with a focus on insurance, provide a broad range of risk protection solutions, financial planning and wealth management services through our subsidiaries.

In particular, we provide life/health insurance products & services through CPIC Life, property and casualty insurance products & services through CPIC P/C and Anxin Agricultural, and specialized health/medical 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 and other related asset management business via Changjiang Pension.

In 2017, China's insurance market realized a premium income of RMB3.66 trillion, a growth of 18.2%. Of this, premium from life insurance companies amounted to RMB2,603.955 billion, an increase of 20.0% from 2016, and that from property and casualty insurance companies RMB1,054.138 billion, up 13.8%. CPIC Life and CPIC P/C are both China's 3rd largest listed insurer in life and property and casualty insurance, respectively.

II. Core competitiveness

We are a leading integrated insurance group in China, ranking 252nd among Fortune Global 500. We persist in customer-orientation, focus on and specialize in insurance. We pursue innovation of insurance products and services, and commit ourselves to enhancing customer's experience, creating sustainable value and generating stable returns for our shareholders.

- We are committed to protection as the central insurance value proposition, pursue a path of high-quality development, with the business philosophy centering on prudence and sustainability.
- We persist in the focus on insurance, and have obtained a full range of insurance-related licenses covering life insurance, property and casualty insurance, pension, health insurance, agricultural insurance and asset management.
- We boast an experienced management team and a Group-centralized platform of management, coupled with sound corporate governance featuring a clear definition of responsibilities, checks and balances and well coordinated mechanisms.
- As a leading insurance franchise in China, we have put in place a nation-wide distribution network, with 115.53 million customers.
- The customer-oriented transformation begins to pay dividends, building capabilities in Customer Profile Delineation, with enhanced product innovation capabilities for life business based on customer segmentation and improved abilities to serve high quality customers for property and casualty insurance.
- We put in place asset liability management mechanisms, persisting in prudent investment, value investment and long-term investment, which served to curb the cost of liabilities and enhanced our capabilities in strategic asset allocation based on profiles of liabilities.
- We established an industry leading system for risk management and internal control, which ensures 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.

Performance overview

We persisted in customer orientation, stayed focused on insurance, and delivered high-quality development for the reporting period, underpinned by sustained value growth and enhancement of value-creating capabilities.

I. Performance highlights

As at the end of 2017, the number of Group customers reached 115.53 million, up 11.09 million in the past 12 months. In 2017, Group operating revenues[note 1] amounted to RMB319.809 billion, of which, GWPs reached RMB281.644 billion, a growth of 20.4%. Group net profits[note 2] reached RMB14.662 billion, up 21.6%. Group embedded value amounted to RMB286.169 billion, an increase of 16.4% from the end of 2016. Of this, value of in-force business[note 3] reached RMB134.414 billion, up 32.7% from the end of 2016. CPIC Life delivered RMB26.723 billion in one-year new business value, a growth of 40.3%, with an NBV margin of 39.4%, up 6.5pt from that in 2016. CPIC P/C recorded a combined ratio of 98.8%, down by 0.4pt compared with that for 2016. Total investment yield on Group in-house assets stood at 5.4%, up 0.2pt.

Life business reported robust value growth, with continued business mix improvement.

- CPIC Life realized one-year NBV of RMB26.723 billion, a growth of 40.3% and an NBV margin of 39.4%, up by 6.5pt.
- CPIC Life delivered rapid business growth, with RMB175.628 billion in GWPs, up 27.9% year-on-year, equally driven by new and renewed businesses, which grew by 25.2% and 29.3%, respectively. In the meantime, business quality continued to improve, with 13-month persistency ratio for individual customers reaching 93.4%, up by 1.1pt.
- Annualized FYPs from long-term protection business[note 4] amounted RMB28.313 billion, a growth of 34.5%, with its share of total FYPs reaching 41.7%, up 5.3pt. This testified to continued business mix improvement of CPIC Life, which underpinned a 32.3% growth of residual margin versus the end of 2016, at RMB228.370 billion.

Property and casualty business achieved continued improvement in combined ratio, with pick-up in top-line growth.

- CPIC P/C reported a combined ratio of 98.8%, an improvement of 0.4pt from 2016. Of this, that of non-automobile business dropped steeply by 10.0pt from the level in 2016 to

99.6%, while automobile insurance maintained underwriting profitability, with a combined ratio of 98.7%.

- While realizing underwriting profits, CPIC P/C saw a recovery of top-line growth, with GWPs exceeding the mark of RMB100 billion, reaching RMB104.614 billion, up 8.8%. Of this, the growth of non-automobile business reached 13.9%, and its share of total GWPs rose 1.0pt to 21.8%.
- Agricultural insurance[note 5] realized RMB3.405 billion in primary insurance premiums, with an expansion of market share.

Steady growth of Group assets under management (AuM), with higher total investment yield.

- Group AuM amounted to RMB1,418.465 billion, an increase of 14.8% from the end of 2016. Of this, Group in-house assets reached RMB1,081.282 billion, up 14.8% from the end of 2016.
- Group total investment yield was 5.4%, an increase of 0.2pt from 2016, with net investment yield of 5.4%, the same as that for 2016, and growth rate of investments' net asset value of 4.8%, up 0.8pt.
- Third-party AuM amounted to RMB337.183 billion, an increase of 14.8% from the end of 2016, with management fee income growing by 19.8%.

Notes:

1. Based on PRC GAAP.
2. Attributable to equity holders of the parent.
3. Based on the Group's share of CPIC Life's value of in-force business after solvency.
4. Long-term protection business includes whole life, term life, long-term health and long-term accident insurance.
5. Based on primary insurance business, excluding premium income ceded-in and including data of Anxin Agricultural.

II. Key performance indicators

Unit: RMB million

Indicators	As at 31 December 2017/for the period between January and December in 2017	As at 31 December 2016/for the period between January and December in 2016	Changes (%)
Key value indicators			
Embedded value of the Group	286,169	245,939	16.4
Value of in-force business[note 1]	134,414	101,288	32.7

Net assets of the Group[note 2]	137,498	131,764	4.4
NBV of CPIC Life	26,723	19,041	40.3
New business margin of CPIC Life (%)	39.4	32.9	6.5pt
Combined ratio of CPIC P/C (%)	98.8	99.2	(0.4pt)
Growth rate of investments' net asset value (%)	4.8	4.0	0.8pt
Key operating indicators			
GWPs	281,644	234,018	20.4
CPIC Life	175,628	137,362	27.9
CPIC P/C	104,614	96,195	8.8
Number of Group customers (in thousand)[note 3]	115,528	104,435	10.6
Average number of insurance policies per customer	1.73	1.64	5.5
Monthly average agent number (in thousand)	874	653	33.8
Monthly average first year commission per agent (RMB)	1,012	987	2.5
Surrender rate of CPIC Life (%)	1.3	2.0	(0.7pt)
Total investment yield (%)	5.4	5.2	0.2pt
Net investment yield (%)	5.4	5.4	-
Third-party AuM	337,183	293,612	14.8
Third-party AuM by CPIC AMC	147,179	167,837	(12.3)
Assets under investment management by Changjiang Pension	190,004	125,775	51.1
Key financial indicators			
Net profit attributable to equity holders of the parent	14,662	12,057	21.6
CPIC Life	10,070	8,542	17.9
CPIC P/C	3,743	4,540	(17.6)
Basic earnings per share (RMB)[note 2]	1.62	1.33	21.6
Net assets per share (RMB)[note 2]	15.17	14.54	4.4
Comprehensive solvency margin ratio (%)			
CPIC Group	284	294	(10pt)
CPIC Life	245	257	(12pt)
CPIC P/C	267	296	(29pt)

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.

Life/health insurance business

In 2017, CPIC Life strengthened its customer-oriented capabilities, i.e, acquisition of new customers and up-sell to existing ones, continued to step up innovation of protection products, and delivered sustained business mix improvement and rapid NBV growth. CPIC Allianz Health, committed to fostering specialized health insurance capabilities, intensified

efforts in product innovation to help with customer acquisition by life insurance agents, and achieved rapid business growth.

I. CPIC Life

(I) Business analysis

In 2017, CPIC Life adhered to protection as the key value proposition of insurance and deepened product/service innovations to meet customer needs. As a result, for the reporting period, it reported GWPs of RMB175.628 billion, up 27.9% year-on-year. One-year NBV amounted to RMB26.723 billion, a growth of 40.3%, with an NBV margin of 39.4%, up by 6.5pt.

1. Analysis by channels

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Individual customers	**170,055**	**133,094**	**27.8**
Agency channel	**154,195**	**115,410**	**33.6**
New policies	49,484	37,393	32.3
Regular premium business	47,083	35,881	31.2
Renewed policies	104,711	78,017	34.2
Other channels[note]	**15,860**	**17,684**	**(10.3)**
Group clients	**5,573**	**4,268**	**30.6**
Total GWPs	**175,628**	**137,362**	**27.9**

Note: Other channels include bancassurance and telemarketing & internet sales.

(1) Business from individual customers

For the reporting period, we realized RMB170.055 billion in GWPs from individual customers, up 27.8%. Of this, new polices from the agency channel amounted to RMB49.484 billion, a growth of 32.3%, and renewed business RMB104.711 billion, an increase of 34.2%. The agency channel accounted for 87.8% of total GWPs, up 3.8pt from the level in 2016.

We continued to consolidate the agency channel as the key driver of both volume and value growth. Specifically, we optimized agency recruitment policies to improve the quality and retention of new recruits, which in turn drove improvement in sales force mix. We focused on the training of new agents, and introduced the mechanism of training of managers on a rotating basis to boost the growth of active and high-performing agents. We implemented new agency management rules which strengthened agent performance evaluation and validation. We also intensified efforts in basic management, including, among others, more stringent management of agent attendance and activities to improve new agent retention, granted more autonomy to manager-level agents and strived for excellence in the training system, with differentiated training programs for sales and management to enhance agency capabilities. Monthly average number of agents for the reporting period stood at 874,000, an increase of 33.8% year-on-year. Of this, monthly average number of active and high-performing agents reached 248,000 and 131,000. First-year commission (FYC) per agent per month reached RMB1,012, up 2.5% from that in 2016. The FYC per agent per month of long-term policy active agents increased by 6.0% compared with that for 2016.

For 12 months ended 31 December	2017	2016	Changes (%)
Monthly average agent number (in thousand)	874	653	33.8
FYC per agent per month (RMB)	1,012	987	2.5
Average number of new long-term life insurance policies per agent per month[note]	1.68	1.74	(3.4)

Note: Figures for 2016 were restated.

We also enhanced customer insights and promoted innovation in product customization, in a bid to boost upgrading of the "customer service model". For example, we expanded the scope of protection and launched *Shao'er Chaonengbao 2.0,* a critical illness product tailor-made for children, offering minor illnesses protection. For mid and high-end customers, we launched *Lexiang Baiwan*, a medical insurance product with high levels of sum assured. Such products, with increased protection, helped agents acquire new customers. In the meantime, we provided differentiated services to existing customers, launched the on-line Customer Profile System for mobile phones to facilitate customer segmentation.

(2) Business from group clients

In 2017, we persisted in transformation development, set up business units for health and pension, with continuous efforts to optimize the organizational structure, formulated the development strategy of the business segment, rolled out the project-based management model, and actively boosted government-sponsored programs and employee benefits business which played an important role in social management and the development of China's real economy. As a result, business from group clients realized RMB5.573 billion in GWPs, up by 30.6%.

2. Analysis by product types

We uphold the basic insurance value proposition and vigorously boosted the development of long-term protection business. For the reporting period, traditional business generated RMB53.368 billion, up 31.0%. Of this, long-term health insurance RMB20.650 billion, a growth of 51.1%. Participating business delivered RMB111.117 billion in GWPs, up 27.0%.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
GWPs	**175,628**	**137,362**	**27.9**
Traditional	53,368	40,725	31.0
Long-term health insurance	20,650	13,667	51.1
Participating	111,117	87,479	27.0
Universal	57	42	35.7
Short-term accident and health	11,086	9,116	21.6

Information of the top five products

Unit: RMB million

For 12 months ended 31 December				
Ranking	Name	Type	GWPs	Sales channel
1	*Jin You Ren Sheng Whole Life A (2014)* 金佑人生終身壽險（分紅型）A 款（2014 版）	Participating	19,149	Individual customer business
2	*Xingfu Xiangban Endowment* 幸福相伴（尊享型）兩全保險	Traditional	7,460	Individual customer business
3	*Li Ying Nian Nian Annuity* 利贏年年年金保險（分紅型）	Participating	6,263	Individual customer business
4	*Dongfanghong/Mantanghong* Annuity 東方紅·滿堂紅年金保險（分紅型）	Participating	6,195	Individual customer business
5	*Li Ying Nian Nian Annuity B* 利贏年年年金保險（分紅型）B 款	Participating	5,848	Individual customer business

3. Policy persistency ratio

For 12 months ended 31 December	2017	2016	Changes (%)
Individual life insurance customer 13-month persistency ratio (%)[note 1]	93.4	92.3	1.1pt
Individual life insurance customer 25-month persistency ratio (%)[note 2]	89.3	86.6	2.7pt

Notes:
1. 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.
2. 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.

CPIC Life's policy persistency maintained an overall healthy level, with 13-month and 25-month persistency ratios up by 1.1pt and 2.7pt respectively year-on-year.

4. Top 10 regions for GWPs

CPIC Life's GWPs mainly came from economically developed regions or populous areas.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
GWPs	**175,628**	**137,362**	**27.9**
Henan	18,428	13,867	32.9
Jiangsu	18,178	14,497	25.4
Shandong	14,748	12,008	22.8
Zhejiang	12,633	9,673	30.6
Guangdong	10,807	8,838	22.3
Hebei	10,284	8,095	27.0
Shanxi	8,167	6,759	20.8
Hubei	7,468	5,972	25.1
Heilongjiang	6,888	4,959	38.9
Xinjiang	5,378	4,096	31.3
Subtotal	112,979	88,764	27.3
Others	62,649	48,598	28.9

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Net premiums earned	172,345	134,899	27.8

Investment income[note]	45,807	39,839	15.0
Other operating income	2,791	1,822	53.2
Total income	**220,943**	**176,560**	**25.1**
Net policyholders' benefits and claims	(155,910)	(124,796)	24.9
Finance costs	(3,213)	(2,107)	52.5
Interest credited to investment contracts	(1,910)	(1,803)	5.9
Other operating and administrative expenses	(46,363)	(36,623)	26.6
Total benefits, claims and expenses	**(207,396)**	**(165,329)**	**25.4**
Profit before tax	13,547	11,231	20.6
Income tax	(3,477)	(2,689)	29.3
Net profit	**10,070**	**8,542**	**17.9**

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

Investment income for the reporting period was RMB45.807 billion, up by 15.0%, due to higher interest income from fixed income investment, fair value changes and increased dividend income from equity securities.

Net policyholders' benefits and claims amounted to RMB155.910 billion, up 24.9%, largely due to increase in long-term insurance contract liabilities.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Net policyholders' benefits and claims	**155,910**	**124,796**	**24.9**
Life insurance death and other benefits paid	39,599	40,779	(2.9)
Claims incurred	5,926	4,409	34.4
Changes in long-term life insurance contract liabilities	101,439	71,873	41.1
Policyholder dividends	8,946	7,735	15.7

Other operating and administrative expenses for the reporting period amounted to RMB46.363 billion, up 26.6%. The increase was mainly caused by fast business growth.

As a result, CPIC Life recorded a net profit of RMB10.070 billion for 2017, up 17.9%.

II. CPIC Allianz Health

In 2017, CPIC Allianz Health focused on building capabilities in specialized health insurance operation, promoted resource-sharing and collaboration within the Group, and achieved rapid business growth for the year, with RMB1.259 billion in GWPs and management fees, a growth of 139.8%.

CPIC Allianz Health committed itself to building the platform of commercial health insurance product development, operational risk control and health services. It enhanced insights into customers' needs for health insurance and services throughout their life cycles to boost product innovation. It increased the use of AI technologies and the development of digital tools to improve efficiency in operational risk control and enhance customer experience. It also continued to invest in capabilities in health management, deepened co-operation with health-care providers, in a bid to increase the penetration of Group customer base via full-cycle health management services.

Property and casualty insurance

In 2017, the property and casualty business[note 1] reported RMB105.859 billion in GWPs[note 2], up 9.6% compared with 2016, with the combined ratio at 98.7%, down by 0.5pt from 2016. CPIC P/C[note 3] delivered continued improvement in its combined ratio, with both automobile and non-automobile business reporting underwriting profit, and a pick-up in top-line growth. Anxin Agricultural focused on product innovation, deepened collaboration with CPIC P/C and reported solid business results.

Notes:
1. Property and casualty business here includes CPIC P/C, Anxin Agricultural and CPIC HK.
2. GWPs include both primary business and reinsurance.
3. In this report CPIC P/C does not include Anxin Agricultural.

I. CPIC P/C

(I) Business analysis

During the reporting period, CPIC P/C persisted in “consolidating progress, deepening transformation and meeting challenges”. To be specific, it continued to entrench achievements in business mix improvement and quality management, pressed ahead with transformation and management upgrading, and vigorously explored opportunities in emerging business lines and new technologies. These efforts proved to be fruitful. For 2017, it reported GWPs of RMB104.614 billion, up 8.8%, with a combined ratio of 98.8%, down by 0.4pt versus 2016.

1. Analysis by lines of business

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
GWPs	**104,614**	**96,195**	**8.8**
Automobile insurance	81,808	76,177	7.4
Compulsory automobile insurance	17,733	16,346	8.5
Commercial automobile insurance	64,075	59,831	7.1
Non-automobile insurance	22,806	20,018	13.9
Commercial property insurance	4,842	5,104	(5.1)
Liability insurance	4,154	3,823	8.7
Agricultural insurance	2,740	1,908	43.6
Accident insurance	2,423	2,275	6.5
Others	8,647	6,908	25.2

(1) Automobile insurance

For the reporting period, CPIC P/C reported GWPs of RMB81.808 billion from automobile business, up 7.4%, with a combined ratio of 98.7%, an increase of 1.5pt from 2016. Of this, the loss ratio stood at 61.4%, up 1.6pt while the expense ratio fell by 0.1pt to 37.3%.

In 2017, CPIC P/C proactively adapted to market changes in the context of automobile insurance deregulation, consolidated progress in business quality management, improved resources allocation, enhanced claims costs control, strengthened management of reserves of outstanding claims, and achieved stability in underwriting profits. CPIC P/C continued with the empowerment of distribution channels, stepping up co-operation with the life operation, and delivered rapid development of core channels such as cross-sell and car dealerships. As a result, for 2017, car dealerships reported RMB31.081 billion in GWPs, a growth of 11.5%, and cross-selling RMB7.560 billion, a growth of 34.2%. Measured by customer types, both individual and corporate business picked up considerably in growth rates.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
GWPs	**81,808**	**76,177**	**7.4**
Primary insurance premiums	**81,413**	**76,176**	**6.9**
Car dealerships	31,081	27,881	11.5
Cross-selling	7,560	5,635	34.2

Next, CPIC P/C will persist in industry bench-marking, continue to optimize quality management, enhance geographical differentiation, and further improve the input and output ratio in resource allocation. Besides, CPIC P/C will intensify efforts in digitalization of automobile insurance and innovate products and services so as to boost the long-term growth potential and achieve high-quality development of the business.

(2) Non-automobile insurance

For the reporting period, CPIC P/C continued with the quality control initiatives to further improve the business mix, and stepped up the development of emerging business lines. As a result, GWPs from non-automobile business amounted to RMB22.806 billion, up by 13.9%, with a combined ratio of 99.6%, down by 10.0pt and reporting underwriting profits for the first time in 4 years.

Of the major non-auto business lines, agricultural insurance continued to expand the geographical scope of business, beefed up product and service innovation, upgraded its "*E-agricultural Insurance*" system, and delivered rapid growth while ensuring healthy business quality. It reported RMB2.740 billion in GWPs, up 43.6%, with a steady expansion of market share. Liability and cargo insurance both turned underwriting profits. Accident insurance maintained and improved its underwriting profitability. Property and health insurance saw continued improvement in business quality.

Next, CPIC P/C will deepen the "two-pronged" approach for non-automobile insurance, namely, enhancing risk pricing on the one hand and improving business management on the other. In particular, CPIC P/C will further increase customer-orientation in business operation to lay a solid foundation for profitable growth, seize opportunities in personal and government-sponsored business and foster capabilities to grow in emerging business lines and new market niches, step up product and technology innovation to drive rapid development of agricultural insurance.

(3) Key financials of major business lines

Unit: RMB million

For 12 months ended 31 December 2017

Name of insurance	GWPs	Amounts Insured	Claims paid	Reserves	Underwriting profit	Combined ratio (%)
Automobile insurance	81,808	17,695,674	45,930	54,175	989	98.7
Commercial property insurance	4,842	11,593,190	3,349	4,768	(263)	109.2
Liability insurance	4,154	38,929,276	2,292	4,047	289	90.7
Agricultural insurance	2,740	131,139	1,503	1,198	58	96.6
Accident insurance	2,423	445,380,872	1,008	1,863	205	91.0

2. Top 10 regions for GWPs

We boast a nationwide distribution network and implement differentiated regional development strategies based on factors like market potential and business profitability.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
GWPs	**104,614**	**96,195**	**8.8**
Guangdong	12,624	12,026	5.0
Jiangsu	11,911	11,271	5.7
Zhejiang	10,369	9,674	7.2
Shanghai	7,839	7,378	6.2
Shandong	5,960	5,492	8.5
Beijing	5,864	5,463	7.3
Sichuan	3,594	3,178	13.1
Hebei	3,505	2,861	22.5
Chongqing	3,385	3,143	7.7
Guangxi	3,266	2,968	10.0
Subtotal	68,317	63,454	7.7
Others	36,297	32,741	10.9

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Net premiums earned	88,993	83,569	6.5
Investment income[note]	5,288	5,516	(4.1)
Other operating income	542	409	32.5
Total income	**94,823**	**89,494**	**6.0**
Claims incurred	(53,225)	(51,198)	4.0

Finance costs	(427)	(302)	41.4
Other operating and administrative expenses	(35,199)	(32,016)	9.9
Total benefits, claims and expenses	**(88,851)**	**(83,516)**	**6.4**
Profit before tax	5,972	5,978	(0.1)
Income tax	(2,229)	(1,438)	55.0
Net profit	**3,743**	**4,540**	**(17.6)**

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

Investment income for the reporting period amounted to RMB5.288 billion, down by 4.1%, mainly attributable to decrease in interest income from fixed income asset and securities trading gains.

Other operating and administrative expenses amounted to RMB35.199 billion, up 9.9%, mainly due to business growth and market competitions.

Hence, a net profit of RMB3.743 billion was booked for CPIC P/C for 2017, down by 17.6% from 2016.

II. Anxin Agricultural

In 2017, Anxin Agricultural focused on the core business of agricultural insurance, and stepped up product innovation and collaboration with CPIC P/C. For the reporting period, it delivered RMB1.132 billion in GWPs, up 8.4%, of which, agricultural insurance RMB727 million, up 6.1%. Its combined ratio stood at 94.0%, down by 0.1pt, with a net profit of RMB136 million, up 17.2%.

III. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December 2017, its total assets stood at RMB1.082 billion, with net assets of RMB446 million. GWPs for the reporting period amounted to RMB521 million, with a combined ratio of 94.0%, and a net profit of RMB39 million.

Asset management

We continued to enhance capabilities in asset liability management (ALM), optimized strategic asset allocation (SAA), with vigorous efforts to seize market opportunities while taking effective measures to forestall major risks. As at the end of 2017, Group AuM totaled RMB1,418.465 billion, rising 14.8% from the end of 2016. Of this, Group in-house assets reached RMB1,081.282 billion, a growth of 14.8% from the end of 2016, with the total and net investment yields both reaching 5.4% and growth rate of investments' net asset value of

4.8%.

I. Group AuM

As of the end of 2017, Group AuM totaled RMB1,418.465 billion, rising 14.8% from the end of 2016. Of this, third-party AuM totaled RMB337.183 billion, up 14.8%, with a fee income of RMB961 million, up 19.8%.

Unit: RMB million

	31 December 2017	31 December 2016	Changes (%)
Group AuM	**1,418,465**	**1,235,372**	**14.8**
Group in-house assets	1,081,282	941,760	14.8
Third-party AuM	337,183	293,612	14.8
Third-party AuM by CPIC AMC	147,179	167,837	(12.3)
Assets under investment management by Changjiang Pension	190,004	125,775	51.1

II. Group in-house assets

In 2017, China's economy performed steadily and showed signs of improvement, with GDP growth increasing from 6.7% in 2016 to 6.9% in 2017. The supply-side structural reform deepened and financial regulation was tightened in an all-around way. In terms of market conditions, against the backdrop of de-leveraging, bond yields rose and the stock market rallied, albeit with a structural polarization in favor of blue chips. We persisted in prudent investment, value investment and long-term investment. As for fixed income assets, we focused on the prevention of credit risk, maintained flexibility in the timing and position of allocation and improved the matching of assets and liabilities. With regard to equity investment, we gave priority to blue chip stocks with high dividend yield, good liquidity and low valuation, and seized opportunities of both the A-share and H-share market.

(I) Consolidated investment portfolios

Unit: RMB million

	31 December 2017	Share (%)	Share change from the end of 2016 (pt)	Change (%)
Group investment assets (Total)	1,081,282	100.0	-	14.8
By investment category				
Fixed income investments	884,769	81.8	(0.5)	14.2
- Debt securities	521,063	48.2	(1.8)	10.6
- Term deposits	103,989	9.6	(4.5)	(21.4)
- Debt investment plans	92,844	8.6	2.1	51.2
- Wealth management products[note 1]	89,664	8.3	3.6	104.0
- Preferred shares	32,000	2.9	(0.5)	-
- Other fixed income investments[note 2]	45,209	4.2	0.6	33.3
Equity investments	157,745	14.6	2.3	36.1
- Equity funds	20,923	1.9	(0.1)	11.4

- Bond funds	16,107	1.5	(0.6)	(17.0)
- Equity securities	58,959	5.5	2.2	89.1
- Wealth management products[note 1]	20,584	1.9	(0.5)	(9.8)
- Preferred shares	7,764	0.7	0.2	70.9
- Other equity investments[note 3]	33,408	3.1	1.1	74.2
Investment properties	8,727	0.8	(0.1)	0.8
Cash, cash equivalents and others	30,041	2.8	(1.7)	(29.5)
By investment purpose				
Financial assets at fair value through profit or loss	16,187	1.5	(1.4)	(40.5)
Available-for-sale financial assets	368,868	34.1	6.6	42.6
Held-to-maturity financial assets	287,497	26.6	(5.8)	(5.7)
Interests in associates	5,230	0.5	0.5	4,447.8
Investment in joint ventures	41	-	-	13.9
Loans and other investments[note 4]	403,459	37.3	0.1	15.0

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 2017, we proactively increased allocation in fixed income assets in the context of rising market rates, and in particular Treasury bonds to lengthen the asset duration, as well as high-yield non-standard assets (NSAs). Allocation in equity was on par with SAA, with vigorous efforts to explore structural opportunities. Based on this strategy, in addition to T-bonds, enterprise bonds and equity investments, new money and re-investments were mainly allocated in NSAs such as debt investment schemes, 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 debt securities was 48.2%, a drop of 1.8pt from the end of 2016. Moreover, 99.9% of enterprise bonds and financial bonds issued by non-government-sponsored banks had an issuer/debt rating of AA/A-1 or above. Of this, the share of AAA reached 93.2%. Our corporate/enterprise bond holdings were spread in a diversified portfolio of sectors such as urban construction & engineering, transport infrastructure and public utilities, with diversification effect in credit risk. The debt issuers all boasted relatively strong balance sheets, with the overall credit risk under control, and the impact of rising defaults in recent years limited. The management of credit risk has always been a priority for us, and over the years, we have put in place, in compliance with CIRC regulations, a comprehensive investment management system with risk control mechanisms for corporate/enterprise bonds. Such mechanisms are in line with market norms while considering the special needs of insurance funds, and are reviewed and adjusted from time to time. We have also set up an independent internal credit-rating team with sound systems for independent credit risk evaluation and enhanced early warning. Given China's macro-economic environment, we exercised even more prudence in corporate/enterprise bond investment in 2017, with new investments predominantly of AAA rating. In the selection of securities, we combined the top-down sector method with bottom-up individual company approach, looking at a wide range of factors such as sector fundamentals, outlook for profits and cash flows, cyclical trends, a sector's competition against and co-operation with those of lower and upper reaches, and government industrial policies. At the same time, we enhanced the monitoring, evaluation and analysis of the stock of bond holdings, improved polices and operational procedures to ensure timely risk mitigation and handling, and thus a dynamic management of credit risk.

The share of equity investments stood at 14.6%, up by 2.3pt from the end of 2016. Of this, equity securities and equity funds accounted for 7.4%, up 2.1pt.

As of the end of the reporting period, NSAs totaled RMB203.355 billion, accounting for 18.8% of total Group in-house assets and rising 5.6pt from the end of 2016. The overall credit risk exposure from this asset class was in the comfort zone. For those NSAs with an external credit-rating, 99.7% had a rating of AA+ or above, and of this, the share of AAA reached 91.0%. The investments covered the majority of China's provinces or provincial-level administrative regions, spanning transport, municipal infrastructure, energy, environment protection, commercial property, land reserve, resettlement of slums, water conservancy and affordable housing, contributing to the development of China's real economy and implementation of the national strategies. Effective credit enhancement steps were taken to stabilize and improve the safety of NSA investments. Except for issuers with outstanding financial strength and credit-worthiness, all debt investments schemes were covered by effective credit enhancement measures including guarantees or pledge of assets, thus ensuring payment of both principle and interest. The wealth management products we invested in were all issued by major state-owned commercial banks or national joint-stock commercial banks, with strong credit-worthiness. Our holdings of trust plans mainly provided financing for major state-owned non-bank financial institutions and large SOEs.

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) financial assets as well as loans and other investments. Of this, financial assets at fair value through profit or loss dropped by 40.5% from the end of 2016, mainly because of decreased allocation in debt securities for trading purposes. AFS financial assets grew by 42.6%, primarily due to increased investment in debt securities for allocation and equity securities.

(II) Group consolidated investment income

For the reporting period, net investment income totaled RMB53.464 billion, up by 14.7% year-on-year. This stemmed mainly from higher interest income from fixed income investments and increased dividend income from equity securities. Net investment yield reached 5.4%, the same as that for 2016.

Total investment income amounted to RMB53.417 billion, up 20.1%, with total investment yield at 5.4%, up 0.2pt from that in 2016.

Growth rate of investments' net asset value rose by 0.8pt to 4.8%, as a result of equity market rally.

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Interest income from fixed income investments	41,815	37,523	11.4
Dividend income from equity securities	10,963	8,508	28.9
Rental income from investment properties	686	576	19.1
Net investment income	**53,464**	**46,607**	**14.7**
Realized losses	(1,571)	(930)	68.9
Unrealized gains/(losses)	1,443	(768)	(287.9)
Charge of impairment losses on investment assets	(658)	(965)	(31.8)
Other income[note 1]	739	529	39.7
Total investment income	**53,417**	**44,473**	**20.1**
Net investment yield (%)[note 2]	5.4	5.4	-
Total investment yield (%)[note 2]	5.4	5.2	0.2pt
Growth rate of investments' net asset value (%)[notes 2,3]	4.8	4.0	0.8pt

Notes:

1. 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.
2. 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 asset value are computed based on the Modified Dietz method.
3. Growth rate of investments' net asset value = total investment yield + net of fair value changes of AFS booked as other comprehensive income/(loss)/average investment assets.

(III) Total investment yield on a consolidated basis

Unit: %

For 12 months ended 31 December	2017	2016	Changes
Total investment yield	**5.4**	**5.2**	**0.2pt**
Fixed income investments[note]	5.0	5.2	(0.2pt)
Equity investments[note]	7.6	4.7	2.9pt
Investment properties[note]	8.4	8.8	(0.4 pt)
Cash, cash equivalents and others[note]	2.4	1.8	0.6pt

Note: The impact of securities sold under agreements to repurchase was not considered.

III. Third-party AuM

(I) Third-party AuM by CPIC AMC

In 2017, against the backdrop of tightened regulation and de-leveraging, CPIC AMC took matters into its own stride, focused on stability, gave priority to risk prevention and mitigation, proactively adjusted its third-party business strategy and mix, and achieved a stable and healthy performance. Due to changes of the market environment, the company's third-party AuM, after rapid growth in recent years, experienced a decrease. As of the end of 2017, its third-party AuM stood at RMB147.179 billion, down by 12.3% from the end of 2016, with a fee income of RMB381 million, down by 8.4% compared with 2016.

During the reporting period, in response to the call for supporting China's real economy by the government, CPIC AMC intensified its efforts to proactively explore opportunities in alternative investments, focusing on key national strategies and major government-sponsored projects such as transport, energy, slum resettlement, high-tech parks and the reform of SOEs under the central government. In 2017, it registered a total of 20 debt investment schemes and one asset-based security plan, raising RMB45.4 billion, a record high. As of the end of 2017, its third-party alternative AuM amounted to RMB70.5 billion, almost the same as that as at the end of 2016.

Meanwhile, in response to changing regulations, market trends and customers' needs, it stepped up co-operation with major commercial banks and non-banking financial institutions, improved the marketing system integrating investment, products and the market, and strived to boost product development through mature investment strategies. In particular, it optimized its third-party business mix with the launch of diversified products such as certificate of deposits (CD), interest rate swaps, convertible bonds (CB), as well as products under the Hong Kong Connect Program and liquidity management instruments.

(II) Assets under investment management by Changjiang Pension

In 2017, Changjiang Pension clearly defined its business model and strategy as a pension firm, namely, "focusing on the core business of pension management, specializing in the management of long-term funds, and serving, in an all-around way, China's 3-pillar pension system".

In the first pillar, it officially became one of the managers of China's social security pension fund, with funds under management growing steadily on the back of good investment performance and service. As for the second pillar, the company focused on the occupational annuity business, and qualified as the entrusted corporation of the Occupational Annuity Scheme of Xinjiang Uygur Autonomous Region, the first of its kind in China. It stepped up efforts in the new business development of enterprise annuity, and successfully qualified as the enterprise annuity manager for a number of medium- and large-sized SOEs. It also innovated in group retirement plans to serve the needs of SOE reform. In the third pillar, Changjiang Pension continued to diversify its on-line and off-line channels, and launched open-end individual retirement plans in collaboration with Baidu Financial Services. It fostered "the channel co-operation business" from both in-house and third-party clients in a bid to further penetrate the individual retirement market. Given the long-term nature of pension funds, the company raised a total of RMB52.1 billion via debt investment schemes in 2017, ranking the second place in the industry. Cumulatively the debt investment schemes it launched raised over RMB100 billion in funds, with its business covering 15 provinces or provincial-level administrative regions, financing the resettlement of slums, the infrastructure projects in China's inland and serving the development of the real economy.

As of the end of the reporting period, Changjiang Pension's third-party assets under investment management reached RMB190.004 billion, rising by 51.1% from the end of 2016, with assets under custody of RMB81.122 billion, up 15.3% from the end of 2016.

Analysis of specific items

I. Key consolidated results

Unit: RMB million

	31 December 2017/Year 2017	31 December 2016/Year 2016	Changes (%)	Main Reasons
Total assets	1,171,224	1,020,692	14.7	Business expansion
Total liabilities	1,030,105	885,929	16.3	Business expansion
Total equity	141,119	134,763	4.7	Profit for the period, fair value change on available-for-sale financial assets
Net profit attributable to equity holders of the parent	14,662	12,057	21.6	Business expansion and increase in investment income

II. Liquidity analysis

(I) Cash flow statement

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
Net cash inflow from operating activities	86,049	63,138	36.3
Net cash outflow from investing activities	(104,209)	(43,929)	137.2
Net cash inflow/(outflow) from financing activities	10,629	(7,085)	(250.0)

(II) Gearing ratio

	31 December 2017	31 December 2016	Changes
Gearing ratio (%)	88.3	87.1	1.2pt

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. Items concerning fair value accounting

Unit: RMB million

	31 December 2017	31 December 2016	Changes	Impact of fair value changes on profits[note]
Financial assets at fair value through profit or loss	16,187	27,190	(11,003)	1,443
Available-for-sale financial assets	368,868	258,711	110,157	(658)
Total	**385,055**	**285,901**	**99,154**	**785**

Note: Impact on profits of change of fair value for AFS financial assets refers to charges for impairment losses.

IV. 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 People’s Republic of China (PRC) shall meet certain prescribed levels as stipulated by CIRC.

Unit: RMB million

	31 December 2017	31 December 2016	Reasons of change
CPIC Group			
Core capital	318,882	280,012	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	322,882	285,512	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	113,766	97,247	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	280	288	
Comprehensive solvency margin ratio (%)	284	294	
CPIC Life			

Core capital	241,486	213,017	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	241,486	214,517	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	98,460	83,516	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	245	255	
Comprehensive solvency margin ratio (%)	245	257	
CPIC P/C			
Core capital	34,788	34,702	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	38,788	38,702	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	14,508	13,069	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	240	266	
Comprehensive solvency margin ratio (%)	267	296	
CPIC Allianz Health			
Core capital	524	741	Profit/loss for the period and change of fair value of investment assets
Actual capital	524	741	Profit/loss for the period and change of fair value of investment assets
Minimum required capital	250	122	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	210	607	
Comprehensive solvency margin ratio (%)	210	607	
Anxin Agricultural			
Core capital	1,488	1,389	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	1,488	1,389	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	479	469	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	310	296	
Comprehensive solvency margin ratio (%)	310	296	

Please refer to the summaries of 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 on the solvency of CPIC Group and its subsidiaries including CPIC Life, CPIC P/C, CPIC Allianz Health and Anxin Agricultural for 2017.

V. 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

	Year 2017 / 31 December 2017	
Market value	Impact on profit before tax	Impact on equity
+10%	677	5,261
-10%	(677)	(5,261)

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.

VI. 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 2017, insurance contract liabilities of CPIC Life amounted to RMB724.374 billion, representing an increase of 16.7% from the end of 2016. Those of CPIC P/C amounted to RMB76.566 billion, up 6.1% from the end of 2016. The rise in insurance contract liabilities was mainly caused by business growth 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 2017	31 December 2016	Changes (%)
CPIC Life			
Unearned premiums	3,002	2,469	21.6
Claim reserves	2,827	2,067	36.8
Long-term life insurance contract liabilities	718,545	616,047	16.6
CPIC P/C			
Unearned premiums	40,693	38,207	6.5
Claim reserves	35,873	33,936	5.7

VII. 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 2016	Increase for the period			Decrease for the period		31 December 2017
		Deposit received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	48,796	12,945	1,910	469	(7,685)	(167)	56,268

VIII. Reinsurance business

In 2017, premiums ceded to reinsurers are shown below:

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
CPIC Life	2,921	2,140	36.5
Traditional insurance	1,860	1,579	17.8
Long-term health insurance	1,274	1,067	19.4
Participating insurance	227	219	3.7
Universal insurance	21	6	250.0
Short-term accident and health insurance	813	336	142.0
CPIC P/C	13,877	12,203	13.7
Automobile insurance	6,994	6,115	14.4
Non-automobile insurance	6,883	6,088	13.1

In 2017, premiums ceded inwardly are set out below:

Unit: RMB million

For 12 months ended 31 December	2017	2016	Changes (%)
CPIC Life	1,646	-	/
Traditional insurance	1,646	-	/
Long-term health insurance	-	-	/
Participating insurance	-	-	/
Universal insurance	-	-	/
Short-term accident and health insurance	-	-	/
CPIC P/C	620	124	400.0
Automobile insurance	395	1	39,400.0
Non-automobile insurance	225	123	82.9

As at the end of 2017, assets under reinsurance are set out below:

Unit: RMB million

	31 December 2017	31 December 2016	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	289	118	144.9
Claim reserves	87	72	20.8
Long-term life insurance contract liabilities	10,679	9,173	16.4
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	5,224	4,481	16.6
Claim reserves	6,666	6,579	1.3

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. Apart from 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).

IX. 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%	977,186	62,388	10,070
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;	19,470	98.501%	144,120	35,293	3,743

	insurance funds investment as approved by relevant laws and regulations; other business as approved by the CIRC.					
Pacific Asset Management Co., Ltd.	Management of capital and insurance funds, outsourcing of asset management, consulting services relating to asset management, and other asset management business as allowed by the PRC laws and regulations.	2,100	99.667%	3,346	2,845	264
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; consultation business in relation to asset management; other business pertaining to insurance fund management as allowed by PRC laws and regulations; other business as approved by CIRC.	1,446	61.100%	3,505	3,073	174
Anxin Agricultural Insurance Co., Ltd.	Agricultural insurance; property damage insurance; liability insurance; statutory liability insurance; credit	700	51.348%	2,943	1,367	136

	and guarantee insurance; short term health insurance and casualty insurance; countryside and farmer related property insurance; reinsurance of the above said insurance; insurance agency business.					
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 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.	1,000	77.051%	2,599	590	(186)

Notes:

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

X. Top five customers and customer relations

During the reporting period, the top 5 customers accounted for 0.7% of the Company's GWPs. Given its business nature, the Company does not have any supplier that is directly related to its business.

In 2017, we adhered to customer-orientation, valued our customers and maintained good relations with them.

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

The Company's assets are mainly financial assets. As of the end of the reporting period，no abnormality was detected for bond repurchases which forms part of the Company's day-to-day securities investment activities.

XII. 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 and business plan

China's economy has "changed gears", shifting from high growth and entering a stage of "high-quality development", meaning more opportunities for the insurance sector. The government calls for more support for the real economy by the financial services industry. It also planned to enhance China's social security system, implement the "Healthy China Strategy", and put in place a more broad-based, inclusive social management system. Insurance, as a market-based mechanism in social management, will see growing demand. On the other hand, given the renewed focus on protection and risk management as the central insurance value proposition, the sector also faces a major window of opportunity to "return to the basics".

In 2018, we will persist in customer-orientation, continue to focus on insurance and be good at it, launch Transformation 2.0, follow a development path driven by innovation, forestall major risks and strive to improve the supply of insurance products and services.

II. Major risks and mitigation measures

First, with the development of China's modern economic system, the deepening of financial reform and in particular the advancement of fin-tech, the role of the insurance industry in the future, its growth drivers and competitive landscape will be reshaped, meaning a profound impact on the Company's strategies and business models. Second, the tightening of insurance regulation will continue. This, coupled with new product rules for life insurance and further deregulation of automobile business would be a challenge to our existing development mode and risk management. Third, the Company will continue to face the threat of catastrophic climate and artificial accidents. Fourth, given the sustained focus on deleveraging and the promulgation of relevant polices and regulations, the financial market may experience unexpected volatility, including volatility of the market risk and rising credit and liquidity risk, which will have a major impact on both the Company's insurance and investment.

To cope with these risks, the Company will persist in compliance, and strengthen the 3-line defense system of compliance & risk management in an all-around way. In particular, we will step up risk control in product development, asset allocation and performance evaluation, continuously optimize the matching of assets and liabilities, improve mechanisms and procedures for the identification, assessment, budgeting, monitoring, early warning and handling of risks, continue to refine the catastrophe modeling and management of cumulative retained risks and reinsurance programs in a bid to prevent major risks, and ensure stable business performance and strong solvency.

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 2017, 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 2017 by approximately RMB9.024 billion and a decrease in profit before tax for 2017 by approximately RMB9.024 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 2017 and the value of one year's sales of CPIC Life in the 12 months to 31 December 2017 at a risk discount rate of 11%.

Unit: RMB million

Valuation Date	31 December 2017	31 December 2016
Group Adjusted Net Worth	**151,755**	**144,651**
Adjusted Net Worth of CPIC Life	77,288	78,556
Value of In Force Business of CPIC Life Before Cost of Required Capital Held	147,283	113,727
Cost of Required Capital Held for CPIC Life	(10,534)	(10,680)
Value of In Force Business of CPIC Life After Cost of Required Capital Held	136,749	103,048
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	**134,414**	**101,288**

attributable to the shareholders of CPIC Group		
Group Embedded Value	**286,169**	**245,939**
CPIC Life Embedded Value	214,037	181,603

Valuation Date	31 December 2017	31 December 2016
Value of One Year's Sales of CPIC Life Before Cost of Required Capital Held	30,632	23,151
Cost of Required Capital Held	(3,909)	(4,109)
Value of One Year's Sales of CPIC Life After Cost of Required Capital Held	**26,723**	**19,041**

Notes:

1. Figures may not be additive due to rounding.

2. Results in column "31 December 2016" are those reported in the 2016 annual report.

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 2017.

Unit: RMB million

	First Year Annual Premium (FYAP)		Value of One Year's Sales After Cost of Required Capital Held	
	2017	2016	2017	2016
Total	**67,823**	**57,816**	**26,723**	**19,041**
Of which: Traditional	16,688	21,312	11,398	10,026
Participating	34,440	20,539	15,057	8,627

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2016 to 31 December 2017.

Unit: RMB million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2016**	**181,603**	
2	Expected Return on Embedded Value	17,540	Expected returns on the 2016 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2017
3	Value of One Year's Sales	26,723	Value of one year's sales in respect of new business written in the 12 months prior to 31 December 2017
4	Investment Experience Variance	883	Reflects the difference between actual and assumed investment return in 2017
5	Operating Experience Variance	1,890	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(2,296)	Reflects assumption and methodology changes, together with model enhancements
7	Diversification effects	3,736	Changes in diversification benefits on cost of required capital from new business and different business mix
8	Change in market value adjustment	(3,447)	Reflects the change in value of certain assets not valued on a market value basis
9	Shareholder Dividends	(12,630)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	34	
11	**Embedded Value of the life business at 31 December 2017**	**214,037**	
12	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2016**	**69,315**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	17,304	
14	Shareholder dividends	(6,656)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	(1,628)	Reflects the change in value of assets not valued on a market value basis
16	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2017**	**78,336**	
17	Minority interests relating to equity and market value adjustments	(6,203)	Minority interests on Embedded Value as at 31 December 2017
18	**Group Embedded Value as at 31 December 2017**	**286,169**	
19	**Embedded Value as at 31 December 2017 per share (RMB)**	**31.58**	

Note: Figures may not be additive due to rounding.

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 reporting period, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

Proposed final dividend

On 29 March 2018, the Board recommended a final dividend of RMB0.80 per share (tax included) for the year ended 31 December 2017, amounting to approximately RMB7.250 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2017 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, 8 August 2018 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.

Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Interconnected Mechanism for Trading on the Shenzhen Stock Market and the Hong Kong Stock Market (Cai Shui [2016] No. 127) (《關於深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[2016]127號)) implemented on 5 December 2016:

- In respect of the dividends received by mainland individual investors who invest in the H shares of the Company via the Shenzhen-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

Shenzhen-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 Shenzhen-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 SSE (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 RMB0.72 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 2017 to A Share shareholders on the SSE.

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 2017 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 2017 will be dispatched to shareholders in due course and will be published on the websites of SEHK (www.hkexnews.hk) and of the Company (www.cpic.com.cn).

Definitions

"The Company", "the Group", "CPIC" or "CPIC Group"	China Pacific Insurance (Group) Co., Ltd.
"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.
"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.
"CIRC"	China Insurance 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.

KONG Qingwei

Chairman

Hong Kong, 29 March 2018

As at the date of this announcement, the Executive Directors of the Company are Mr. KONG Qingwei and Mr. HE Qing; the Non-executive Directors of the Company are Mr. WANG Jian, Mr. WANG Tayu, Mr. KONG Xiangqing, Mr. ZHU Kebing, Ms. SUN Xiaoning, Mr. WU Junhao and Mr. CHEN Xuanmin; 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 2017

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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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

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 125, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We 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

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>Valuation of life insurance contract liabilities

Refer to note 2.2(23) Summary of principal accounting policies – Insurance contracts liabilities and note 39 Insurance contracts liabilities.

Refer to note 3.2(1) Estimation uncertainty-Valuation of insurance contract liabilities.

The Group had significant long-term life insurance contract liabilities stated at RMB 719 billion as at 31 December 2017, representing 70% of the Group's total liabilities.

The valuation of long-term 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 long-term 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.

We focused on this area due to the significant quantum amount of long-term life insurance contract liabilities to the consolidated financial statements and because the relevant key assumptions applied in valuation involved significant judgements and estimates.</td><td>With the assistance of our actuarial experts, we performed the audit procedures listed below.

• 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 evaluated 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 long-term life insurance contract liabilities by performing variation and movement analysis to check the impact of key changes and compare actual results to expected results.

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.</td></tr>
</table>

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of non-life insurance contract liabilities Refer to note 2.2(23) Summary of principal accounting policies – Insurance contracts liabilities and note 39 Insurance contracts liabilities. Refer to note 3.2(1) Estimation uncertainty-Valuation of insurance contract liabilities. The Group had claim reserves which was included in non-life insurance contract liabilities stated at RMB 39 billion at 31 December 2017, representing 4% of the Group's total liabilities. 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.	With the assistance of our actuarial experts, we performed the audit procedures listed below. We evaluated and tested the internal controls over data collection and analysis and the assumptions setting processes. We performed independent modelling analysis for claim reserves as follows: • 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. Based on our audit work, we found management judgements in the valuation of claim reserves to be supportable by the evidence we gathered.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of level 3 investments 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. The Group's investment measured at fair value that were classified in level 3 stated at RMB 36 billion as at 31 December 2017, representing 3% of the Group's total assets. 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.	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. With the assistance of our valuation experts, our audit work over the measurement of level 3 investments included: • 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. 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.

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 HKSAs, 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 2018

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2017	2016
Gross written premiums	6(a)	281,644	234,018
Less: Premiums ceded to reinsurers	6(b)	(15,784)	(13,649)
Net written premiums	6	265,860	220,369
Net change in unearned premium reserves		(2,306)	(796)
Net premiums earned		263,554	219,573
Investment income	7	52,657	43,879
Other operating income		3,194	2,629
Other income		55,851	46,508
Total income		319,405	266,081
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(39,604)	(40,779)
Claims incurred	8	(60,317)	(56,102)
Changes in long-term life insurance contract liabilities	8	(101,263)	(71,178)
Policyholder dividends	8	(8,946)	(7,735)
Finance costs	9	(3,703)	(2,444)
Interest credited to investment contracts		(1,910)	(1,803)
Other operating and administrative expenses		(82,634)	(69,973)
Total benefits, claims and expenses		(298,377)	(250,014)
Share of profit in equity accounted investees		74	18
Profit before tax	10	21,102	16,085
Income tax	14	(6,111)	(3,801)
Net profit for the year		14,991	12,284
Attributable to:			
Equity holders of the parent		14,662	12,057
Non-controlling interests		329	227
		14,991	12,284
Basic earnings per share	15	RMB1.62	RMB1.33
Diluted earnings per share	15	RMB1.62	RMB1.33

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 2017

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2017**	**2016**
Net profit for the year		14,991	12,284
Other comprehensive loss			
Exchange differences on translation of foreign operations	16	(33)	32
Available-for-sale financial assets	16	(3,283)	(6,253)
Income tax relating to available-for-sale financial assets	16	820	1,566
Share of other comprehensive loss in equity accounted investees	16	-	(19)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		(2,496)	(4,674)
Other comprehensive loss for the year	16	(2,496)	(4,674)
Total comprehensive income for the year		12,495	7,610
Attributable to:			
Equity holders of the parent		12,206	7,490
Non-controlling interests		289	120
		12,495	7,610

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2017

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2017	31 December 2016
ASSETS			
Goodwill	17	962	962
Property and equipment	18	17,950	16,664
Investment properties	19	8,727	8,657
Other intangible assets	20	1,490	1,172
Prepaid land lease payments	21	55	56
Interests in associates	22	5,230	115
Investment in joint ventures	23	41	36
Held-to-maturity financial assets	24	287,497	304,874
Investments classified as loans and receivables	25	216,748	139,634
Restricted statutory deposits	26	6,566	6,078
Term deposits	27	103,989	132,226
Available-for-sale financial assets	28	368,868	258,711
Financial assets at fair value through profit or loss	29	16,187	27,204
Securities purchased under agreements to resell	30	17,126	21,138
Policy loans		38,643	27,844
Interest receivables	31	16,757	17,003
Reinsurance assets	32	22,575	20,141
Deferred income tax assets	33	1,742	1,382
Insurance receivables	34	16,333	12,267
Other assets	35	12,078	9,269
Cash and short-term time deposits	36	11,660	15,259
Total assets		1,171,224	1,020,692

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET (continued)
31 December 2017

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity			
Issued capital	37	9,062	9,062
Reserves	38	82,714	83,930
Retained profits	38	45,722	38,772
Equity attributable to equity holders of the parent		137,498	131,764
Non-controlling interests		3,621	2,999
Total equity		141,119	134,763
Liabilities			
Insurance contract liabilities	39	802,239	693,826
Investment contract liabilities	40	56,268	48,796
Policyholders' deposits		75	75
Subordinated debts	41	3,999	11,498
Securities sold under agreements to repurchase	42	66,243	39,104
Deferred income tax liabilities	33	920	937
Income tax payable		4,934	3,145
Premium received in advance		21,156	22,326
Policyholder dividend payable		24,422	21,735
Payables to reinsurers		6,002	5,775
Other liabilities	43	43,847	38,712
Total liabilities		1,030,105	885,929
Total equity and liabilities		1,171,224	1,020,692

KONG Qingwei
Director

HE Qing
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 2017

(All amounts expressed in RMB million unless otherwise specified)

Group

	2017									
	Attributable to equity holders of the parent									
		Reserves								
	Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2017	9,062	66,742	4,835	8,392	3,969	(8)	38,772	131,764	2,999	134,763
Total comprehensive income	-	-	-	-	(2,423)	(33)	14,662	12,206	289	12,495
Dividend declared [1]	-	-	-	-	-	-	(6,343)	(6,343)	-	(6,343)
Changes in ownership interests in subsidiaries without change of control	-	(138)	-	-	-	-	-	(138)	645	507
Share of other changes in equity of investees accounted for using the equity method	-	9	-	-	-	-	-	9	-	9
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(312)	(312)
Appropriations to general reserves	-	-	-	1,369	-	-	(1,369)	-	-	-
At 31 December 2017	9,062	66,613	4,835	9,761	1,546	(41)	45,722	137,498	3,621	141,119

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2016, amounting to RMB6,343million (RMB0.70 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 2017

(All amounts expressed in RMB million unless otherwise specified)

Group

	2016										
	Attributable to equity holders of the parent										
		Reserves									
	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	Retained profits	Total	Non-controlling interests	Total equity
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 CASH FLOW STATEMENT
For the year ended 31 December 2017

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2017**	**2016**
OPERATING ACTIVITIES			
Cash generated from operating activities	49	89,928	68,038
Income tax paid		(3,879)	(4,900)
Net cash inflow from operating activities		86,049	63,138
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(4,218)	(6,079)
Proceeds from sale of property and equipment, intangible assets and other assets		334	57
Purchases of investments, net		(149,496)	(83,467)
Acquisition of a subsidiary and other business entities, net		(6,059)	(132)
Proceeds from sale of a subsidiary and other business entities, net		-	2
Interest received		44,135	36,907
Dividends received from investments		11,095	8,627
Other cash receipts related to investing activities		-	163
Other cash payment related to investing activities		-	(7)
Net cash outflow from investing activities		(104,209)	(43,929)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		26,842	10,123
Proceeds from the issue of asset-backed securities		1,000	-
Repayment of borrowings		(8,498)	(8,002)
Interest paid		(3,266)	(1,859)
Dividends paid		(6,655)	(9,235)
Capital injection to subsidiaries by NCI		669	-
Proceeds from NCI of consolidated structured entities		537	1,888
Net cash inflow/(outflow) from financing activities		10,629	(7,085)
Effects of exchange rate changes on cash and cash equivalents		(80)	81
Net (decrease)/increase in cash and cash equivalents		(7,611)	12,205
Cash and cash equivalents at the beginning of year		36,397	24,192
Cash and cash equivalents at the end of year		28,786	36,397
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		9,969	9,717
Time deposits with original maturity of no more than three months		712	4,633
Other monetary assets		979	909
Investments with original maturity of no more than three months		17,126	21,138
Cash and cash equivalents at the end of year		28,786	36,397

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.

HKAS 12 Amendments	Recognition of deferred tax assets for unrealised losses
HKAS 7 Amendments	Disclosure initiative
HKFRS 12 Amendments	Disclosure of interest in other entities

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:

HKFRS 15	Revenue from contracts with customers[1]
HKFRS 9	Financial instruments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HKFRS 4 Amendments	Applying HKFRS 9 with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
HK(IFRIC 22)	Foreign currency transactions and advance consideration[1]
HK(IFRIC 23)	Uncertainty over income tax treatments[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021

None of these HKFRS is expected to have a significant effect on the consolidated financial statements of the Group, except for the following as 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 eligible to and will elect to apply the temporary option to defer the effective date of HKFRS 9 under the amendments to HKFRS 4 'Insurance contracts'. The impact of the adoption of HKFRS 9 on the Group's consolidated financial statements will, to a large extent, have to take into account the interaction with the issued insurance contracts standard. The Group will not adopt the HKFRS 9 until 1 January 2021 and it won't have impact on the Group until 2021.

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 expects that it will not 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)

2.1 Basis of preparation (continued)

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

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.

HKFRS 17 was issued in January 2018 will replace the current HKFRS 4 Insurance Contracts. It applies to the measurement of insurance contracts issued, all reinsurance contracts and investment contracts with discretionary participating features. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard is effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted. The impact is expected to be significant. However, it won't have impact on the Group until 2021.

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 2017. 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.

(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

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.

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.

(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

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.

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.

(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

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.

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.

(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)

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.

(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).

(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

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%

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.

(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)

(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.

(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.

(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

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.

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.

(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)

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.

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.

(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

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.

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.

(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 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.

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.

(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)

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: whether the contract transfers insurance risk; whether the contract has commercial substance; 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 helding 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 base rate curve with comprehensive premium. The comprehensive premium is added by considering taxation impacts, the liquidity, conversion period, and other relevant factors. The ranges of discount rates used as at 31 December 2016 and 2017 were from 3.23% to 4.94% and from 3.25% to 4.80%, 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 2016 and 2017 were from 4.85% to 5.00% and from 4.90% 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, considering risk margin, 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 (2010-2013), adjusted where appropriate to reflect the Group’s recent historical mortality experience.

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

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 2017, 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 2017 by approximately RMB9,024 million and a decrease in profit before tax for 2017 by approximately RMB9,024 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 (including China Pacific Life Insuracne Co.,Ltd. ("CPIC Life") and CPIC Allianz Health Insurance Co.,Ltd. ("CPIC Allianz Health")) 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 2017, gross written premiums from transactions with the top five external customers amounted to 0.68% (2016: 0.38%) of the Group's total gross written premiums.

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2017

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Gross written premiums	176,072	105,739	521	(401)	105,859	-	(287)	281,644
Less: Premiums ceded to reinsurers	(2,307)	(13,962)	(197)	395	(13,764)	-	287	(15,784)
Net written premiums	173,765	91,777	324	(6)	92,095	-	-	265,860
Net change in unearned premium reserves	(565)	(1,803)	44	-	(1,759)	-	18	(2,306)
Net premiums earned	173,200	89,974	368	(6)	90,336	-	18	263,554
Investment income	45,740	5,362	33	-	5,395	18,826	(17,304)	52,657
Other operating income	2,809	556	1	-	557	3,757	(3,929)	3,194
Other income	48,549	5,918	34	-	5,952	22,583	(21,233)	55,851
Segment income	221,749	95,892	402	(6)	96,288	22,583	(21,215)	319,405
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(39,604)	-	-	-	-	-	-	(39,604)
Claims incurred	(6,320)	(53,824)	(191)	-	(54,015)	-	18	(60,317)
Changes in long-term life insurance contract liabilities	(101,445)	-	-	-	-	-	182	(101,263)
Policyholder dividends	(8,946)	-	-	-	-	-	-	(8,946)
Finance costs	(3,213)	(427)	-	-	(427)	(71)	8	(3,703)
Interest credited to investment contracts	(1,910)	-	-	-	-	-	-	(1,910)
Other operating and administrative expenses	(46,967)	(35,539)	(164)	-	(35,703)	(3,860)	3,896	(82,634)
Segment benefits, claims and expenses	(208,405)	(89,790)	(355)	-	(90,145)	(3,931)	4,104	(298,377)
Segment results	13,344	6,102	47	(6)	6,143	18,652	(17,111)	21,028
Share of profit in equity accounted investees	91	(14)	-	-	(14)	(4)	1	74
Profit before tax	13,435	6,088	47	(6)	6,129	18,648	(17,110)	21,102
Income tax	(3,441)	(2,243)	(8)	-	(2,251)	(385)	(34)	(6,111)
Net profit for the year	9,994	3,845	39	(6)	3,878	18,263	(17,144)	14,991

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2017

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Investment in associates	4,867	289	-	-	289	74	-	5,230
Investment in joint ventures	-	29	-	-	29	12	-	41
Financial assets *	777,684	75,271	432	-	75,703	35,913	-	889,300
Term deposits	81,639	21,264	-	-	21,264	1,086	-	103,989
Others	109,587	49,600	650	(357)	49,893	43,372	(30,188)	172,664
Segment assets	973,777	146,453	1,082	(357)	147,178	80,457	(30,188)	1,171,224
Insurance contract liabilities	724,712	77,640	324	(203)	77,761	-	(234)	802,239
Investment contract liabilities	56,268	-	-	-	-	-	-	56,268
Policyholders' deposits	10	65	-	-	65	-	-	75
Subordinated debts	-	3,999	-	-	3,999	-	-	3,999
Securities sold under agreements to repurchase	60,059	5,900	-	-	5,900	284	-	66,243
Others	75,085	22,828	312	(148)	22,992	9,885	(6,681)	101,281
Segment liabilities	916,134	110,432	636	(351)	110,717	10,169	(6,915)	1,030,105

* 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 2017

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Depreciation and amortization	990	727	1	-	728	438	-	2,156
Capital expenditure	1,698	1,965	-	-	1,965	273	-	3,936
Impairment loss charges	925	41	-	-	41	(253)	-	713
Interest income	36,720	4,354	31	-	4,385	1,297	(59)	42,343
Unrealized gains from financial assets at fair value through profit or loss	1,427	-	-	-	-	16	-	1,443

(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	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
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

(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	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
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	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
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)

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2017 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	
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	2,100,000	2,100,000	80.00	19.67	100.00	(1)
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	1,446,415	1,446,415	-	61.10	62.16	(2)
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	

(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 2017 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		
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	
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. ("CPIC Online Services")	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	

(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 2017 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		
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	

* Subsidiaries of City Island

(1) In 2017, the Company and the Group's subsidiaries, CPIC Life and CPIC Property, injected capital of RMB800 million to CPIC Asset Management, which consists of RMB400 million monetary capital contribution and RMB400 million paid-in capital converted from retained earnings. The registered capital changes to RMB2,100 million. After this capital injection, the ownership in CPIC Asset Management will be 80% for the Company, 16% for CPIC Life, and 4% for CPIC Property, respectively. The CIRC approved the change of registered capital of CPIC Asset Management by issuing the 'Approval of changing registered capital of CPIC Asset Management' (Bao Jian Xu Ke [2017] No.1401) on 14 December 2017. CPIC Asset Management completed the change of business license on 15 December 2017.

(2) On 12 May 2017, CPIC Life, the Group's subsidiary, signed a capital increase agreement with Changjiang Pension, whereby CPIC Life acquired 491.5127 million shares of common stocks at RMB3.0358 per share issued by Changjiang Pension. After this capital injection, CPIC Life's ownership in Changjiang Pension will be 62.16% while the Company will hold 61.10% of Changjiang Pesnion's ownership indirectly through CPIC Life. The CIRC approved the change of registered capital and articles of association of Changjiang Pensions by issuing the 'Approval of changing registered capital of Changjiang Pension (Bao Jian Xu Ke [2017] No.1044) on 1 September 2017 and the 'Approval of changing articles of association of Changjiang Pension (Bao Jian Xu Ke [2017] No.1221) on 18 October 2017. Changjiang Pension completed the change of business license on 1 November 2017.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(b) As at 31 December 2017, 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	3,048,052	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 bank, 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.
Pacific-China Nonferrous Metal Mining (Group) Co., Ltd. (“CNMC”) Debt Investment Plan (Phase I)	62.98	2,080,000	Investing in projects operated by CNMC’s subsidiaries through debt investment plan.
Pacific Excellent Wealth Focus Dividend &Value Equity	100.00	895,298	Investing in legally listed domestic stocks (including stocks listed in Shanghai and Shenzhen main board, SME, GEM, HKSE which are allowed to be traded under the interconnected mechanism between the mainland and Hongkong stock markets and others approved by CSRC), convertible bonds, bond reverse repurchases (including pit trading and OTC, etc.), securities investment funds (including pit trading and OTC etc.), bank deposits (including current deposits, time deposits, agreement deposits, inter-bank deposits, notice deposits, NCDs, certificates of deposit, etc.). Stock index futures (limited to hedging) is allowed as well.
Pacific Well-selected Growth Equity	100.00	637,463	Investing in financial instruments with good liquidity, including legally listed domestic stocks (including stocks listed in SME, GEM and others approved by CSRC), bonds (including national debts, financial bonds, subordinated bonds, central bank bills, corporate bonds, local government bonds, convertible bonds, detachable bonds, medium-term notes, short-term financing bonds, bond repurchases, etc.), money market funds, structured fund with fixed income characteristics (senior tranche), bond funds, credit assets backed securities, bank deposits (including current deposits, time deposits, agreement deposits, etc.) and other financial instruments that regulators may allow in the future (subject to relevant regulatory authorities).

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

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2017	2016
Long-term life insurance premiums	164,553	128,258
Short-term life insurance premiums	11,232	9,152
Property and casualty insurance premiums	105,859	96,608
	281,644	234,018

(b) Premiums ceded to reinsurers

	2017	2016
Long-term life insurance premiums ceded to reinsurers	(2,108)	(1,804)
Short-term life insurance premiums ceded to reinsurers	(199)	(97)
Property and casualty insurance premiums ceded to reinsurers	(13,477)	(11,748)
	(15,784)	(13,649)

(c) Net written premiums

	2017	2016
Net written premiums	265,860	220,369

7. INVESTMENT INCOME

	2017	2016
Interest and dividend income (a)	53,443	46,472
Realized losses (b)	(1,571)	(860)
Unrealized gains/(losses) (c)	1,443	(768)
Charge of impairment losses on financial assets	(658)	(965)
	52,657	43,879

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2017	2016
Financial assets at fair value through profit or loss		
- Fixed maturity investments	307	678
- Investment funds	84	127
- Equity securities	81	38
- Other equity investments	78	44
	550	887
Held-to-maturity financial assets		
- Fixed maturity investments	14,703	15,322
Loans and receivables		
- Fixed maturity investments	18,790	16,345
Available-for-sale financial assets		
- Fixed maturity investments	8,543	5,488
- Investment funds	7,551	6,298
- Equity securities	850	601
- Other equity investments	2,456	1,531
	19,400	13,918
	53,443	46,472

(b) Realized losses

	2017	2016
Financial assets at fair value through profit or loss		
- Fixed maturity investments	(129)	109
- Investment funds	(4)	(59)
- Equity securities	715	(101)
- Other equity investments	2	1
- Derivative instruments	(1)	38
	583	(12)
Available-for-sale financial assets		
- Fixed maturity investments	(182)	473
- Investment funds	(4,968)	(2,686)
- Equity securities	2,936	1,266
- Other equity investments	60	29
	(2,154)	(918)
Investments in subsidiaries	-	70
	(1,571)	(860)

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(c) Unrealized gains/(losses)

	2017	2016
Financial assets at fair value through profit or loss		
- Fixed maturity investments	(113)	(373)
- Investment funds	280	(138)
- Equity securities	1,254	(264)
- Other equity investments	22	7
	1,443	(768)

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2017		
	Gross	Ceded	Net
Life insurance death and other benefits paid	40,579	(975)	39,604
Claims incurred			
- Short-term life insurance	6,233	(120)	6,113
- Property and casualty insurance	60,931	(6,727)	54,204
Changes in long-term life insurance contract liabilities	102,769	(1,506)	101,263
Policyholder dividends	8,946	-	8,946
	219,458	(9,328)	210,130

	2016		
	Gross	Ceded	Net
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
	184,879	(9,085)	175,794

9. FINANCE COSTS

	2017	2016
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	2,676	917
- Interest expense on policyholder dividends	517	514
	3,193	1,431
Non-current liabilities		
- Interest expense on subordinated debts	455	1,009
- Interest expense on asset-backed securities	53	4
- Long-term borrowings	2	-
	510	1,013
	3,703	2,444

(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):

	2017	2016
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	19,612	17,417
Auditors' remuneration	28	24
Operating lease payments in respect of land and buildings	1,179	970
Depreciation of property and equipment (note 18)	1,348	1,179
Depreciation of investment properties (note 19)	312	245
Amortization of other intangible assets (note 20)	467	421
Amortization of prepaid land lease payments (note 21)	1	1
Amortization of other assets	28	26
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(168)	(23)
Charge of impairment loss on insurance receivables	55	176
Charge of impairment loss on financial assets (note 7)	658	965
Foreign exchange loss/(gain), net	140	(117)

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

	2017	2016
Salaries, allowances and other short-term benefits	16,164	14,474
Contributions to defined contribution plans (1)	3,323	2,763
Early retirement benefit obligation	122	179
Deferred bonus (2)	3	1
	19,612	17,417

(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

(in RMB thousand)	2017	2016
Fees	1,400	1,400
Other remuneration		
- Salaries, allowances and other short-term benefits	6,952	5,767
- Contributions to defined contribution plans	678	353
- Deferred bonus (1)	1,733	-
- 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	-	-
	9,363	6,120
	10,763	7,520

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

(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 RMB1,400 thousand paid to independent non-executive directors for the year ended 31 December 2017 (2016: RMB1,400 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2017.

(in RMB thousand)	**2017**					
	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	Total
LIN Zhiquan	300	-	-	-	-	300
ZHOU Zhonghui	300	-	-	-	-	300
BAI Wei	250	-	-	-	-	250
GAO Shanwen	300	-	-	-	-	300
LI Jiashi	250	-	-	-	-	250
	1,400	-	-	-	-	1,400

(in RMB thousand)	**2016**					
	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	Total
LIN Zhiquan	300	-	-	-	-	300
ZHOU Zhonghui	300	-	-	-	-	300
BAI Wei	250	-	-	-	-	250
GAO Shanwen	300	-	-	-	-	300
LI Jiashi	250	-	-	-	-	250
	1,400	-	-	-	-	1,400

(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)	2017				
	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
Executive directors:					
GAO Guofu[1]	-	399	60	-	459
HUO Lianhong[2]	867	1,300	152	-	2,319
KONG Qingwei[3]	-	698	107	-	805
HE Qing[4]	866	1,516	183	-	2,565
Non-executive directors:					
WANG Chengran[5]	-	125	-	-	125
SUN Xiaoning	-	-	-	-	-
ZHENG Anguo[5]	-	125	-	-	125
WU Jumin[6]	-	62	-	-	62
WU Junhao	-	-	-	-	-
HA Erman[5]	-	125	-	-	125
WANG Jian	-	-	-	-	-
WANG Tayu[7]	-	125	-	-	125
KONG Xiangqing[7]	-	125	-	-	125
ZHU Kebing[7]	-	125	-	-	125
CHEN Xuanmin[7]	-	125	-	-	125
	1,733	4,850	502	-	7,085

1. Resigned from executive director in April 2017
2. Resigned from executive director in October 2017
3. Executive director since June 2017. The final amount of remuneration of Mr. KONG Qingwei is yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.
4. Executive director since February 2018
5. In June 2017, the members of the 8th Board of Directors were elected. Mr. WANG Chengran, Mr. ZHENG Anguo and Ms. HA Erman no longer served as non-executive directors.
6. Mr. WU Jumin, who passed away because of illness in April, 2017, no longer served as a non-executive director.
7. Non-executive director since June 2017

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

(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
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

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 2017(2016：SUN Xiaoning).

(c) Supervisors

(in RMB thousand)	2017				
	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[1]	-	125	-	-	125
ZHOU Zhuping[2]	-	125	-	-	125
LIN Lichun	-	250	-	-	250
SONG Junxiang[3]	-	-	-	-	-
YUAN Songwen	-	1,352	176	-	1,528
ZHANG Xinmei	-	250	-	-	250
	-	2,102	176	-	2,278

1. In June 2017, the members of the 8th Board of Supervisors were elected. Mr. DAI Zhihao no longer served as a supervisor.
2. Supervisor since June 2017
3. Retired from supervisor in January 2017

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors (continued)

(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

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 2017 and 2016.

(d) Directors' retirement benefits

There was no retirement benefits paid to the directors during 2017 and 2016.

(e) Directors' termination benefits

There was no termination benefits paid to directors during 2017 and 2016.

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

There was no payment to third parties for making available directors' services during 2017 and 2016.

(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 2017 and 2016.

(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 2017 in the Group include no director (2016: 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:

	2017	**2016**
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	-	-
RMB4,000,001 to RMB5,000,000	3	4
RMB5,000,001 to RMB6,000,000	1	1
RMB6,000,001 to RMB7,000,000	1	-
RMB7,000,001 to RMB8,000,000	-	-
Total	5	5

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

(in RMB thousand)	**2017**	**2016**
Salaries, allowances and other short-term benefits	25,375	22,378
Contributions to defined contribution plans	931	712
Deferred bonus (1)	-	-
	26,306	23,090
The number of non-director individuals for the above remuneration	5	5

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

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2017	**2016**
Current income tax	5,668	5,071
Deferred income tax (note 33)	443	(1,270)
	6,111	3,801

(b) Tax recorded in other comprehensive income

	2017	**2016**
Deferred income tax (note 33)	(820)	(1,566)

(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:

	2017	**2016**
Profit before tax	21,102	16,085
Tax computed at the statutory tax rate	5,276	4,021
Adjustments to income tax in respect of previous periods	2	18
Income not subject to tax	(3,702)	(2,974)
Expenses not deductible for tax	4,490	2,712
Others	45	24
Tax expense at the Group's effective rate	6,111	3,801

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	2017	2016
Consolidated net profit for the year attributable to equity holders of the parent	14,662	12,057
Weighted average number of ordinary shares in issue (million)	9,062	9,062
Basic earnings per share	RMB1.62	RMB1.33
Diluted earnings per share	RMB1.62	RMB1.33

The Company had no dilutive potential ordinary shares as at 31 December 2017 and 2016.

16. OTHER COMPREHENSIVE LOSS

	2017	2016
Exchange differences on translation of foreign operations	(33)	32
Available-for-sale financial assets		
Losses arising during the year	(8,839)	(11,883)
Reclassification adjustments for gains included in profit or loss	2,154	918
Fair value change on available-for-sale financial assets attributable to policyholders	2,744	3,747
Impairment charges reclassified to the income statement	658	965
	(3,283)	(6,253)
Income tax relating to available-for-sale financial assets	820	1,566
Share of other comprehensive loss in equity accounted investees	-	(19)
Other comprehensive loss	(2,496)	(4,674)

17. GOODWILL

Cost	
At 1 January 2016, 31 December 2016 and 2017	962
Impairment	
At 1 January 2016, 31 December 2016 and 2017	-
Carrying Value	
At 31 December 2016 and 2017	962

(All amounts expressed in RMB million unless otherwise specified)

18. PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2016	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
Additions	118	1,877	96	652	376	3,119
Transfer	599	(600)	-	-	1	-
Transfer to investment properties, net (note 19)	(441)	-	-	-	-	(441)
Disposals	(134)	-	(68)	(604)	-	(806)
At 31 December 2017	14,011	4,176	1,103	5,374	2,625	27,289
Accumulated depreciation and impairment						
At 1 January 2016	(2,448)	-	(570)	(3,473)	(1,356)	(7,847)
Depreciation charge	(357)	-	(126)	(471)	(225)	(1,179)
Transfer to 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)
Depreciation charge	(450)	-	(119)	(541)	(238)	(1,348)
Transfer to investment properties, net (note 19)	59	-	-	-	-	59
Disposals	36	-	63	604	-	703
At 31 December 2017	(3,155)	-	(708)	(3,639)	(1,837)	(9,339)
Net book value						
At 31 December 2016	11,069	2,899	423	1,624	649	16,664
At 31 December 2017	10,856	4,176	395	1,735	788	17,950

(All amounts expressed in RMB million unless otherwise specified)

19. INVESTMENT PROPERTIES

Cost	
At 1 January 2016	7,382
Transfer from property and equipment, net	2,431
Acquisition of a subsidiary	159
At 31 December 2016	9,972
Transfer from property and equipment, net	441
At 31 December 2017	10,413
Accumulated depreciation	
At 1 January 2016	(1,038)
Depreciation charge	(245)
Transfer from property and equipment, net	(19)
Acquisition of a subsidiary	(13)
At 31 December 2016	(1,315)
Depreciation charge	(312)
Transfer from property and equipment, net	(59)
At 31 December 2017	(1,686)
Carrying amount	
At 31 December 2016	8,657
At 31 December 2017	8,727

The fair values of investment properties of the Group as at 31 December 2017 amounted to RMB 11,856 million (31 December 2016: RMB11,387 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.

(All amounts expressed in RMB million unless otherwise specified)

20. OTHER INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2016	2,936
Additions	540
Acquisition of a subsidiary	12
At 31 December 2016	3,488
Additions	785
At 31 December 2017	4,273
Accumulated amortization	
At 1 January 2016	(1,888)
Amortization	(421)
Acquisition of a subsidiary	(7)
At 31 December 2016	(2,316)
Amortization	(467)
At 31 December 2017	(2,783)
Carrying amount	
At 31 December 2016	1,172
At 31 December 2017	1,490

21. PREPAID LAND LEASE PAYMENTS

Cost	
At 1 January 2016、31 December 2016 and 31 December 2017	65
Accumulated amortization	
At 1 January 2016	(8)
Amortization	(1)
At 31 December 2016	(9)
Amortization	(1)
At 31 December 2017	(10)
Carrying amount	
At 31 December 2016	56
At 31 December 2017	55

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 2017				
	Historical cost	At 1 January 2017	Additions	Share of profit	Other equity movement	Dividend declared	At 31 December 2017
Taiji (Shanghai) InformationTechnology Co., Ltd.(the “Taiji”)	2	1	-	-	-	-	1
Shanghai Juche Information Technology Co., Ltd.(the “Juche”)	3	1	-	(3)	9	-	7
Zhongdao Automobile Rescue Industry Co., Ltd.(the “Zhongdao”)	17	18	-	1	-	-	19
Shanghai Proton and Heavy Ion Hospital(the “Zhizhong”)	100	92	-	(25)	-	-	67
Shanghai Dedao Co., Ltd.(the “Dedao”)	5	3	-	(1)	-	-	2
Shanghai Xingongying Information Technology Co., Ltd.(the “Xingongying”)	81	-	81	(8)	-	-	73
Shanghai Heji Business Management LP.(the“Heji”)	200	-	200	(2)	-	-	198
Changjiang Pension - China National Chemical Corporation Infrastructure Debt Investment Scheme(the “CHEMCHINA Debt Investment Scheme”)	2,160	-	2,160	84	-	(80)	2,164
Changjiang Pension - Sichuan Railway Xugu Highway Investment Infrastructure Debt Investment Scheme(the “Sichuan Railway Investment Scheme”)	250	-	250	-	-	-	250
Ningbo Zhilin Investment Management LLP.(the “Ningbo Zhilin”)	2,416	-	2,416	33	-	-	2,449
	5,234	115	5,107	79	9	(80)	5,230

On 18 September 2015, CPIC Property signed the business cooperation agreement of RMB40 million with Xingongying. Meanwhile, CPIC Property signed the ownership transfer contract with Xingongying and individual shareholders Wenjian Zhang for transferring 6.63% shares of Xingongying. On 31 December 2016, CPIC Online Services signed the Capital injection contract of RMB0.73 million with Xingongying and the other two companies. After this capital injection, CPIC Online Services held 1.62% shares of Xingongying. On 10 January 2017, CPIC Property signed the capital injection contract of RMB40 million with Xingongying, the other seven companies, and six individual shareholders. After this capital injection, CPIC Property holds 7.53% shares of Xingongying, and CPIC Online Services holds 0.8% shares of Xingongying, respectively.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

On 19 December 2016, CPIC Property, Shanghai Guohe Capital, and Shinovation Capital Corporation Co., Ltd. signed the partnership contract to join Heji with operating period of 20 years and registered capital of RMB505 million. Among all, CPIC Property stands for 99% shares, its subscribed capital contribution reaches RMB500 million, and its first capital contribution reaches RMB200 million. Heji completed the registration of business license on 17 January 2017.

On 14 July 2017, CPIC Life, Shanghai Zhenxin Industrial Co., Ltd. and Dongjiuzhiyi (Shanghai) Equity Investment Fund LLP injected capital to Ningbo Zhilin with operating period of 20 years and subscribed capital contribution of RMB2,684.80 million. Among all, CPIC Life stands for 90% shares, its subscribed capital contribution reaches RMB2,416.32 million.

Nature of investment in associates as at 31 December 2017

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
Xingongying(1)	Shanghai	-	8.22%	8.33%	2,637	2,637	Information technology development and consulting, etc.
Heji(2)	Shanghai	-	97.52%		505,000	202,000	Business management, industrial investment, investment management, assets management, consulting, etc.
CHEMCHINA Debt Investment Scheme(3)	N/A	-	70.55%		N/A	3,000,000	Debt investment scheme
Sichuan Railway Investment Scheme(4)	N/A	-	38.17%		N/A	600,000	Debt investment scheme
Ningbo Zhilin(5)	Ningbo	-	88.46%		2,684,798	2,684,798	investment management, assets management

Note:

(1) According to the articles of association of Xingongying, CPIC Property, the Group's subsidiary, has significant impact on Xingongying through director appointment to the company. Therefore, Xingongying is accounted under equity method.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

(2) CPIC Property, the Group's subsidiary, holds over 50% shares of Heji. Since CPIC Group has no controlling power on relevant activities of Heji according to the articles of association and partnership agreement of Heji, Heji is accounted under equity method.

(3) CPIC Life, the Group's subsidiary, holds over 50% shares of CHEMCHINA Debt Investment Scheme. Since CPIC Group has no controlling power on relevant activities of CHEMCHINA Debt Investment Scheme according to the Agreement of Investment Scheme, CHEMCHINA Debt Investment Scheme is accounted under equity method.

(4) CPIC Life, the Group's subsidiary, and Changjiang Pension, the CPIC Life's subsidiary, hold shares of Sichuan Railway Investment Scheme. Changjiang Pension is the issuer and manager of Sichuan Railway Investment Scheme. Since CPIC Group has significant impact on Sichuan Railway Investment Scheme, Sichuan Railway Investment Scheme is accounted under equity method.

(5) CPIC Life, the Group's subsidiary, holds over 50% shares of Ningbo Zhilin. Since CPIC Group has no controlling power on relevant activities of Ningbo Zhilin according to the partnership agreement of Ningbo Zhilin, Ningbo Zhilin is accounted under equity method.

Summarised financial information for principal associates

	31 December 2017/2017			
	Total assets as at 31 December	Total liabilities as at 31 December	Total revenue in current year	Net profit in current year
Ningbo Zhilin	2,726	6	41	35
CHEMCHINA Debt Investment Scheme	3,006	-	128	117

Summarised financial information for other associates

	2017	2016
Net (loss)/profit for the year	(229)	72
Other comprehensive income for the year	-	2
Total comprehensive (loss)/income for the year	(229)	74
Total comprehensive (loss)/income attributable to the Group	(38)	26
Carrying amount of the Group's interest	617	115

23. INVESTMENT IN JOINT VENTURES

	31 December 2017	**31 December 2016**
Share of net assets	41	36

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES (continued)

On 29 March 2017, CPIC Life, Wonders Information System Co., Ltd., and Shanghai Zicheng Internet Technology Limited Partnership set up Shanghai Dabaoguisheng Information Technology Co., Ltd.(the "Dabaoguisheng") with operating period of 20 years and registered capital of RMB100 million. Among all, CPIC Life stands for 34% shares, its subscribed capital contribution reaches RMB34 million, and its first capital contribution reaches RMB10.2 million.

Particulars of the joint venture as at 31 December 2017 are as follow:

Name	Place of incorporation	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd("Binjiang-Xiangrui")	Shanghai	-	35.16%	35.70%	150,000	30,000	Real estate
Taiyi (Shanghai) Information Technology Co., Ltd	Shanghai	-	48.00%	48.00%	10,000	10,000	Used car information service platform
Hangzhou Dayu Internet Technology Co., Ltd	Hangzhou	-	27.00%	33.33%	10,000	10,000	Technology development services, consulting, etc.
Aizhu (Shanghai) Information Technology Co., Ltd	Shanghai	-	35.00%	35.00%	10,000	2,000	Internet technology, etc.
Pacific Euler Hermes Insurance Sales Co., Ltd	Shanghai	-	50.24%	50.00%	50,000	50,000	Insurance sales
Shanghai Dabaoguisheng Information Technology Co., Ltd.(the "Dabaogui-sheng")	Shanghai	-	33.42%	34.00%	100,000	22,200	Third party operation services of insurance industry

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

	2017 (RMB thousand)	2016 (RMB thousand)
The joint venture's net income/(loss):	109,792	(14,640)

As at 31 December 2017, the Group's investment in joint ventures had no impairment.

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

(All amounts expressed in RMB million unless otherwise specified)

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

	31 December 2017	**31 December 2016**
Listed		
Debt investments		
- Government bonds	463	1,368
- Finance bonds	5,871	5,757
- Corporate bonds	11,243	13,039
	17,577	20,164
Unlisted		
Debt investments		
- Government bonds	70,682	70,387
- Finance bonds	103,894	106,058
- Corporate bonds	95,344	108,265
	269,920	284,710
	287,497	304,874

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2017	**31 December 2016**
Debt investments		
- Finance bonds	2,699	2,899
- Debt investment scheme	92,844	61,397
- Wealth management products	89,205	43,338
- Preferred Shares	32,000	32,000
	216,748	139,634

(All amounts expressed in RMB million unless otherwise specified)

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

As at 31 December 2017, CPIC Asset Management, a subsidiary of the Group, issued and existed 67 debt investment schemes with a total value of RMB106.122 billion. Of these, the existing amounts approximately RMB39.472 billion are recognized as investments classified as loans and receivables in the Group's consolidated financial information (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 RMB101.695 billion. Of these, the existing amounts approximately RMB35.961 billion are recognized in the Group's consolidated financial information). As at 31 December 2017, Changjiang Pension, a subsidiary of the Group, issued and existed 41 debt investment schemes with a total value of RMB65.105 billion. Of these, the existing amounts approximately RMB19.211 billion are recognized as investments classified as loans and receivables in the Group's consolidated financial information (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 RMB5.667 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 RMB34.161 billion (31 December 2016, approximately RMB19.769 billion). The value guaranteed by third parties or pledge on debt investment schemes invested by the Group are approximately RMB73.979 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 2017	**31 December 2016**
At the beginning of the year	6,078	5,938
Movement	488	140
At the end of the year	6,566	6,078

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.

(All amounts expressed in RMB million unless otherwise specified)

26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2017		
	Amount	Storage	Period
CPIC Property			
China Minsheng Bank	568	Term deposit	5 years
Bank of Communications	500	Term deposit	3 years
Zheshang Bank	500	Term deposit	5 years
Industrial Bank	440	Term deposit	5 years and 1 month
China Merchants Bank	368	Term deposit	3 years
Bank of China	294	Term deposit	5 years
Bank of Communications	288	Term deposit	5 years
China Merchants Bank	274	Term deposit	5 years
Bank of Communications	250	Term deposit	5 years and 1 month
Shanghai Pudong Development Bank	200	Term deposit	3 years
Evergrowing Bank	200	Term deposit	5 years
Bank of Shanghai	200	Term deposit	3 years
China Minsheng Bank	100	Term deposit	3 years
Subtotal	4,182		
CPIC Life			
Bank of Communications	500	Term deposit	3 years
Bank of Communications	320	Term deposit	5 years
Nanjing Bank	260	Term deposit	5 years and 1 month
China Minsheng Bank	240	Term deposit	5 years
China Construction Bank	200	Term deposit	3 years
China Construction Bank	164	Term deposit	5 years
Subtotal	1,684		
Changjiang Pension			
Bank of Communications	200	Term deposit	5 years and 1 month
Bank of China	80	Term deposit	5 years and 1 month
Bank of Communications	50	Term deposit	3 years
China Minsheng Bank	30	Term deposit	3 years
Subtotal	360		
CPIC Allianz Health			
Bank of Communications	170	Term deposit	5 years
China Construction Bank	30	Term deposit	5 years
Subtotal	200		
Anxin			
Bank of Shanghai	40	Term deposit	3 years
Agricultural Bank of China	30	Term deposit	3 years
China Everbright Bank	30	Term deposit	3 years
China Construction Bank	20	Term deposit	3 years
Shanghai Pudong Development Bank	10	Term deposit	3 years
Bank of Communications	10	Term deposit	3 years
Subtotal	140		
Total	6,566		

(All amounts expressed in RMB million unless otherwise specified)

26. RESTRICTED STATUTORY DEPOSITS (continued)

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

(All amounts expressed in RMB million unless otherwise specified)

27. TERM DEPOSITS

Maturity Period	31 December 2017	31 December 2016
1 month to 3 months (including 3 months)	3,493	35,683
3 months to 1 year (including 1 year)	18,876	10,078
1 to 2 years (including 2 years)	25,030	21,180
2 to 3 years (including 3 years)	24,090	25,030
3 to 4 years (including 4 years)	16,200	24,055
4 to 5 years (including 5 years)	16,300	16,200
	103,989	132,226

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	31 December 2017	31 December 2016
Listed		
Equity investments		
- Equity securities	49,294	25,469
- Investment funds	4,971	8,741
- Wealth management products	-	1,015
Debt investments		
- Government bonds	6,729	8,424
- Finance bonds	6,899	1,555
- Corporate bonds	43,258	31,138
	111,151	76,342
Unlisted		
Equity investments		
- Investment funds	30,355	29,571
- Wealth management products	19,447	20,232
- Other equity investments	27,615	19,005
- Preferred Shares	7,764	4,544
Debt investments		
- Government bonds	40,654	16,340
- Finance bonds	33,821	18,714
- Corporate bonds	97,602	73,339
- Wealth management products	459	624
	257,717	182,369
	368,868	258,711

(All amounts expressed in RMB million unless otherwise specified)

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	**31 December 2016**
Listed		
Equity investments		
- Equity securities	9,665	5,716
- Investment funds	292	418
Debt investments		
- Government bonds	128	1
- Finance bonds	52	326
- Corporate bonds	497	5,770
	10,634	12,231
Unlisted		
Equity investments		
- Investment funds	2,667	5,682
- Wealth management products	1,137	1,561
- Other equity investments	522	30
Debt investments		
- Government bonds	-	423
- Finance bonds	194	1,281
- Corporate bonds	1,033	5,993
- Wealth management products	-	3
	5,553	14,973
	16,187	27,204

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss amounted to RMB2,072 million (December 31 2016, RMB1,829 million). The rest are trading assets, with no material limitation in realization.

30. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2017	**31 December 2016**
Securities - bonds		
Inter-bank market	14,232	17,506
Stock exchange	2,894	3,632
	17,126	21,138

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 2017	31 December 2016
Interest receivables from debt investments	12,273	10,734
Interest receivables from deposits	3,657	5,659
Interest receivables from loans	835	597
Interest receivables from securities purchased under agreements to resell	9	14
	16,774	17,004
Less: Bad debt provision	(17)	(1)
	16,757	17,003

32. REINSURANCE ASSETS

	31 December 2017	31 December 2016
Reinsurers' share of insurance contracts (note 39)	22,575	20,141

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 2017	31 December 2016
Net deferred income tax assets/(liabilities), at beginning of year	445	(2,419)
Acquisition of subsidiary	-	28
Recognized in profit or loss (note 14(a))	(443)	1,270
Recognized in other comprehensive income (note 14(b))	820	1,566
Net deferred income tax assets, at end of year	822	445

	31 December 2017	31 December 2016
Insurance contract liabilities	819	546
Impairment of assets	496	361
Commissions and handling fees	424	371
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(944)	(1,325)
Fair value adjustments arising from acquisition of a subsidiary	(817)	(849)
Others	844	1,341
Net deferred income tax assets	822	445
Represented by:		
Deferred tax assets	1,742	1,382
Deferred tax liabilities	(920)	(937)

(All amounts expressed in RMB million unless otherwise specified)

34. INSURANCE RECEIVABLES

	31 December 2017	31 December 2016
Insurance receivables	16,777	12,763
Provision for impairment of insurance receivables	(444)	(496)
	16,333	12,267

An aged analysis of the insurance receivables is as follows:

	31 December 2017	31 December 2016
Within 3 months (including 3 months)	8,795	9,287
Over 3 months and within 1 year (including 1 year)	6,337	2,188
Over 1 year	1,201	792
	16,333	12,267

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.

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 2017	31 December 2016
Insurance receivables that are individually determined to be impaired	171	96
Related provision for impairment	(72)	(68)
	99	28

(All amounts expressed in RMB million unless otherwise specified)

35. OTHER ASSETS

	31 December 2017	31 December 2016
Receivable for securities	5,461	3,983
Due from a related-party (1)	1,318	1,318
Due from agents	1,045	763
Co-insurance receivable	87	81
Tax receivable other than income tax	38	99
Others	4,129	3,025
	12,078	9,269

(1) As at 31 December 2017, 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 2016, RMB1,318 million).

36. CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2017	31 December 2016
Cash at banks and on hand	9,969	9,717
Time deposits with original maturity of no more than three months	712	4,633
Other monetary assets	979	909
	11,660	15,259

The Group’s bank balances denominated in RMB amounted to RMB10,408 million as at 31 December 2017 (31 December 2016: RMB13,953 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 2017, RMB955 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2016, RMB881 million).

37. ISSUED CAPITAL

	31 December 2017	31 December 2016
Number of shares issued and fully paid at RMB1 each (million)	9,062	9,062

(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 Company does not set aside SSR in 2017. The balance of SSR reached 50% of the respective registered capital .

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, RMB7,524 million as at 31 December 2017 (31 December 2016: RMB7,088 million) represents the Company's share of its subsidiaries' surplus reserve fund. RMB436 million as at 31 December 2017 (31 December 2016: RMB504 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, RMB9,761 million as at 31 December 2017 (31 December 2016: RMB8,392 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 7th meeting of the Company’s 8th term of board of directors held on 29 March 2018, a final dividend of approximately RMB 7,250 million (equivalent to RMB0.8 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.

(All amounts expressed in RMB million unless otherwise specified)

39. INSURANCE CONTRACT LIABILITIES

	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	718,563	(10,679)	707,884
Short-term life insurance contracts			
- Unearned premiums	3,053	(88)	2,965
- Claim reserves	2,862	(111)	2,751
	5,915	(199)	5,716
Property and casualty insurance contracts			
- Unearned premiums	41,194	(5,089)	36,105
- Claim reserves	36,567	(6,608)	29,959
	77,761	(11,697)	66,064
	802,239	(22,575)	779,664
Incurred but not reported claim reserves	7,430	(994)	6,436

	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

(All amounts expressed in RMB million unless otherwise specified)

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 2016	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	616,059	(9,173)	606,886
Increase	143,083	(2,481)	140,602
Decrease			
- Claims paid	(30,411)	987	(29,424)
- Surrender	(10,168)	(12)	(10,180)
At 31 December 2017	718,563	(10,679)	707,884

(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 2016	2,118	(2)	2,116
Premiums written	9,152	(91)	9,061
Premiums earned	(8,785)	56	(8,729)
At 31 December 2016	2,485	(37)	2,448
Premiums written	11,232	(199)	11,033
Premiums earned	(10,664)	148	(10,516)
At 31 December 2017	3,053	(88)	2,965

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2016	1,615	(16)	1,599
Claims incurred	4,604	(125)	4,479
Claims paid	(4,140)	66	(4,074)
At 31 December 2016	2,079	(75)	2,004
Claims incurred	6,233	(119)	6,114
Claims paid	(5,450)	83	(5,367)
At 31 December 2017	2,862	(111)	2,751

(All amounts expressed in RMB million unless otherwise specified)

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 2016	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
Premiums written	105,859	(13,477)	92,382
Premiums earned	(103,304)	12,702	(90,602)
At 31 December 2017	41,194	(5,089)	36,105

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2016	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
Claims incurred	60,928	(6,731)	54,197
Claims paid	(58,925)	6,665	(52,260)
At 31 December 2017	36,567	(6,608)	29,959

40. INVESTMENT CONTRACT LIABILITIES

At 1 January 2016	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
Deposits received	12,945
Deposits withdrawn	(7,685)
Fees deducted	(167)
Interest credited	1,910
Others	469
At 31 December 2017	56,268

(All amounts expressed in RMB million unless otherwise specified)

41. SUBORDINATED DEBTS

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. CPIC Life exercised the option to redeem the subordinated debt in 2017.

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 2016	Issuance	Premium amortization	Redemption	31 December 2017
CPIC Life	7,500	-	-	(7,500)	-
CPIC Property	3,998	-	1	-	3,999
	11,498	-	1	(7,500)	3,999

42. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2017	**31 December 2016**
Bonds		
Inter-bank market	44,646	23,172
Stock exchange	21,597	15,932
	66,243	39,104

As at 31 December 2017, bond investments of approximately RMB70,355 million (31 December 2016: RMB39,857 million) 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 2017	31 December 2016
Annuity and other insurance payables	20,361	17,754
Salary and staff welfare payable	4,703	3,871
Commission and brokerage payable	3,888	3,470
Payables for securities purchased but not settled	3,769	3,525
Tax payable other than income tax	1,695	1,538
Accrued expenses	1,317	1,247
Payables to non-controlling interests of consolidated structured entities	1,197	915
Payables for asset-backed securities	910	908
Payables for construction and purchase of office buildings	382	519
Insurance guarantee fund	381	305
Co-insurance payable	261	285
Others	4,983	4,375
	43,847	38,712

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 2017			
	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	(14,560)	14,560	-2.03%
	-25 basis points	15,673	(15,673)	2.18%
Mortality rates	+10%	1,741	(1,741)	0.24%
	-10%	(1,722)	1,722	-0.24%
Morbidity rates	+10%	8,215	(8,215)	1.14%
	-10%	(8,408)	8,408	-1.17%
Surrender rates	+10%	(1,224)	1,224	-0.17%
	-10%	1,467	(1,467)	0.20%
Expenses	+10%	5,243	(5,243)	0.73%
	-10%	(5,243)	5,243	-0.73%
Policy dividend	+5%	13,722	(13,722)	1.91%

(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 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%

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 2017 by RMB1,498 million and RMB138 million (31 December 2016: RMB1,401 million and RMB100 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)					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	49,591	55,880	58,926	57,960	59,974	
One year later	51,733	55,420	57,737	57,071		
Two years later	52,324	55,098	56,376			
Three years later	52,189	54,798				
Four years later	52,082					
Current estimate of cumulative claims	52,082	54,798	56,376	57,071	59,974	280,301
Cumulative payments to date	(51,518)	(53,738)	(53,800)	(49,997)	(36,208)	(245,261)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						1,527
Total gross claim reserves included in the consolidated balance sheet						36,567

(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)					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	42,287	46,868	51,435	50,934	52,415	
One year later	44,203	46,816	50,423	50,251		
Two years later	44,660	46,654	49,470			
Three years later	44,603	46,351				
Four years later	44,424					
Current estimate of cumulative claims	44,424	46,351	49,470	50,251	52,415	242,911
Cumulative payments to date	(44,078)	(45,634)	(47,546)	(44,635)	(32,402)	(214,295)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						1,343
Total net claim reserves included in the consolidated balance sheet						29,959

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,612	1,939	2,072	2,496	3,301	
One year later	1,633	1,877	1,952	2,488		
Two years later	1,612	1,878	1,956			
Three years later	1,614	1,851				
Four years later	1,596					
Current estimate of cumulative claims	1,596	1,851	1,956	2,488	3,301	11,192
Cumulative payments to date	(1,595)	(1,841)	(1,926)	(2,340)	(1,984)	(9,686)
Risk adjustment and others						1,356
Total gross claim reserves included in the consolidated balance sheet						2,862

(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)					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,553	1,913	2,050	2,438	3,068	
One year later	1,579	1,843	1,916	2,414		
Two years later	1,552	1,826	1,944			
Three years later	1,547	1,809				
Four years later	1,529					
Current estimate of cumulative claims	1,529	1,809	1,944	2,414	3,068	10,764
Cumulative payments to date	(1,529)	(1,799)	(1,892)	(2,246)	(1,894)	(9,360)
Risk adjustment and others						1,347
Total net claim reserves included in the consolidated balance sheet						2,751

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 2017			
	RMB	**USD**	**HKD**	**Total**
Held-to-maturity financial assets	287,375	122	-	287,497
Investments classified as loans and receivables	216,748	-	-	216,748
Term deposits	103,248	741	-	103,989
Available-for-sale financial assets	367,574	1,294	-	368,868
Financial assets at fair value through profit or loss	15,525	22	640	16,187
Reinsurance assets	22,460	-	115	22,575
Cash and short-term time deposits	10,408	1,000	252	11,660
Others	105,632	839	267	106,738
	1,128,970	4,018	1,274	1,134,262
Insurance contract liabilities	802,119	-	120	802,239
Investment contract liabilities	56,268	-	-	56,268
Policyholders' deposits	75	-	-	75
Subordinated debts	3,999	-	-	3,999
Securities sold under agreements to repurchase	66,243	-	-	66,243
Others	64,818	287	311	65,416
	993,522	287	431	994,240

(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 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

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 2017**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	183	229
USD and HKD	- 5%	(183)	(229)

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)

(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 2017					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Held-to-maturity financial assets	21,176	23,275	16,987	226,059	-	287,497
Investments classified as loans and receivables	26,080	62,265	49,317	72,257	6,829	216,748
Restricted statutory deposits	1,262	3,086	2,218	-	-	6,566
Term deposits	22,369	48,980	32,500	-	140	103,989
Available-for-sale financial assets	67,119	22,704	36,916	102,683	-	229,422
Financial assets at fair value through profit or loss	717	337	722	128	-	1,904
Securities purchased under agreements to resell	17,126	-	-	-	-	17,126
Policy loans	38,643	-	-	-	-	38,643
Deposits with original maturity of no more than three months	712	-	-	-	10,948	11,660
Financial liabilities:						
Investment contract liabilities	56,268	-	-	-	-	56,268
Policyholders' deposits	75	-	-	-	-	75
Subordinated debts	-	3,999	-	-	-	3,999
Securities sold under agreements to repurchase	66,243	-	-	-	-	66,243

(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 2016					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
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
Financial liabilities:						
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

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 2017	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(22)	(4,221)
-50 basis points	21	4,610

	31 December 2016	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(90)	(2,903)
-50 basis points	92	3,186

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 2017	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	84	84
-50 basis points	(84)	(84)

	31 December 2016	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	124	124
-50 basis points	(124)	(124)

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 2017, 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 RMB1,177 million (31 December 2016: RMB1,547 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 as at 31 December 2017 and 31 December 2016. 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 2017						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
Held-to-maturity financial assets	287,497	-	-	-	-	-	287,497
Investments classified as loans and receivables	216,748	-	-	-	-	-	216,748
Term deposits	103,989	-	-	-	-	-	103,989
Available-for-sale financial assets	229,422	-	-	-	-	-	229,422
Financial assets at fair value through profit or loss	1,904	-	-	-	-	-	1,904
Interest receivables	16,757	-	-	-	-	-	16,757
Reinsurance assets	22,575	-	-	-	-	-	22,575
Insurance receivables	14,034	-	-	-	-	2,299	16,333
Cash and short-term time deposits	11,660	-	-	-	-	-	11,660
Others	73,260	-	-	-	-	388	73,648
Total	977,846	-	-	-	-	2,687	980,533

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	As at 31 December 2016						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
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

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, financial liabilities and insurance contract liabilities of the Group based on contractual and expected remaining undiscounted cash flows.

	As at 31 December 2017					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	22,478	104,528	378,581	-	505,587
Investments classified as loans and receivables	-	20,509	158,439	100,625	-	279,573
Restricted statutory deposits	-	1,519	5,737	-	-	7,256
Term deposits	-	27,128	88,672	-	-	115,800
Available-for-sale financial assets	351	58,135	115,310	223,987	109,394	507,177
Financial assets at fair value through profit or loss	-	561	2,560	321	13,123	16,565
Securities purchased under agreements to resell	-	17,143	-	-	-	17,143
Insurance receivables	3,637	12,609	484	47	-	16,777
Cash and short-term time deposits	10,944	716	-	-	-	11,660
Others	1,240	48,528	1,327	-	-	51,095
Total	16,172	209,326	477,057	703,561	122,517	1,528,633
Liabilities:						
Insurance contract liabilities	-	94,708	144,318	563,213	-	802,239
Investment contract liabilities	-	714	3,132	52,422	-	56,268
Policyholders' deposits	-	75	-	-	-	75
Subordinated debts	-	236	4,236	-	-	4,472
Securities sold under agreements to repurchase	-	66,423	-	-	-	66,423
Others	45,433	19,407	250	17	-	65,107
Total	45,433	181,563	151,936	615,652	-	994,584

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	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

(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 2017		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	7,985	279,512	287,497
Investments classified as loans and receivables	9,008	207,740	216,748
Term deposits	22,369	81,620	103,989
Available-for-sale financial assets	157,514	211,354	368,868
Financial assets at fair value through profit or loss	13,601	2,586	16,187
Cash and short-term time deposits	11,660	-	11,660
Others	48,629	1,327	49,956
Total assets	270,766	784,139	1,054,905
Liabilities:			
Insurance contract liabilities	94,708	707,531	802,239
Investment contract liabilities	714	55,554	56,268
Policyholders' deposits	75	-	75
Subordinated debts	-	3,999	3,999
Securities sold under agreements to repurchase	66,243	-	66,243
Others	64,857	250	65,107
Total liabilities	226,597	767,334	993,931

	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

(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 capitalare 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.

Group	**31 December 2017**	**31 December 2016**
Core capital	318,882	280,012
Actual capital	322,882	285,512
Minimum required capital	113,766	97,247
Core solvency margin ratio	280%	288%
Comprehensive solvency margin ratio	284%	294%

CPIC Property	**31 December 2017**	**31 December 2016**
Core capital	34,788	34,702
Actual capital	38,788	38,702
Minimum required capital	14,508	13,069
Core solvency margin ratio	240%	266%
Comprehensive solvency margin ratio	267%	296%

CPIC Life	**31 December 2017**	**31 December 2016**
Core capital	241,486	213,017
Actual capital	241,486	214,517
Minimum required capital	98,460	83,516
Core solvency margin ratio	245%	255%
Comprehensive solvency margin ratio	245%	257%

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

CPIC Allianz Health	**31 December 2017**	**31 December 2016**
Core capital	524	741
Actual capital	524	741
Minimum required capital	250	122
Core solvency margin ratio	210%	607%
Comprehensive solvency margin ratio	210%	607%

Anxin	**31 December 2017**	**31 December 2016**
Core capital	1,488	1,389
Actual capital	1,488	1,389
Minimum required capital	479	469
Core solvency margin ratio	310%	296%
Comprehensive solvency margin ratio	310%	296%

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 2017, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

	31 December 2017				
	Size	Funding provided by the Group	Group's maximum exposure	Carrying amount of Group's investment	Interest held by Group
Pension funds and endowment assurance products managed by affiliated parties	100,474	-	-	-	Management fee
Insurance asset management products managed by affiliated parties	268,257	66,203	66,741	66,180	Investment inco-me and manage-ment fee
Insurance asset management products managed by third parties	Note 1	49,409	49,791	49,516	Investment income
Trust products managed by third parties	Note 1	84,571	84,828	84,613	Investment income
Bank wealth management products and asset management products managed by third parties	Note 1	20,291	20,398	20,396	Investment income
Total		220,474	221,758	220,705	

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 interests 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, and investments in associates and joint ventures.

(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, 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.

	As at 31 December 2017	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	287,497	286,529
Investments classified as loans and receivables	216,748	216,715
Financial liabilities:		
Subordinated debts	3,999	4,216

	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
Financial liabilities:		
Subordinated debts	11,498	11,978

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 significant 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 2017			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	7,776	1,889	-	9,665
- Investment funds	2,270	689	-	2,959
- Debt securities	456	1,448	-	1,904
- Others	-	1,159	500	1,659
	10,502	5,185	500	16,187
Available-for-sale financial assets				
- Equity securities	44,464	4,826	4	49,294
- Investment funds	30,123	5,203	-	35,326
- Debt securities	25,680	203,283	-	228,963
- Others	-	20,237	35,048	55,285
	100,267	233,549	35,052	368,868
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 47)	-	3,158	213,557	216,715
Held-to-maturity financial assets (Note 47)	7,694	278,835	-	286,529
Investment properties(Note 19)	-	-	11,856	11,856
Liabilities for which fair values are disclosed				
Subordinated debts (Note 47)	-	-	4,216	4,216

(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 2016			
	Level 1	Level 2	Level 3	Total fair value
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
	12,453	14,748	3	27,204
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
	90,699	149,424	18,588	258,711
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
Liabilities for which fair values are disclosed				
Subordinated debts (Note 47)	-	-	11,978	11,978

In 2017, 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 2017, the Group transferred the debt securities with a carrying amount of RMB10,948 million from Level 1 to Level 2 and RMB3,654 million from Level 2 to Level 1. 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.

(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 2017					
	Beginning of year	Increase	Transferred to Level 3	Net unrealised loss recognized in profit or loss	Net unrealised gain recognized in other comprehensive income	End of year
Financial assets at fair value through profit or loss						
- Other equity investments	3	497	-	-	-	500
Available-for-sale financial assets						
- Common shares	-	-	22	(29)	11	4
- Preferred shares	-	3,000	4,545	-	219	7,764
- Other equity investments	18,588	7,703	-	(23)	1,016	27,284

	As at 31 December 2016			
	Beginning of year	Increase/ (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	15,019	2,307	1,262	18,588

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 5.46% to 14.50% 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

Reconciliation from profit before tax to cash generated from operating activities:

	2017	2016
Profit before tax	21,102	16,085
Investment income	(52,657)	(43,879)
Foreign currency loss/(income)	140	(117)
Finance costs	3,186	1,930
Charge of impairment losses on insurance receivables and other assets, net	55	176
Depreciation of property and equipment	1,348	1,179
Depreciation of investment properties	312	245
Amortization of other intangible assets	467	421
Amortization of prepaid land lease payments	1	1
Amortization of other assets	28	26
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(168)	(23)
	(26,186)	(23,956)
Increase in reinsurance assets	(2,434)	(1,884)
Increase in insurance receivables	(4,066)	(4,176)
(Increase)/decrease in other assets	(2,809)	1,566
Increase in insurance contract liabilities	108,690	73,342
Increase in other operating liabilities	16,733	23,146
Cash generated from operating activities	89,928	68,038

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

	2017	2016
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	7	22

The Group's above related party transactions were entered into based on normal commercial terms during the normal course of insurance business.

(b) Dividends paid

	2017	2016
Equity holders who individually own more than 5% of equity interests of the Company	2,234	3,073

(All amounts expressed in RMB million unless otherwise specified)

50. RELATED PARTY TRANSACTIONS (continued)

(c) Capital injections to the Company's subsidiaries

	2017	2016
China BAOWU Steel Group Corporation Ltd.	152	-

(d) Compensation of key management personnel

	2017	2016
Salaries, allowances and other short-term benefits	33	28
Deferred bonus (1)	3	-
Total compensation of key management personnel	36	28

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2). This represents the amount under the Group's deferred bonus plans which in order to motivate senior management and certain key employees.

Further details of directors' emoluments are included in note 12.

(e) The Company had the following major transactions with the joint venture:

	2017	2016
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc	-	112

The receivable due from Binjiang-Xiangrui is interest free with no determined maturity date.

(f) 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 2016 and 2017, 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:

		31 December 2017	31 December 2016
Contracted, but not provided for	(1)(2)	850	850
Authorized, but not contracted for	(1)(2)	1,023	1,150
		1,873	2,000

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 2017, the cumulative amount incurred by the Company amounted to RMB1,463 million. Of the balance, RMB190 million was disclosed as a capital commitment contracted but not provided for and RMB347 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 2017, the cumulative amount incurred by the Company amounted to RMB1,330 million. Of the balance, RMB159 million was disclosed as a capital commitment contracted but not provided for and RMB601 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 leasee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	**31 December 2016**
Within 1 year (including 1 year)	1,014	848
1 to 2 years (including 2 years)	817	644
2 to 3 years (including 3 years)	648	472
3 to 5 years (including 5 years)	474	473
More than 5 years	278	218
	3,231	2,655

(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:

	31 December 2017	**31 December 2016**
Within 1 year (including 1 year)	976	456
1 to 2 years (including 2 years)	767	359
2 to 3 years (including 3 years)	523	253
3 to 5 years (including 5 years)	373	235
More than 5 years	216	53
	2,855	1,356

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 2017, 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

Company	31 December 2017	31 December 2016
ASSETS		
Investments in subsidiaries	63,039	62,834
Property and equipment	28	1,971
Investment properties	3,553	3,639
Intangible assets	162	97
Prepaid land lease payments	33	34
Held-to-maturity financial assets	900	900
Investments classified as loans and receivables	5,419	60
Term deposits	500	-
Available-for-sale financial assets	24,776	21,187
Financial assets at fair value through profit or loss	62	37
Securities purchased under agreements to resell	60	743
Interest receivables	457	335
Deferred income tax assets	188	44
Other assets	2,800	370
Cash and short-term time deposits	121	96
Total assets	102,098	92,347
EQUITY AND LIABILITIES		
Equity		
Issued capital	9,062	9,062
Reserves	70,307	70,814
Retained profits	21,400	11,291
Total equity	100,769	91,167
Liabilities		
Securities sold under agreements to repurchase	140	-
Income tax payable	56	15
Due to subsidiaries	31	48
Other liabilities	1,102	1,117
Total liabilities	1,329	1,180
Total equity and liabilities	102,098	92,347

KONG Qingwei
Director

HE Qing
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:

Company	Capital reserves	Surplus Reserves	Available-for-sale investment revaluation reserves	Total	Retained Profits
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	66,164	4,531	119	70,814	11,291
At 1 January 2017	66,164	4,531	119	70,814	11,291
Total comprehensive income for the year	-	-	(507)	(507)	16,452
Dividend declared	-	-	-	-	(6,343)
At 31 December 2017	66,164	4,531	(388)	70,307	21,400

Dividends from subsidiaries amounting to RMB15,866 million were included in the Company's net profit for 2017 (2016: RMB10,238 million).

(All amounts expressed in RMB million unless otherwise specified)

54. POST BALANCE SHEET EVENTS

Pursuant to the resolution of the 1st interim meeting of the Company's 7th term of board of directors held in 2017, CPIC Asset Management, the Group's subsidiary, proposed to acquire 51% equity interests of GTJA Allianz Fund Management Limited Company ("GTJA Allianz Funds") held by Guotai Junan Securities Co., Ltd. (the "Transaction"). The Transaction was carried out by way of public tendering on Shanghai United Assets and Equity Exchange. The Company's bidding price for the target of the Transaction was RMB1,045 million and the final price of the Transaction was RMB1,045 million. After the Transaction, CPIC Asset Management's ownership in GTJA Allianz Funds will be 51% while the Company will hold 50.83% of GTJA Allianz Funds's ownership indirectly through CPIC Asset Management. On 26 July 2017, the acquisition was officially approved by the CIRC. According to 'Letter of Decision that No Further Examination on the Concentration of Anti-monopoly Examination by the Ministry of Commerce' (Shang Fan Long Chu Shen Han [2018] No.17), the acquisition was officially approved by the Ministry of Commerce on 9 January 2018. The acquisition was officially approved by the China Securities Regulatory Commission on 28 March 2018.

Pursuant to the resolution of the 1st interim shareholders' meeting of CPIC Property, the Group's subsidiary, held in 2017, CPIC Property proposed to issue "China Pacific Property Insurance Co., Ltd. Capital Replenishment Bond". The issuance of current bond was approved by CIRC on 28 September 2017 (Bao Jian Xu Ke [2017] No.1182), and was approved by the People's Bank of China on 16 November 2017 (Yin Shi Chang Xu Zhun Yu Zi [2017] No.198). The name of initial bond is "China Pacific Property Insurance Co., Ltd. First Phase of Capital Replenishment Bond in 2018". The issuance scale of current bond was less than RMB5 billion, and the issuance date was 21 March 2018.

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 2018.