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中國太平洋保險（集團）股份有限公司

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(**Stock Code: 02601**)

Announcement of Audited Annual Results

for the year ended 31 December 2018

Chairman's statement

The past year saw deepening reform of China's financial regulatory regime, with intensified regulation and risk prevention. China's insurance industry also experienced profound changes: the days of mere focus on growth and market share are gone; the deepening of supply-side reform and pursuit of high-quality development have become a resonating new theme of the industry. It is our view that the supply-side reform calls for **faithful implementation of the new philosophies of high-quality development, which center on serving the needs of the real economy and the Chinese people, so as to deliver a substantial shift in growth drivers through transformation and upgrading, with improved service capabilities.**

2018 was a year when we prepared and "geared up" for Transformation 2.0. In the past year, we adhered to high-quality development, stayed focused on the core business of insurance, **and achieved steady development on the back of bold steps in the implementation of the transformation initiative.**

We achieved continued increase in comprehensive strength. Group gross written premiums (GWP) exceeded the mark of RMB300 billion for the first time, reaching RMB321.895 billion, a growth of 14.3%; we reported Group net profits[note 1] of RMB18.019 billion, up 22.9%; as at the end of 2018, Group total assets under management (AuM) amounted to RMB1,703.517 billion, a growth of 20.1% from the end of 2017; Group embedded value reached RMB336.141 billion, up 17.5% from the end of 2017; Group customers totaled 126 million, adding over 10 million annually for the past 3 years on end. CPIC Life and CPIC P/C both won top rating in regulatory assessments for the past 2 consecutive years, i.e., AA for customer service and A for business operation. We were also listed among the Fortune Global 500, ranking 220 in 2018, a jump of 32 places from the previous year.

Key business indicators pointed to healthy business quality. Growth of life insurance business became more balanced, with new business value (NBV) recovering over the quarters, and delivered a 1.5% growth for the whole year, a hard-won result given the challenges facing the industry. At the same time, business mix improved, with an increased share of long-term protection business, which, in turn, drove up NBV margin to 43.7%. We also delivered robust performance in profitability, with the residual margin amounting to RMB285.405 billion, rising 25.0% from the end of 2017. The property and casualty insurance[note 2] recorded steadily improving business quality, with a combined ratio of 98.4%, down by 0.3pt, and of this, both automobile and non-automobile business saw improvement. Asset management adhered to prudent, value and long-term investment, gave first priority to serving the needs of insurance business, and reported decent investment performance, with a growth rate of investments' net asset value of 5.1%, up 0.3pt.

Continued efforts were made to enhance risk management capabilities. We rolled out the Group Risk Control Integration Initiative, enhanced our risk management systems to further improve the three lines of defense. We boasted strong capital positions, with the comprehensive solvency margin ratios of CPIC Group, CPIC P/C and CPIC Life at 301%, 306% and 261% respectively as of the end of 2018. We also boasted healthy liquidity and credit risk exposure, with the share of AA+ reaching 99.9% for non-standard assets with an external credit-rating, and of this, the share of AAA 95.2%. To meet regulatory requirements, we launched clampdowns on market irregularities, conducted self-assessments and rectification, and enhanced accountability for serious breaches or major risk issues, with good results in regulatory evaluations.

Organizational restructuring to facilitate the new round of transformation. Human resources matter most for sustainable development of a business enterprise. In particular, Transformation 2.0 marked the beginning of a new stretch of journey, and its vision and objectives can only be fulfilled with the right people. This requires a strengthened **system of meritocracy**. In 2018, under the leadership of the new board of directors, we completed the first organizational restructuring of the Group in the past ten years since our IPO. The new organization features 9 functional silos such as Strategic Management, Collaborative Development, Digital Operation, Investment Management, Risk Management, with clearer definitions of their responsibilities and boundaries. Basically a new headquarters positioned for value creation through increased synergy has begun to take shape. Transformation 2.0 calls for people who are motivated, creative and are ready to shoulder responsibilities. Through market-oriented selection mechanisms combining recruitment from market and internal competition, many of our key management positions have been filled with people who are young and professional. In the meantime, we strived to put in place a performance-based and market-oriented compensation system which offers incentives and motivation. These moves have made our organization healthier and more efficient, laying a solid foundation for Transformation 2.0.

Digitalization and collaboration boosted the shift of development drivers. We continued with digital empowerment, with multiple innovation projects up and running. We launched the CPIC APP, a unified portal for customer access, paving the way for integrated insurance service covering the full life cycle of our customers, as well as promoting cross-segment synergy. We focused on customer footprints, vigorously pushed forward digital innovations. *AlphaInsurance*, an AI insurance advisor, received over 6.5 million visits; the *Lingxi* robot series, based on voice interaction and image recognition, provides insurance service under multiple scenarios; *Taihaobao*, a smart risk management platform, supports early warning against and effective management of unsafe driving behaviors, helps our customers to reduce accidents and at the same time improved the business quality of our commercial lines automobile business.

As an integrated insurance group with over 100 million customers and diversified business portfolios along the insurance value chain, we naturally consider intra-Group synergy as a priority on our agenda. In 2018, we advanced the programs of “100 Exemplary Bases for Cross-selling” and “100 Major Account Ecosystem” and achieved good progress in boosting collaboration within the Group, with top-level design, KPIs for business segments and incentives for branch offices all in place. For individual customers, the T+0 commission settlement mechanism for cross-selling of automobile insurance by life agents was rolled out nationwide. We arranged for heads of branch offices of CPIC P/C to visit life agents to come up with better ideas in the differentiated promotion of cross-selling. In 2018, cross-selling of automobile business from life agents reached RMB8.642 billion, a growth 14.3%. Our health insurance JV focused on the development of short-term medical insurance products, which are bundled with long-term products of CPIC Life, serving to diversify and improve customer's protection. With this, the health subsidiary's medical insurance covered 7.0% of the individual customers of our life operation, up 4.7pt. As for corporate clients, we put together an integrated marketing team, signed agreements of strategic co-operation with many provincial-level governments and large companies, setting good examples for integrated solutions. With concerted efforts across business segments and departments, we issued China's first insurance policy for the tax-deferred pension program. Leveraging our strengths as a composite insurance group, we became the sole property and casualty insurance sponsor of China's First International Import Expo, providing comprehensive risk protection with sum assured up to RMB35 billion to participants of the event from all over the world.

Health and retirement business promised to add greatly to our scope of service. In particular, the business has been a priority of the new board of directors, which approved the 5-year Development Program for the Elderly Care Industry. A retirement community in Chengdu, the first of its kind in our history, has started its construction, with projects in Shanghai and Dali well underway. The "CPIC Home" experience center will be open for visits soon. Next, we will develop insurance products which offer entitlement of admission into retirement communities and related services. To improve peoples' well-being, we vigorously expanded government-sponsored business such as critical illness, supplementary medical insurance and long-term care programs, which to date totaled 177 projects covering 473 districts/ counties in 22 provinces, benefiting over 95 million people.

These accomplishments could not have been possible without sustained hard work and commitment. Looking into the future, China remains the most vibrant and promising insurance market of the world. Chinese people's aspiration for a better life requires an even more robust insurance industry. The only way to seize the development opportunities is to press ahead with transformation.

2019 will be a year for us to address structural impediments to sustainable development. The journey is like a marathon, which requires stamina and tenacity, and we are well aware of the challenges ahead. We will stay focused on our target, and achieve breakthroughs in the following priorities on the transformation agenda: to further motivate all CPIC employees through market-based incentive mechanisms; to seize growth opportunities arising from the potential of China's domestic market via innovations in the supply of products and services; to improve customer service capability in an all-around way through enhanced branding of "CPIC Service"; to drive sustainable value growth of life insurance by increasing the productivity and income of the agency channel; to boost growth of emerging business lines in property and casualty insurance through the focus on the advanced manufacturing industry; to set a good example for regional collaborative development in the Yangtze River Delta; to roll out application of insurance technologies centering on big data and AI; to step up integrated risk management system with the focus on infrastructure management and grass-root branch offices.

There is no short-cut to successes. Transformation is an uphill struggle, and calls for a strong will and perseverance. Under the stewardship of the board and with concerted efforts of all CPIC employees, we have confidence to achieve the vision and objectives of Transformation 2.0. In particular, we will keep up the courage for change, stay ambitious, introduce concrete steps for capacity-building, strive for the targets of being **the best in customer experience, business quality and risk control capabilities**, and move firmly towards **leadership in promoting healthy and steady development of China's insurance industry**.

Notes:

1. Attributable to equity holders of the parent.
2. The property and casualty business includes CPIC P/C, Anxin Agricultural and CPIC HK.

Review and analysis of operating results

Business overview

I. Key businesses

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

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

In 2018, China's insurance market realized a premium income of RMB3.80 trillion, a growth of 3.9% compared with that of 2017. Of this, premium from life/health insurance companies amounted to RMB2,626.087 billion, up by 0.8%, and that from property and casualty insurance companies RMB1,175.569 billion, up by 11.5%. Measured by primary insurance premiums, CPIC Life and CPIC P/C are both China's 3rd largest insurers for life and property and casualty insurance, respectively.

II. Core competitiveness

We are a leading integrated insurance group in China, ranking 220th on the list of Fortune Global 500 released in 2018. We persist in customer-orientation and focus on the core business of insurance. We pursue innovation of insurance products and services, and commit ourselves to enhancing customer experience, creating sustainable value and generating stable returns for our shareholders.

- We are committed to protection as the central insurance value proposition, pursuing a path of high-quality development with a 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 are committed to promoting synergy across various business segments of the Group, and have put in place an organizational structure, performance evaluation systems and incentive mechanisms to boost collaborative development.
- 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 126.42 million customers.

- We proceed with the customer-oriented transformation, fostering 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 (SAA) 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 to specialize in it, pursued high-quality development, and delivered solid business results and sustained improvement in value-creating capabilities for the reporting period.

I. Performance highlights

During the reporting period, Group operating revenues[note 1] amounted to RMB354.363 billion, of which, GWPs reached RMB321.895 billion, a growth of 14.3%. Group net profits[note 2] reached RMB18.019 billion, up 22.9%. Group embedded value amounted to RMB336.141 billion, an increase of 17.5% from the end of 2017. Of this, value of in-force business[note 3] reached RMB166.816 billion, up 24.1%. Life business delivered RMB27.120 billion in one-year NBV, a growth of 1.5%, with an NBV margin of 43.7%, up 4.3pt. Property and casualty business[note 4] recorded a combined ratio of 98.4%, down by 0.3pt from 2017. Growth rate of Group investments' net asset value stood at 5.1%, up 0.3pt. As of the end of the reporting period, Group total customers amounted to 126.42 million, an increase of 10.89 million from the end of 2017.

Life insurance achieved positive NBV growth, with continued business mix improvement.

- NBV growth recovered over the past quarters, and for the whole year grew by 1.5%, reaching RMB27.120 billion.
- CPIC Life realized a 26.2% growth of renewal business, which underpinned a 15.3% growth of GWPs, at RMB202.414 billion.

- CPIC Life continued to improve its business mix. Annualized first year premiums from long-term protection business[note 5] RMB30.499 billion, up 7.7%; and as a percentage of total new business increased by 7.4pt to 49.1%, which drove a 25.0% growth of residual margin of life business versus the end of 2017, at RMB285.405 billion, and a 4.3pt improvement of NBV margin, at 43.7%.

The combined ratio of property and casualty business[note 4] continued to improve, with a strong recovery of top-line growth.

- Property and casualty business exercised stringent control of business quality, with a combined ratio of 98.4%, an improvement of 0.3pt from 2017. Of this, loss ratio stood at 56.3%, down by 3.6pt, and expense ratio 42.1%, up by 3.3pt.
- Top-line growth picked up considerably, with GWPs amounting to RMB119.218 billion, an increase of 12.6%. Of this, non-auto business grew by 29.9% and accounted for 26.2% of GWPs, up 3.5pt.
- Emerging business lines such as agricultural insurance, liability insurance and personal loans guarantee insurance grew rapidly while maintaining good underwriting profitability. Of this, agricultural business realized RMB4.998 billion in primary insurance premiums[note 6], with a fast increase in market share.

Persisted in asset allocation based on profiles of liabilities, with steady growth of investments' net asset value.

- Group AuM amounted to RMB1,703.517 billion, an increase of 20.1% from the end of 2017. Of this, third-party AuM[note 7] amounted to RMB470.295 billion, an increase of 39.5%.
- The share of fixed income investments stood at 83.1%, up 1.3pt from the end of 2017; that of equity investments 12.5%, down by 2.1pt, and of this, core equity investments[note 8] accounted for 5.6% of total investment assets, down by 1.8pt.
- Total investment yield was 4.6%, a decrease of 0.8pt from 2017, with net investment yield of 4.9%, down by 0.5pt, and growth rate of investments' net asset value of 5.1%, up 0.3pt.

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. Businesses of CPIC P/C, Anxin Agricultural and CPIC HK included.
5. Long-term risk protection business includes whole life insurance, term life insurance, long-term health insurance and long-term accident insurance, etc.
6. Based on primary insurance premiums, excluding premium income ceded-in, with consolidation of CPIC P/C and Anxin Agricultural.
7. CPIC Fund consolidated for numbers of third-party AuM as at 31 December 2018, given its acquisition by CPIC AMC in the

first half of 2018.

8. Equity securities and equity funds included.

II. Key performance indicators

unit: RMB million

Indicators	As at 31 December 2018/for the period between January and December 2018	As at 31 December 2017/for the period between January and December 2017	Changes (%)
Key value indicators			
Group embedded value	336,141	286,169	17.5
Value of in-force business[note 1]	166,816	134,414	24.1
Group net assets[note 2]	149,576	137,498	8.8
NBV of CPIC Life	27,120	26,723	1.5
NBV margin of CPIC Life (%)	43.7	39.4	4.3pt
Combined ratio of CPIC P/C (%)	98.4	98.8	(0.4pt)
Growth rate of investments' net asset value (%)	5.1	4.8	0.3pt
Key operating indicators			
GWPs	321,895	281,644	14.3
CPIC Life	202,414	175,628	15.3
CPIC P/C	117,808	104,614	12.6
Number of Group customers ('000)[note 3]	126,419	115,528	9.4
Average number of insurance policies per customer	1.83	1.73	5.8
Monthly average agent number ('000)	847	874	(3.1)
Monthly average first-year commission per agent (RMB)[note 4]	1,058	993	6.5
Surrender rate of CPIC Life (%)	1.4	1.3	0.1pt
Total investment yield (%)	4.6	5.4	(0.8pt)
Net investment yield (%)	4.9	5.4	(0.5pt)
Third-party AuM[note 5]	470,295	337,183	39.5
Third-party AuM by CPIC AMC	177,891	147,179	20.9
Assets under investment management by Changjiang Pension	271,838	190,004	43.1
Key financial indicators			
Net profit attributable to equity holders of the parent	18,019	14,662	22.9
CPIC Life	13,992	10,070	38.9
CPIC P/C	3,484	3,743	(6.9)
Basic earnings per share (RMB)[note 2]	1.99	1.62	22.9
Net assets per share (RMB)[note 2]	16.51	15.17	8.8
Comprehensive solvency margin ratio (%)			
CPIC Group	301	284	17pt
CPIC Life	261	245	16pt
CPIC P/C	306	267	39pt

Notes:

1. Based on the Group's share of CPIC 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 reporting period. In the event that the applicants and insureds are the same person, they shall be deemed as one customer.

4. Numbers for 2017 were restated.

5. CPIC Fund consolidated for numbers of third-party AuM as at 31 December 2018, given its acquisition by CPIC AMC in the first half of 2018.

Life/health insurance business

In 2018, CPIC Life pushed for more balanced growth of business, and delivered a gradual recovery of NBV over the quarters, with the whole year's NBV growth turning positive. The company continued to step up innovation of protection products, and delivered improvement in both business mix and NBV margin. CPIC Allianz Health made continuous efforts to increase penetration of Group customers by its health services, and delivered rapid business growth.

I. CPIC Life

(I) Business analysis

In 2018, in response to market challenges, CPIC Life adhered to sustainable value growth, pro-actively adapted to changes of regulations and market conditions, and delivered a recovery of business growth over the quarters of the year and an overall steady performance. NBV amounted to RMB27.120 billion, a growth of 1.5%. The company persisted in the focus on renewal business, which grew rapidly in 2018 and underpinned a 15.3% growth of total premium, reaching RMB202.414 billion. On the other hand, it upheld protection as the central insurance value proposition, with an increased share of long-term protection business. As a result, NBV margin increased by 4.3pt to 43.7%.

1. Analysis by channels

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
Individual customers	**195,418**	**170,055**	**14.9**
Agency channel	**182,693**	**154,195**	**18.5**
New policies	46,704	49,484	(5.6)
Regular premium business	42,515	47,083	(9.7)
Renewed policies	135,989	104,711	29.9
Other channels[note]	**12,725**	**15,860**	**(19.8)**
Group clients	**6,996**	**5,573**	**25.5**
Total GWPs	**202,414**	**175,628**	**15.3**

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

(1) Business from individual customers

For the reporting period, we realized RMB195.418 billion in GWPs from individual customers, up 14.9%. Of this, new policies from the agency channel amounted to RMB46.704 billion, down by 5.6%, and renewal business RMB135.989 billion, an increase of 29.9%. GWPs from the agency channel accounted for 90.3%, up 2.5pt compared with that in 2017.

To address the chronic issue of uneven business development across the year, and in the face of new business decline in the first quarter of 2018, we took a host of measures to drive more balanced business growth, such as heightened training of protection products, intensified efforts to smooth out seasonality, increased product innovation, and enhanced infrastructure management, which helped us to deliver a strong recovery of growth in the remaining quarters of the year. During the reporting period, the core sales force maintained steady growth. Monthly average number of active and high-performing agents reached 312,000 and 149,000, up 25.8% and 14.6% respectively. Monthly average number of agents stood at 847,000, down by 3.1%, with the total number of agents reaching 842,000 as at the end of 2018.

Next, we will accelerate Transformation 2.0, bearing in mind its vision and objectives, and put in place a new development mode for the individual business underpinned by a shift towards high-quality recruitment and productivity improvement. In particular, we will enhance our capabilities in new customer acquisition and up-sell through increased penetration of urban areas and technology empowerment, so as to achieve sustainable growth of FYPs and NBV.

For 12 months ended 31 December	**2018**	**2017**	**Changes (%)**
Monthly average agent number ('000)	847	874	(3.1)
Monthly average first-year commission per agent (RMB)[note]	1,058	993	6.5
Average number of new long-term life insurance policies per agent per month	1.64	1.68	(2.4)

Note: Numbers for 2017 were restated.

(2) Business from group clients

We focused on health and retirement business, enhanced co-operation with governments and corporate clients, steadily increased the coverage of insurance programs for people's well-being, and continued with capacity-building, with a network of health management essentially in place. The segment realized RMB6.996 billion in GWPs, up by 25.5%.

2. Analysis by product types

We focus on risk protection and long-term savings products. For the reporting period, traditional business generated RMB70.230 billion in GWPs, up 31.6%. Of this, long-term health insurance contributed RMB33.010 billion, up 59.9%. Participating business delivered RMB117.952 billion in GWPs, up 6.2%. In response to government policies, we vigorously pushed forward the tax-deferred pension business, with a leading market share during the reporting period.

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
GWPs	**202,414**	**175,628**	**15.3**
Traditional	70,230	53,368	31.6
Long-term health	33,010	20,650	59.9
Participating	117,952	111,117	6.2
Universal	94	57	64.9
Tax-deferred pension	37	-	/
Short-term accident and health	14,101	11,086	27.2

Information of the top five products in 2018

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	18,142	Individual customer business
2	Jin You Ren Sheng Whole Life A (2017) 金佑人生終身壽險(分紅型)A 款(2017 版)	Participating	8,099	Individual customer business
3	Xingfu Xiangban Endowment 幸福相伴(尊享型)兩全保險	Traditional	7,235	Individual customer business
4	Jin Nuo Ren Sheng Critical Illness (2018) 金諾人生重大疾病保險(2018 版)	Traditional	6,023	Individual customer business
5	Dongfanghong/Mantanghong Annuity 東方紅·滿堂紅年金保險(分紅型)	Participating	5,897	Individual customer business

3. Policy persistency ratio

For 12 months ended 31 December	2018	2017	Changes
Individual life insurance customer 13-month persistency ratio (%)[note 1]	92.9	93.4	(0.5pt)
Individual life insurance customer 25-month persistency ratio (%)[note 2]	90.4	89.3	1.1pt

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.

The company’s policy persistency maintained an overall healthy level, with 13-month and 25-month persistency ratios at 92.9% and 90.4% respectively.

4. Top 10 regions for GWPs

The company’s premiums mainly came from economically developed regions or populous areas.

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
GWPs	**202,414**	**175,628**	**15.3**
Henan	22,662	18,428	23.0
Jiangsu	20,801	18,178	14.4
Shandong	16,624	14,748	12.7
Zhejiang	14,961	12,633	18.4
Hebei	12,029	10,284	17.0
Guangdong	11,878	10,807	9.9

Shanxi	9,126	8,167	11.7
Hubei	8,728	7,468	16.9
Heilongjiang	8,288	6,888	20.3
Sichuan	6,284	5,282	19.0
Subtotal	131,381	112,883	16.4
Others	71,033	62,745	13.2

(II) Financial analysis

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
Net premiums earned	197,897	172,345	14.8
Investment income[note]	43,127	45,807	(5.9)
Other operating income	3,010	2,791	7.8
Total income	**244,034**	**220,943**	**10.5**
Net policyholders' benefits and claims	(169,575)	(155,910)	8.8
Finance costs	(2,080)	(3,213)	(35.3)
Interest credited to investment contracts	(2,531)	(1,910)	32.5
Other operating and administrative expenses	(49,702)	(46,363)	7.2
Total benefits, claims and expenses	**(223,888)**	**(207,396)**	**8.0**
Profit before tax	20,146	13,547	48.7
Income tax	(6,154)	(3,477)	77.0
Net profit	**13,992**	**10,070**	**38.9**

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

Investment income for the reporting period was RMB43.127 billion, down by 5.9%, mainly as a result of lower equity investment income in a volatile capital market.

Net policyholders' benefits and claims amounted to RMB169.575 billion, up 8.8%.

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
Net policyholders' benefits and claims	**169,575**	**155,910**	**8.8**
Life insurance death and other benefits paid	46,198	39,599	16.7
Claims incurred	7,502	5,926	26.6
Changes in long-term insurance contract liabilities	104,612	101,439	3.1
Policyholder dividends	11,263	8,946	25.9

Other operating and administrative expenses for the reporting period amounted to RMB49.702 billion, up by 7.2%.

As a result, CPIC Life recorded a net profit of RMB13.992 billion for 2018, up 38.9%.

II. CPIC Allianz Health

In 2018, committed to innovating development modes, the subsidiary realized rapid business growth, with RMB2.744 billion in GWPs and health management fee income, a growth of 117.9%.

At the same time, to implement the strategy of the Group for collaborative development, it focused on the development of short-term health insurance products and provision of health management services, which helped agents of CPIC Life acquire new customers and sell long-term life insurance policies. Its short-term health insurance products have covered 7% of the individual customers of long-term insurance policies of CPIC Life, up 4.7pt. The company also vigorously expanded its direct pay network of health care providers, entered into co-operation with leading domestic outfits in health care, physical check, medical data research and genetic engineering, launched innovative health insurance products and full life cycle services, all of which continuously improved its capability in providing protection and service to high-end customers.

Property and casualty insurance

In 2018, CPIC P/C[note] persisted in business quality control, pro-actively adapted to the deregulation of commercial automobile insurance, stepped up the development of emerging non-auto business lines, deepened its integration with Anxin Agricultural, and reported continued improvement of the combined ratio, with both automobile and non-automobile insurance achieving underwriting profitability. At the same time, the top-line growth recovered considerably, with further increase in the share of non-auto business.

Note: References to CPIC P/C in this report do not include Anxin Agricultural.

I. CPIC P/C

(I) Business analysis

During the reporting period, CPIC P/C adhered to the strategy of "consolidating progress, pursuing breakthroughs, integrating transformation and enhancing innovations". Building on achievements in business restructuring and quality management, it shifted modes of development and drivers of growth, and realized high-quality development amid improving management capabilities. It reported GWPs of RMB117.808 billion, up 12.6%, with a combined ratio of 98.4%, down by 0.4pt compared with that of 2017.

1. Analysis by lines of business

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
GWPs	**117,808**	**104,614**	**12.6**
Automobile insurance	87,976	81,808	7.5
Compulsory automobile insurance	20,017	17,733	12.9
Commercial automobile insurance	67,959	64,075	6.1
Non-automobile insurance	29,832	22,806	30.8

Liability insurance	5,288	4,154	27.3
Commercial property insurance	5,234	4,842	8.1
Agricultural insurance	4,243	2,740	54.9
Guarantee insurance	3,509	1,575	122.8
Others	11,558	9,495	21.7

(1) Automobile insurance

For the reporting period, we reported GWPs of RMB87.976 billion from automobile business, a growth of 7.5%, with a combined ratio of 98.3%, down by 0.4pt from 2017. Of this, the loss ratio stood at 56.8%, down by 4.6pt while the expense ratio rising 4.2pt to 41.5%.

In 2018, we pro-actively adapted to changes of the business environment, persisted in underwriting profitability, enhance renewal business management, strengthened the foundation for long-term growth, and delivered a recovery of market share in automobile insurance, continued improvement in the combined ratio and enhanced capability in renewal business. We continued to strengthen distribution channels, and as a result, car dealerships reported a growth of 6.2%, and cross-selling 14.3%. Measured by vehicle types, both personal and commercial lines realized rapid growth.

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
GWPs	**87,976**	**81,808**	**7.5**
Primary insurance premiums	**87,966**	**81,413**	**8.0**
Car dealerships	33,021	31,081	6.2
Cross-selling	8,642	7,560	14.3

Looking forward, in response to further deregulation of commercial automobile insurance, the company will focus on retention of high-quality customers, step up business quality control centering on policy-year combined ratio, improve risk selection capabilities, promote collaboration within the Group for a higher share of cross-selling, accelerate product and service innovations, increase digital empowerment of personal lines business, set up new operational models for commercial lines, enhance capability in acquiring new customers and renewal business, so as to achieve high-quality development for automobile business.

(2) Non-automobile insurance

For the reporting period, CPIC P/C made great efforts to serve China’s national strategies, accelerated the development of emerging business lines, continued to enhance business quality control, and recorded GWPs of RMB29.832 billion, up 30.8%, with a combined ratio of 99.2%, down by 0.4pt. Of the major business lines, commercial property turned underwriting profit, liability insurance maintained healthy underwriting profitability. Emerging lines such as agricultural, personal loans guarantee and liability insurance recorded strong growth. Of this, agricultural insurance stepped up integration with Anxin Agricultural to establish an integrated business development platform to strengthen capabilities in basic management and professional services, and delivered RMB4.243 billion in GWPs, up 54.9%, with market share ranking rising to the 3rd place.

Next, we will seize the window of opportunity for non-auto business, step up development of emerging business, and in particular, push for fast growth of agricultural insurance through increased innovation; at the same time, we will persist in business quality control, continue to eliminate high loss-ratio business and strengthen proactive risk detection and mitigation to drive healthy and rapid development of the business.

(3) Key financials of major business lines

unit: RMB million

For 12 months ended 31 December

Name of insurance	**GWPs**	**Amounts insured**	**Claims paid**	**Reserves**	**Underwriting profit**	**Combined ratio (%)**
Automobile insurance	87,976	22,738,433	49,508	54,326	1,393	98.3
Liability insurance	5,288	11,908,080	2,227	4,480	188	94.9
Commercial property insurance	5,234	12,932,617	3,124	4,116	39	98.7
Agricultural insurance	4,243	189,772	2,800	1,551	125	95.0
Guarantee insurance	3,509	50,182	603	3,873	256	84.2

2. Top 10 regions for GWPs

We rely on our 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	**2018**	**2017**	**Changes (%)**
GWPs	**117,808**	**104,614**	**12.6**
Guangdong	13,933	12,624	10.4
Jiangsu	12,884	11,911	8.2
Zhejiang	11,587	10,369	11.7
Shanghai	8,871	7,839	13.2
Shandong	6,632	5,960	11.3
Beijing	6,151	5,864	4.9
Sichuan	4,954	3,594	37.8
Hebei	4,156	3,505	18.6
Henan	3,846	3,053	26.0
Hubei	3,809	3,138	21.4
Subtotal	76,823	67,857	13.2
Others	40,985	36,757	11.5

(II) Financial analysis

unit: RMB million

For 12 months ended 31 December	**2018**	**2017**	**Changes (%)**
Net premiums earned	98,606	88,993	10.8
Investment income[note]	5,364	5,288	1.4
Other operating income	510	542	(5.9)
Total income	**104,480**	**94,823**	**10.2**

Claims incurred	(55,409)	(53,225)	4.1
Finance costs	(788)	(427)	84.5
Other operating and administrative expenses	(41,799)	(35,199)	18.8
Total benefits, claims and expenses	**(97,996)**	**(88,851)**	**10.3**
Profit before tax	6,484	5,972	8.6
Income tax	(3,000)	(2,229)	34.6
Net profit	**3,484**	**3,743**	**(6.9)**

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

Investment income for the reporting period amounted to RMB5.364 billion, up 1.4%, mainly attributable to increase in interest income from fixed income investments.

Other operating and administrative expenses amounted to RMB41.799 billion, up by 18.8%, mainly due to business growth and market competitions.

Hence, a net profit of RMB3.484 billion was booked for CPIC P/C for 2018, down by 6.9% from 2017.

II. Anxin Agricultural

In 2018, the subsidiary deepened all-around integration with CPIC P/C, focused on urban agricultural insurance, with intensified efforts in technological innovation and empowerment. For the reporting period, it delivered RMB1.249 billion in GWPs, up 10.3%, of which, agricultural insurance RMB813 million, up 11.8%. Its combined ratio stood at 94.2%, up 0.2pt, with net profits of RMB137 million, a growth of 0.7%.

III. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December 2018, its total assets stood at RMB1.394 billion, with net assets of RMB499 million. GWPs for the reporting period amounted to RMB588 million, with a combined ratio of 91.0%, and a net profit of RMB50 million.

Asset management

We continued to strengthen mechanisms of asset liability management, persisted in SAA based on profiles of liability, and held up relatively well in the face of a volatile capital market. Meanwhile, we seized market opportunities and delivered a largely stable investment performance. Group AuM maintained steady increase, with steady enhancement of competitiveness on the market.

I. Group AuM

As of the end of 2018, Group AuM totaled RMB1,703.517 billion, rising 20.1% from the end of 2017. Of this, Group in-house assets amounted to RMB1,233.222 billion, a growth of 14.1%, and third-party AuM RMB470.295 billion, up 39.5%, with a fee income of RMB1.155 billion, up 20.2%.

unit: RMB million

	31 December 2018	31 December 2017	Changes (%)
Group AuM	**1,703,517**	**1,418,465**	**20.1**
Group in-house assets	1,233,222	1,081,282	14.1
Third-party AuM[note]	470,295	337,183	39.5
Third-party AuM by CPIC AMC	177,891	147,179	20.9
Assets under investment management by Changjiang Pension	271,838	190,004	43.1

Note: CPIC Fund consolidated for the numbers of third-party AuM as at 31 December 2018, given its acquisition by CPIC AMC in the first half of 2018.

II. Group in-house assets

During the reporting period, China's economy showed resilience amid downward pressures. The supply-side structural reform deepened and financial regulation was tightened, with better regulatory co-ordination to fend off and mitigate financial risks. In terms of market conditions, treasury bond yields dropped sharply, with credit spread narrowing for short duration bonds and being stable for long duration ones. The stock market fell steeply due to increasing economic uncertainties and Sino-US trade friction. We persisted in asset liability management and the principles of prudent, value and long-term investment, proactively increased allocation in fixed income assets when the market rates remained relatively high. In particular, we focused on instruments such as treasury bonds, bank deposits, high credit-rating bonds and high-quality financial products, strived to lengthen asset duration, while attaching great importance to credit risk management. At for equity investments, we made stock selection starting from the fundamentals, and at the same time effectively controlled the position of stocks and mutual funds in the face of a falling capital market, in a bid to effectively reduce portfolio volatility.

(I) Consolidated investment portfolios

unit: RMB million

	31 December 2018	Share (%)	Share change from the end of 2017 (pt)	Change (%)
Group investment assets (total)	1,233,222	100.0	-	14.1
By investment category				
Fixed income investments	1,024,844	83.1	1.3	15.8
- Debt securities	570,790	46.3	(1.9)	9.5
- Term deposits	128,396	10.4	0.8	23.5
- Debt investment plans	134,043	10.9	2.3	44.4

- Wealth management products[note 1]	103,683	8.4	0.1	15.6
- Preferred shares	32,000	2.6	(0.3)	-
- Other fixed income investments[note 2]	55,932	4.5	0.3	23.7
Equity investments	154,459	12.5	(2.1)	(2.1)
- Equity funds	18,750	1.5	(0.4)	(10.4)
- Bond funds	14,377	1.2	(0.3)	(10.7)
- Equity securities	51,000	4.1	(1.4)	(13.5)
- Wealth management products[note 1]	7,184	0.6	(1.3)	(65.1)
- Preferred shares	7,765	0.6	(0.1)	-
- Other equity investments[note 3]	55,383	4.5	1.4	65.8
Investment properties	8,542	0.7	(0.1)	(2.1)
Cash, cash equivalents and others	45,377	3.7	0.9	51.1
By investment purpose				
Financial assets at fair value through profit or loss	11,835	1.0	(0.5)	(26.9)
Available-for-sale financial assets	415,868	33.7	(0.4)	12.7
Held-to-maturity financial assets	284,744	23.1	(3.5)	(1.0)
Interests in associates	7,591	0.6	0.1	45.1
Investment in joint ventures	9,881	0.8	0.8	24,000.0
Loans and other investments[note 4]	503,303	40.8	3.5	24.7

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, investments classified as loans and receivables, and investment properties, etc.

1. By investment category

In the reporting period, the equity market was weak, and therefore, our equity investments stayed lower than the benchmark of SAA. In the meantime, market rates were relatively high in the year beginning, when we proactively increased allocation in fixed income assets, and then began to drop. Based on this tactical strategic allocation (TAA), in addition to debt securities with stable credit, new money and re-investments were mainly allocated in fixed income assets such as bank deposits, debt investment schemes and collective trust plans by trust firms.

As of the end of the reporting period, the share of debt securities was 46.3%, a drop of 1.9pt from the end of 2017. Moreover, 99.8% 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 91.6%. We have set up an independent internal credit-rating team and a credit risk management system responsible for credit risk management of the entire investment process, covering pre-investment, in-investment and post-investment stages. In the selection of new securities, we looked at the internal credit-rating of both the debt and debt issuer, evaluated the credit risk based on our internal credit-rating system and the input from in-house credit analysts, while considering other factors such as macro-economic conditions, market environment and external credit-rating in order to make a well-informed investment decision. At the same time, to effectively manage the credit risk of existing bond holdings, we followed a uniform and standardized set of regulations and procedures, combining both regular and unscheduled follow-up tracking post the investment. Our corporate/enterprise bond holdings spread over a wide range of sectors with good diversification effect; the debt issuers all boasted relatively financial strength, with the overall credit risk under control.

The share of equity investments stood at 12.5%, down by 2.1pt from the end of 2017. Of this, equity securities and equity funds accounted for 5.6%, down by 1.8pt.

As of the end of the reporting period, NSAs totaled RMB248.699 billion, accounting for 20.2% of total Group in-house assets, rising 1.4pt from the end of 2017. Overall, the credit risk of our NSA holdings is in the comfort zone. For those NSAs with an external credit-rating, the share of AA+ and above reached 99.9%, and that of AAA 95.2%. For such investments, we gave priority to serving the needs of China's real economy. While ensuring compliance, we adhered to the principle of prudent management which is required for insurance companies, stayed highly selective about the debt issuers and projects, making sure that the projects have clear structures, well-defined rights and responsibilities, secure sources of refunding, and are in line with government policies. All debt investments plans were covered by effective credit enhancement measures including guarantees or pledge of assets, thus ensuring payment of both principle and interest. The guarantors are mainly banks, SOEs and firms under the central government. The counter-parties of our trust plans and the issuers of commercial bank wealth management products are with strong credit-worthiness.

2. By investment purpose

By investment purpose, our in-house investment 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 decreased by 26.9% from the end of 2017, mainly because of reduced allocation in equity securities and equity funds for trading purposes; AFS financial assets grew by 12.7%, mainly as a result of increased investment in debt securities for allocation purpose.

(II) Group consolidated investment income

For the reporting period, net investment income totaled RMB54.102 billion, up by 1.2%. This stemmed mainly from increase in interest payment on fixed income investments.Net investment yield reached 4.9%, down by 0.5pt versus 2017.

Total investment income amounted to RMB51.073 billion, down by 4.4%, mainly as a result of increase in fair value losses in a falling equity market. Total investment yield stood at 4.6%, down by 0.8pt.

The growth rate of investments' net asset value rose by 0.3pt to 5.1%, as a result of increase of unrealized gains on debt securities.

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
Interest income from fixed income investments	47,797	41,815	14.3
Dividend income from equity investments	5,566	10,963	(49.2)
Rental income from investment properties	739	686	7.7
Net investment income	**54,102**	**53,464**	**1.2**
Realized losses	(770)	(1,571)	(51.0)
Unrealized (losses)/gains	(2,168)	1,443	(250.2)
Charge of impairment losses on investment assets	(975)	(658)	48.2
Other income[note 1]	884	739	19.6
Total investment income	**51,073**	**53,417**	**(4.4)**
Net investment yield (%)[note 2]	4.9	5.4	(0.5pt)
Total investment yield (%)[note 2]	4.6	5.4	(0.8pt)
Growth rate of investments' net asset value (%)[notes 2,3]	5.1	4.8	0.3pt

Notes:

1. Other income includes interest income on cash and short-term time deposits, securities purchased under agreements to resell, share of profit/(loss) 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	2018	2017	Changes
Total investment yield	**4.6**	**5.4**	**(0.8pt)**
Fixed income investments[note]	5.2	5.0	0.2pt
Equity investments[note]	1.1	7.6	(6.5pt)
Investment properties[note]	9.0	8.4	0.6pt
Cash, cash equivalents and others[note]	1.9	2.4	(0.5pt)

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 2018, with the promulgation of Opinions on the Regulation of Asset Management Business of Financial Services Institutions, regulation of the asset management sector was considerably tightened. CPIC AMC, in its business development, ensured compliance and prevention of major risks, pursued high quality development, and achieved a recovery of business volume, an improvement of business mix and quality. As of the end of 2018, its third-party AuM amounted to RMB177.891 billion, up by 20.9% from the end of 2017, setting a new record since the establishment of CPIC AMC.

During the reporting period, in alternative investments, the company continued to serve the key national strategies and China's real economy. It stepped up development of high-quality assets, enhanced co-operation with companies with high credit-ratings, focused on investment opportunities in the Yangtze River Delta Region and the Great Bay Area of Guangdong, Hong Kong and Macao, vigorously explored opportunities in energy, slum resettlement and key national infrastructure projects, achieving industry leadership in the number of alternative projects registered and size of funds raised.

Meanwhile, as for its asset management products, in response to changes of the regulatory environment and market conditions, the subsidiary leveraged its strengths in active management, optimized product supply, with a rapid growth of business volume on fixed income and liquidity management products. The investment performance of the products won wide recognition of institutional investors, forming a virtuous cycle of stable investment performance and growth of AuM. As of the end of 2018, the company reported RMB110.4 billion in third-party asset management products and AuM, an increase by RMB33.8 billion from the end of 2017, or up 44.1%.

(II) Assets under investment management by Changjiang Pension

In 2018, Changjiang Pension stepped up enterprise risk management, focused on the management of long-term pension funds, supported the 3 pillars of China's pension system and delivered stable and healthy business development.

In the first pillar, it continued to improve its management 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 development of occupational annuity business, and successfully qualified as manager of all provincial and municipal governments which started the outsourcing process. It pursued steady development of enterprise annuity and vigorously explored growth opportunities of the business. The company also maintained its leading position in group retirement plans and continued to serve the needs of SOE reform. In the third pillar, Changjiang Pension committed itself to support the tax-deferred pension scheme offered by CPIC Life, striving to provide stable returns for the product. It launched a line-up of individual retirement plans to meet diverse needs of individual customers for pension wealth management. It leveraged long-term pension funds to serve the real economy. The company raised a total of RMB21.9 billion via debt investment plans in 2018. Cumulatively the debt investment plans it registered raised nearly RMB120 billion in funds.

As of the end of the reporting period, Changjiang Pension's third-party assets under investment management reached RMB271.838 billion, rising by 43.1% from the end of 2017, with third-party assets under custody of RMB90.812 billion, up 11.9% from the end of 2017.

Analysis of specific items

I. Key consolidated results

unit: RMB million

	31 December 2018/Year 2018	31 December 2017/Year 2017	Changes (%)	Main Reasons
Total assets	1,335,959	1,171,224	14.1	Business expansion
Total liabilities	1,181,911	1,030,105	14.7	Business expansion
Total equity	154,048	141,119	9.2	Profit for the period, fair value change on AFS financial assets
Net profit attributable to equity holders of the parent	18,019	14,662	22.9	Business expansion

II. Liquidity analysis

(I) Cash flow statement

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
Net cash inflow from operating activities	89,449	86,049	4.0
Net cash outflow from investing activities	(91,748)	(104,209)	(12.0)
Net cash inflow from financing activities	11,554	10,629	8.7

(II) Gearing ratio

	31 December 2018	31 December 2017	Changes
Gearing ratio (%)	88.8	88.3	0.5pt

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

(III) Liquidity analysis

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

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

We normally 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 2018	31 December 2017	Changes	Impact of fair value changes on profits[note]
Financial assets at fair value through profit or loss	11,835	16,187	(4,352)	(2,168)
Available-for-sale financial assets	415,868	368,868	47,000	(975)
Total	**427,703**	**385,055**	**42,648**	**(3,143)**

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 CBIRC. The solvency margin ratio of domestic insurance companies in the People's Republic of China (PRC) shall meet certain prescribed levels as stipulated by CBIRC.

unit: RMB million

	31 December 2018	31 December 2017	Reasons of change
CPIC Group			
Core capital	381,723	318,882	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	392,523	322,882	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	130,560	113,766	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	292	280	
Comprehensive solvency margin ratio (%)	301	284	
CPIC Life			
Core capital	298,654	241,486	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	298,654	241,486	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	114,526	98,460	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	261	245	
Comprehensive solvency margin ratio (%)	261	245	
CPIC P/C			
Core capital	34,831	34,788	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	45,631	38,788	Profit for the period, profit distribution to shareholders, issuance of capital-replenishing bonds and change of fair value of investment assets
Minimum required capital	14,915	14,508	Growth of insurance business and changes to asset allocation

Core solvency margin ratio (%)	234	240	
Comprehensive solvency margin ratio (%)	306	267	
CPIC Allianz Health			
Core capital	1,057	524	Capital injection and change of fair value of investment assets
Actual capital	1,057	524	Capital injection and change of fair value of investment assets
Minimum required capital	489	250	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	216	210	
Comprehensive solvency margin ratio (%)	216	210	
Anxin Agricultural			
Core capital	1,578	1,488	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	1,578	1,488	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	527	479	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	300	310	
Comprehensive solvency margin ratio (%)	300	310	

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 for 2018 and its major subsidiaries for the 4th quarter of 2018.

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 2018 / 31 December 2018	
Market value	**Impact on profit before tax**	**Impact on equity**
+10%	257	4,598
-10%	(257)	(4,598)

Notes:
1. After policyholder participation.
2. Equity assets do not include bond funds, money market funds, wealth management products, preferred shares or 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 2018, insurance contract liabilities of CPIC Life amounted to RMB838.708 billion, representing an increase of 15.8% from the end of 2017. Those of CPIC P/C amounted to RMB79.354 billion, up 3.6% from the end of 2017. 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 2018	31 December 2017	Changes (%)
CPIC Life			
Unearned premiums	3,727	3,002	24.2
Claim reserves	3,644	2,827	28.9
Long-term life insurance contract liabilities	831,337	718,545	15.7
CPIC P/C			
Unearned premiums	45,036	40,693	10.7
Claim reserves	34,318	35,873	(4.3)

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 2017	Increase for the period			Decrease for the period		31 December 2018
		Deposits received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	56,268	11,819	2,531	488	(8,703)	(148)	62,255

VIII. Reinsurance business

In 2018, premiums ceded to reinsurers are shown below:

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
CPIC Life	**4,202**	**2,921**	**43.9**
Traditional insurance	1,982	1,860	6.6
Long-term health insurance	1,294	1,274	1.6
Participating insurance	242	227	6.6
Universal insurance	51	21	142.9
Tax-deferred pension insurance	-	-	/
Short-term accident and health insurance	1,927	813	137.0
CPIC P/C	**15,475**	**13,877**	**11.5**
Automobile insurance	6,621	6,994	(5.3)
Non-automobile insurance	8,854	6,883	28.6

In 2018, premiums ceded inwardly are set out below:

unit: RMB million

For 12 months ended 31 December	2018	2017	Changes (%)
CPIC Life	**1,071**	**1,646**	**(34.9)**
Traditional insurance	1,071	1,646	(34.9)
Long-term health insurance	-	-	/
Participating insurance	-	-	/
Universal insurance	-	-	/
Tax-deferred pension insurance	-	-	/
Short-term accident and health insurance	-	-	/
CPIC P/C	**429**	**620**	**(30.8)**
Automobile insurance	9	395	(97.7)
Non-automobile insurance	420	225	86.7

As at the end of 2018, assets under reinsurance are set out below:

unit: RMB million

	31 December 2018	31 December 2017	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	698	289	141.5
Claim reserves	125	87	43.7
Long-term life insurance contract liabilities	11,668	10,679	9.3
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	5,840	5,224	11.8
Claim reserves	5,801	6,666	(13.0)

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 Property	Property insurance; liability insurance; credit	19,470	98.5%	160,820	35,470	3,484

Insurance Co., Ltd.	and guarantee insurance; short-term health insurance and casualty insurance; reinsurance of the above said insurance; insurance funds investment as approved by relevant laws and regulations; other business as approved by CBIRC.					
China Pacific Life Insurance Co., Ltd.	Life insurance, health insurance, accident insurance, etc. denominated in RMB or foreign currencies; reinsurance of the above said insurance; statutory life/health insurance; establishment of 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 CBIRC.	8,420	98.3%	1,114,675	69,210	13,992
Changjiang Pension Insurance Co., Ltd.	Group pension and annuity business; individual pension and annuity business; short-term health insurance; accident insurance; reinsurance of	3,000	61.1%	4,498	3,266	243

	the aforementioned business; outsourced money management business denominated in RMB or foreign currencies for the purpose of elderly provisions; pension fund management products; 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 CBIRC.					
Pacific Asset Management Co., Ltd.	Management of capital and insurance funds, outsourced asset management, consulting services relating to asset management, and other asset management business as allowed by the PRC laws and regulations.	2,100	99.7%	3,722	3,062	262
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 agency and consulting business; insurance funds investment as approved by relevant laws and	1,700	77.1%	3,969	1,145	(137)

	regulations; other business as approved by CBIRC.					
Anxin Agricultural Insurance Co., Ltd.	Agricultural insurance; property indemnity insurance; liability insurance; statutory liability insurance; credit and guarantee insurance; short term health insurance and casualty insurance; rural and farmer related property insurance; reinsurance of the above said insurance; insurance agency business.	700	51.3%	3,274	1,429	137
CPIC Fund Management Co., Ltd.	Fund management business; launch of funds and other business as approved by competent authorities of the PRC.	150	50.8%	630	543	34[note 3]

Notes:

1. Figures for companies in the table are on an unconsolidated basis.
2. Figures for Group shareholding include direct and indirect shareholdings.
3. Between January and December of 2018.

X. Top five customers

During the reporting period, the top 5 customers accounted for approximately 0.9% of the Company's GWPs.

Given its business nature, the Company does not have any supplier that is directly related to its business.

XI. Environmental policies, employee engagement and customer relations

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

In 2018, the Company valued and maintained good customer relations with priority on customer needs.

XII. 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.

Outlook

I. Market environment and business plan

China's insurance sector is still facing an important window of opportunity. The long-term positive development of China's economy means big growth potential of the industry; higher income per person drives continued increase in demand for insurance; technological advancement helps with transformation and upgrading of the sector.

In 2019, with a vision of "leadership in healthy and stable development of the insurance industry", and the targets of "being the best in customer experience, business mix and risk control capabilities", the Company will ensure the prevention of major risks, deepen Transformation 2.0, and achieve more success in high-quality development.

II. Major risks and mitigating measures

First, the market environment may become more challenging. China's economy is in a transition from the stage of high growth toward high quality development, and this, coupled with Sino-US trade tensions and geo-political rifts, may have profound impact on China's macro-economic variables, industry mix and cycles. Second, China's insurance market is experiencing a slowdown, amid a shift of development mode, and potential risks which have been accumulating over the years have begun to surface. The regulator will continue to intensify its efforts to mitigate risks, tackle irregularities and tighten overall regulation. The new rules on asset management and life insurance products, the deepening of deregulation of commercial automobile insurance, rising claims ratio of health insurance could mean challenges to the industry's premium growth and profit. Third, we still face the major risk of large claims arising from catastrophes and artificial accidents, with emerging risks having increasing impact on the stability of the insurance business. Fourth, given downward economic pressure, credit risk and liquidity risk may deteriorate, materially impacting insurance, investment and asset management.

To cope with these risks, we will persist in compliance, stay focused on the core business of insurance, press ahead with Transformation 2.0 to fulfill its vision and objectives. In particular, we will step up research into and assessment of macro-economic trends, step up digital empowerment and enhance capabilities in risk assessment and product pricing. Efforts will also be intensified to improve asset liability management, credit risk management of counter-parties and investment research capabilities, so as to forestall major risks and ensure a stable business operation and healthy 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 2018, 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 a decrease in net insurance contract liabilities and other policy-related liabilities as at 31 December 2018 by approximately RMB497 million and an increase in profit before tax for 2018 by approximately RMB497 million.

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 2018, and the value of one year's sales of CPIC Life in the 12 months to 31 December 2018 at a risk discount rate of 11%.

unit: RMB million

Valuation Date	31 December 2018	31 December 2017
Group Adjusted Net Worth	**169,325**	**151,755**
Adjusted Net Worth of CPIC Life	88,714	77,288
Value of In Force Business of CPIC Life Before Cost of Required Capital Held	181,631	147,283
Cost of Required Capital Held for CPIC Life	(11,917)	(10,534)
Value of In Force Business of CPIC Life After Cost of Required Capital Held	169,714	136,749
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Required Capital Held attributable to the shareholders of CPIC Group	**166,816**	**134,414**
Group Embedded Value	**336,141**	**286,169**
CPIC Life Embedded Value	258,428	214,037

Valuation Date	31 December 2018	31 December 2017

Value of One Year's Sales of CPIC Life Before Cost of Required Capital Held	31,806	30,632
Cost of Required Capital Held	(4,686)	(3,909)
Value of One Year's Sales of CPIC Life After Cost of Required Capital Held	**27,120**	**26,723**

Notes:

1. Figures may not be additive due to rounding.

2. Results in column "31 December 2017" are those reported in the 2017 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 2018.

unit: RMB million

	First Year Annual Premium (FYAP)		**Value of One Year's Sales After Cost of Required Capital Held**	
	2018	**2017**	**2018**	**2017**
Total	**62,116**	**67,823**	**27,120**	**26,723**
Of which: Traditional	23,139	16,688	18,146	11,398
Participating	22,713	34,440	8,656	15,057

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2017 to 31 December 2018.

unit: RMB million

No.	Item	Value	Comments
1	Embedded Value of the life business at 31 December 2017	**214,037**	
2	Expected Return on Embedded Value	20,792	Expected returns on the 2017 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2018

3	Value of One Year's Sales	27,120	Value of one year's sales in respect of new business written in the 12 months prior to 31 December 2018
4	Investment Experience Variance	231	Reflects the difference between actual and assumed investment return in 2018
5	Operating Experience Variance	(172)	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(1,085)	Reflects assumption and methodology changes, together with model enhancements
7	Diversification effects	2,827	Changes in diversification benefits on cost of required capital from new business and different business mix
8	Change in market value adjustment	3,001	Reflects the change in value of certain assets not valued on a market value basis
9	Shareholder Dividends	(8,420)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	97	
11	Embedded Value of the life business at 31 December 2018	**258,428**	
12	Adjusted net worth of businesses other than CPIC Life as at 31 December 2017	**78,336**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	13,581	
14	Shareholder dividends	(7,474)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	985	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 2018	**85,427**	
17	Minority interests relating to equity and market value adjustments	(7,714)	Minority interests on Embedded Value as at 31 December 2018
18	Group Embedded Value as at 31 December 2018	**336,141**	
19	Embedded Value as at 31 December 2018 per share (RMB)	**37.09**	

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 securities of the Company.

Proposed final dividend

On 22 March 2019, the Board recommended a final dividend of RMB1.00 per share (tax included) for the year ended 31 December 2018, amounting to approximately RMB9.062 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2018 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 Tuesday, 23 July 2019 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) (《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)) 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) (《財政部、國家稅務總局、證監會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 RMB0.90 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 2018 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 2018 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 2018 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 Fund"	CPIC Fund Management Co., Ltd., a 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.
"CBIRC"	China Banking and 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, 24 March 2019

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. HUANG Dinan, Mr. WANG Tayu, Mr. KONG Xiangqing, 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.

** Note: The appointment qualification of Mr. Huang Dinan is subject to approval by China Banking and Insurance Regulatory Commission.*

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

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 131, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

We 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 contract liabilities and note 39 Insurance contract 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 831 billion as at 31 December 2018, 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 contract liabilities and note 39 Insurance contract 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 2018, representing 3% 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 46 billion as at 31 December 2018, 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 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.

The directors 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 the directors 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 the directors 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 the directors, 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, 22 March 2019

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2018	2017
Gross written premiums	6(a)	321,895	281,644
Less: Premiums ceded to reinsurers	6(b)	(17,563)	(15,784)
Net written premiums	6	304,332	265,860
Net change in unearned premium reserves		(4,608)	(2,306)
Net premiums earned		299,724	263,554
Investment income	7	49,999	52,657
Other operating income		3,380	3,194
Other income		53,379	55,851
Total income		353,103	319,405
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(46,214)	(39,604)
Claims incurred	8	(64,326)	(60,317)
Changes in long-term life insurance contract liabilities	8	(104,641)	(101,263)
Policyholder dividends	8	(11,263)	(8,946)
Finance costs	9	(2,959)	(3,703)
Interest credited to investment contracts		(2,531)	(1,910)
Other operating and administrative expenses		(93,496)	(82,634)
Total benefits, claims and expenses		(325,430)	(298,377)
Share of profit in equity accounted investees		335	74
Profit before tax	10	28,008	21,102
Income tax	14	(9,574)	(6,111)
Net profit for the year		18,434	14,991
Attributable to:			
Equity holders of the parent		18,019	14,662
Non-controlling interests		415	329
		18,434	14,991
Basic earnings per share	15	RMB1.99	RMB1.62
Diluted earnings per share	15	RMB1.99	RMB1.62

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 2018

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2018**	**2017**
Net profit for the year		18,434	14,991
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations	16	25	(33)
Available-for-sale financial assets	16	1,686	(3,283)
Income tax relating to available-for-sale financial assets	16	(429)	820
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		1,282	(2,496)
Other comprehensive income/(loss) for the year	16	1,282	(2,496)
Total comprehensive income for the year		19,716	12,495
Attributable to:			
Equity holders of the parent		19,306	12,206
Non-controlling interests		410	289
		19,716	12,495

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2018

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2018**	**31 December 2017**
ASSETS			
Goodwill	17	1,357	962
Property and equipment	18	19,301	17,950
Investment properties	19	8,542	8,727
Other intangible assets	20	2,542	1,490
Prepaid land lease payments	21	344	55
Interests in associates	22	7,591	5,230
Investment in joint ventures	23	9,881	41
Held-to-maturity financial assets	24	284,744	287,497
Investments classified as loans and receivables	25	272,015	216,748
Restricted statutory deposits	26	6,738	6,566
Term deposits	27	128,396	103,989
Available-for-sale financial assets	28	415,868	368,868
Financial assets at fair value through profit or loss	29	11,835	16,187
Securities purchased under agreements to resell	30	23,095	17,126
Policy loans		49,194	38,643
Interest receivables	31	19,282	16,757
Reinsurance assets	32	23,467	22,575
Deferred income tax assets	33	2,379	1,742
Insurance receivables	34	19,012	16,333
Other assets	35	15,053	12,078
Cash and short-term time deposits	36	15,323	11,660
Total assets		1,335,959	1,171,224

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET (continued)
31 December 2018

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2018	31 December 2017
EQUITY AND LIABILITIES			
Equity			
Issued capital	37	9,062	9,062
Reserves	38	85,904	82,714
Retained profits	38	54,610	45,722
Equity attributable to equity holders of the parent		149,576	137,498
Non-controlling interests		4,472	3,621
Total equity		154,048	141,119
Liabilities			
Insurance contract liabilities	39	919,671	802,239
Investment contract liabilities	40	62,255	56,268
Policyholders’ deposits		70	75
Bonds payable	41	13,985	3,999
Securities sold under agreements to repurchase	42	75,075	66,243
Deferred income tax liabilities	33	1,168	920
Income tax payable		7,331	4,934
Premium received in advance		16,384	21,156
Policyholder dividend payable		26,501	24,422
Payables to reinsurers		6,233	6,002
Other liabilities	43	53,238	43,847
Total liabilities		1,181,911	1,030,105
Total equity and liabilities		1,335,959	1,171,224

KONG Qingwei	HE Qing
Director	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 2018

(All amounts expressed in RMB million unless otherwise specified)

Group

	2018										
	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 2018	9,062	66,613	4,835	9,761	1,546	(41)	45,722	137,498	3,621	141,119
Total comprehensive income	-	-	-	-	1,262	25	18,019	19,306	410	19,716
Dividend declared [1]	-	-	-	-	-	-	(7,250)	(7,250)	-	(7,250)
Non-controlling interests on acquisition of subsidiaries	-	-	-	109	-	-	(109)	-	505	505
Changes in ownership interests in subsidiaries without change of control	-	15	-	-	-	-	-	15	161	176
Share of other changes in equity of investees accounted for using the equity method	-	7	-	-	-	-	-	7	-	7
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(225)	(225)
Appropriations to general reserves	-	-	-	1,772	-	-	(1,772)	-	-	-
At 31 December 2018	9,062	66,635	4,835	11,642	2,808	(16)	54,610	149,576	4,472	154,048

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2017, amounting to RMB7,250million (RMB0.80 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 2018

(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 CASH FLOW STATEMENT
For the year ended 31 December 2018

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2018	2017
OPERATING ACTIVITIES			
Cash generated from operating activities	49	97,564	89,928
Income tax paid		(8,115)	(3,879)
Net cash inflow from operating activities		89,449	86,049
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(4,177)	(4,218)
Proceeds from sale of property and equipment, intangible assets and other assets		59	334
Purchases of investments, net		(127,800)	(149,496)
Acquisition of a subsidiary and other business entities, net		(12,887)	(6,059)
Interest received		47,154	44,135
Dividends received from investments		5,682	11,095
Other cash receipts related to investing activities		226	-
Other cash payment related to investing activities		(5)	-
Net cash outflow from investing activities		(91,748)	(104,209)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		8,595	26,842
Proceeds from the issue of asset-backed securities		2,750	1,000
Repayment of borrowings		(910)	(8,498)
Proceeds from the issue of bonds		9,980	-
Interest paid		(2,069)	(3,266)
Dividends paid		(7,475)	(6,655)
Capital injection to subsidiaries by NCI		-	669
Proceeds from NCI of consolidated structured entities		683	537
Net cash inflow from financing activities		11,554	10,629
Effects of exchange rate changes on cash and cash equivalents		80	(80)
Net increase/(decrease) in cash and cash equivalents		9,335	(7,611)
Cash and cash equivalents at the beginning of year		28,786	36,397
Cash and cash equivalents at the end of year		38,121	28,786
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		13,681	9,969
Time deposits with original maturity of no more than three months		262	712
Other monetary assets		1,083	979
Investments with original maturity of no more than three months		23,095	17,126
Cash and cash equivalents at the end of year		38,121	28,786

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 former China Insurance Regulatory Commission (the "CIRC"), the Company was restructured as a joint stock limited company in October 2001 with an issued capital of RMB2,006.39 million. The Company increased its issued capital to RMB6,700 million through issuing new shares to its then existing shareholders and new shareholders in 2002 and 2007.

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention other than financial instruments that have been measured at fair values and insurance contract liabilities that have been measured primarily based on actuarial methods. These consolidated financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

(1) Changes in accounting policy and disclosures

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

HKFRS 15	Revenue from contracts with customers
HKFRS 4 Amendments	Applying HKFRS 9 with HKFRS 4 Insurance Contracts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of investment property
HK(IFRIC 22)	Foreign currency transactions and advance consideration

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 except HKFRS 9, as the Group qualifies for a temporary exemption from HKFRS 9 which was illuminated in HKFRS 4 Amendments.

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 16	Leases[1]
HK(IFRIC 23)	Uncertainty over income tax treatments[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] 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:

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 profit or loss. 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

(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)

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 1 January 2018. The Group is eligible to and has elected 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 the Group makes additional disclosures as below:

The Group is defined as an insurer with its activities predominantly connected with insurance, with the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities greater than 90 percent.

Financial assets meet SPPI are relevant financial assets of which the contractual cash flows generated on a specific date are solely payments of principal and interest on the principal amount.

Additional disclosures of financial assets listed in financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables are as follows:

	As at 31 December 2018 Fair value	2018 Change in the fair value
Financial assets held for trading(A)	7,344	(2,166)
Financial assets managed and whose performance evaluated on a fair value basis (B)	4,491	(2)
Financial assets other than A or B		
——Financial assets meet SPPI(C)	831,894	38,878
——Financial assets not meet SPPI	161,879	(11,473)
Total	1,005,608	25,237

(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)

Credit risk rating grades of financial assets meet SPPI(C)	As at 31 December 2018 Carrying amounts
Domestic	
Risk free	228,308
AAA	542,281
A-1	1,450
AA+	36,641
AA	1,214
No rating	313
Overseas	
A-(inclusive) or above	192
BBB+	194
BBB	64
BBB-	10
BB+(inclusive) or below	161
Total	810,828

	As at 31 December 2018	
Financial assets not have low credit risk	Carrying amounts	Fair value
Domestic	1,527	1,527
Overseas	161	159
Total	1,688	1,686

Except for the above assets, other financial assets other than cash held by the Group, including securities purchased under agreements to resell, policy loans, term deposits, restricted statutory deposits, etc , are financial assets which meet the SPPI conditions. The carrying amounts are close to their fair value.

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 will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The group does not expect significant impact on the financial statements.

(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 17 was issued in May 2017 and 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 currently mandatorily effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted, however in November 2018, The International Accounting Standards Board ("IASB") proposed to defer IFRS17 until the finanacial period beginning on or after 1 January 2022. The Board had also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time. The impact is expected to be significant. However, it won't have impact on the Group until be adopted.

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.

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 2018. 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.

(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)

(1) Basis of consolidation (continued)

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.

(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.

(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 (continued)

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

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

(3) Subsidiaries

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

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

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

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.

(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.

(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 (continued)

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.

The period for which the franchise license can bring economic benefits to the Group is not certain, so it is recognized as intangible asset with indefinite useful lives. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(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:

- 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.

(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)

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

The Group shall account for a contract with a customer that is only when all of the following criteria are met：

- the parties to the contract have approved the contract and are committed to perform their respective obligations;
- the Group can identify each party’s rights regarding the goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (ie the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

(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 2017 and 2018 were from 3.25% to 4.80% and from 3.41% 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 2017 and 2018 were from 4.90% to 5.00% and 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 2018, 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 a decrease in net insurance contract liabilities and other policy-related liabilities as at 31 December 2018 by approximately RMB497 million and an increase in profit before tax for 2018 by approximately RMB497 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 2018, gross written premiums from transactions with the top five external customers amounted to 0.92% (2017: 0.68%) 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 2018

	Life insurance	Property and casualty insurance				Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Subtotal			
Gross written premiums	203,202	119,053	588	(423)	119,218	-	(525)	321,895
Less: Premiums ceded to reinsurers	(2,684)	(15,589)	(250)	435	(15,404)	-	525	(17,563)
Net written premiums	200,518	103,464	338	12	103,814	-	-	304,332
Net change in unearned premium reserves	(777)	(3,817)	(3)	-	(3,820)	-	(11)	(4,608)
Net premiums earned	199,741	99,647	335	12	99,994	-	(11)	299,724
Investment income	42,880	5,443	40	-	5,483	13,798	(12,162)	49,999
Other operating income	3,037	523	-	-	523	4,040	(4,220)	3,380
Other income	45,917	5,966	40	-	6,006	17,838	(16,382)	53,379
Segment income	245,658	105,613	375	12	106,000	17,838	(16,393)	353,103
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(46,214)	-	-	-	-	-	-	(46,214)
Claims incurred	(8,131)	(56,064)	(175)	-	(56,239)	-	44	(64,326)
Changes in long-term life insurance contract liabilities	(104,609)	-	-	-	-	-	(32)	(104,641)
Policyholder dividends	(11,263)	-	-	-	-	-	-	(11,263)
Finance costs	(2,080)	(789)	-	-	(789)	(98)	8	(2,959)
Interest credited to investment contracts	(2,531)	-	-	-	-	-	-	(2,531)
Other operating and administrative expenses	(50,850)	(42,137)	(142)	-	(42,279)	(4,501)	4,134	(93,496)
Segment benefits, claims and expenses	(225,678)	(98,990)	(317)	-	(99,307)	(4,599)	4,154	(325,430)
Segment results	19,980	6,623	58	12	6,693	13,239	(12,239)	27,673
Share of profit in equity accounted investees	337	(14)	-	-	(14)	(2)	14	335
Profit before tax	20,317	6,609	58	12	6,679	13,237	(12,225)	28,008
Income tax	(6,119)	(3,017)	(9)	-	(3,026)	(310)	(119)	(9,574)
Net profit for the year	14,198	3,592	49	12	3,653	12,927	(12,344)	18,434

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2018

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Investment in associates	6,892	590	-	-	590	109	-	7,591
Investment in joint ventures	9,839	30	-	-	30	12	-	9,881
Financial assets *	848,148	82,060	448	-	82,508	53,806	-	984,462
Term deposits	98,779	27,881	-	-	27,881	1,736	-	128,396
Others	125,009	52,928	946	(545)	53,329	31,747	(4,456)	205,629
Segment assets	1,088,667	163,489	1,394	(545)	164,338	87,410	(4,456)	1,335,959
Insurance contract liabilities	839,368	80,569	432	(217)	80,784	-	(481)	919,671
Investment contract liabilities	62,255	-	-	-	-	-	-	62,255
Policyholders' deposits	7	63	-	-	63	-	-	70
Bonds payable	-	13,985	-	-	13,985	-	-	13,985
Securities sold under agreements to repurchase	65,814	6,220	-	-	6,220	3,041	-	75,075
Others	79,179	26,395	463	(327)	26,531	10,173	(5,028)	110,855
Segment liabilities	1,046,623	127,232	895	(544)	127,583	13,214	(5,509)	1,181,911

* 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 2018

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Depreciation and amortization	930	800	2	-	802	647	-	2,379
Capital expenditure	1,719	1,636	3	-	1,639	889	-	4,247
Impairment loss charges	737	241	-	-	241	124	-	1,102
Interest income/(losses)	41,661	4,780	38	-	4,818	1,926	(162)	48,243
Unrealized gains from financial assets at fair value through profit or loss	(2,195)	-	-	-	-	27	-	(2,168)

(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
Bonds payable	-	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)

5. SCOPE OF CONSOLIDATION

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2018 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	
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	
Ningbo Fenghua Xikou Garden Hotel Co., Ltd. ("Xikou Garden Hotel")	Limited company	Hotel operations	Zhejiang	Zhejiang	27,277	27,277	-	98.39	100.00	(1)
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Limited company	Pension business and investment management	Shanghai	Shanghai	3,000,000	3,000,000	-	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 2018 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	3,000,000	3,000,000	-	98.29	100.00	(3)

(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 2018 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	1,700,000	1,700,000	77.05	-	77.05	(4)
Anxin Agriculture Insurance Co., Ltd. (the "Anxin")	Limited company	Property and casualty insurance	Shanghai	Shanghai	700,000	700,000	-	51.35	52.13	
Pacific Medical&Healthcare Management Co., Ltd. ("Pacific Medical&Healthcare")	Limited company	Medical consulting services, etc	Shanghai	Shanghai	100,000	100,000	-	98.29	100.00	(5)
Pacific Insurance Agency Co., Ltd. ("Pacific Insurance Agency")	Limited company	Insurance agency	Shanghai	Shanghai	50,000	50,000	-	100.00	100.00	(6)
CPIC Fund Management Co., Ltd. ("CPIC Funds")	Limited company	Fund management	Shanghai	Shanghai	150,000	150,000	-	50.83	51.00	(7)
Pacific Insurance Aging Industry Development (Chengdu) Co.,Ltd. ("Chengdu Project Company")	Limited company	Pension business investment, real estate	Chengdu	Chengdu	1,000,000	400,000	-	98.29	100.00	(8)

* Subsidiaries of City Island

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2018 are as follows (continued):

(1) Xikou Garden Hotel

Xikou Garden Hotel was converted into a limited liability company in 2018 from the ownership of the whole people through enterprise restructuring. It obtained the new business license issued by Ningbo Fenghua State Administration for Market Regulation with the unified social credit code of 91330283726398994E in 2018. The company name was changed from Fenghua Xikou Garden Hotel to Ningbo Fenghua Xikou Garden Hotel Co., Ltd. after the restructuring, and the total share capital increased to RMB 27.28 million from RMB 8 million.

(2) Changjiang Pension

On 27 April 2018, CPIC Life signed a transfer of capital agreement with Changjiang Pension, and agreed to participate in the Changjiang Pension capital transfer program. According to the agreement, the registered capital of Changjiang Pension increased RMB966 million, of which RMB64 million from retained profits and RMB902 million from capital reserves. After this capital injection, the total registered capital of Changjiang Pension was changed to RMB3 billion. CPIC Life's ownership in Changjiang Pension is 62.16% while the Company's ownership in Changjiang Pension is 61.10% indirectly through CPIC Life. The China Banking and Insurance Regulatory Commission (the "CBIRC") approved the change of registered capital of Changjiang Pension by issuing the 'Approval of changing registered capital of Changjiang Pension' (Yin Bao Jian Xu Ke [2018] No.464) on 27 June 2018, and approved the change of articles of corporation by issuing the 'Approval of changing articles of corporation of Changjiang Pension' (Yin Bao Jian Xu Ke [2018] No.630) on 23 July 2018.

(3) CPIC Aging Investment

Pursuant to the resolution of the shareholders' meeting of CPIC Life, the Group's subsidiary, held in 2018 and the 1st meeting of the CPIC Life's 6th term of board of directors, CPIC Life signed a capital increase agreement with CPIC Aging Investment, the Group's subsidiary, to increase capital to CPIC Aging Investment by RMB2,781 million. After this capital injection, the total registered capital of CPIC Aging Investment was changed to RMB3 billion. The CBIRC issued the 'Approval of CPIC Life's equity investment in CPIC Aging Investment' (Yin Bao Jian Xu Ke [2018] No.729) on 22 August 2018,. CPIC Aging Investment completed the modification of its business license on 18 September 2018.

(4) CPIC Allianz Health

On 8 November 2017, the Company signed a capital increase agreement with CPIC Allianz Health, whereby the Company acquired 539,357,000 shares of common stocks at RMB1 per share issued by CPIC Allianz Health. After this capital injection, the Company's ownership in CPIC Allianz Health will be 77.05%. The CBIRC approved the change of registered capital of CPIC Allianz Health by issuing the 'Approval of changing registered capital of CPIC Allianz Health' (Yin Bao Jian Xu Ke [2018] No.1) on 22 March 2018. CPIC Allianz Health completed the change of business license on 13 April 2018.

(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 2018 are as follows (continued):

(5) Pacific Medical&Healthcare

CPIC Life invested RMB100 million to set up the Pacific Medical&Healthcare. The CIRC issued the 'Approval of CPIC Life's equity investment in Pacific Medical&Healthcare' (Bao Jian Xu Ke [2017] No.1050) on 18 August 2017. Pacific Medical&Healthcare obtained the business license with the unified social credit code of 91310101MA1FP9K43U on 11 January 2018, with the registered capital of RMB100 million.

(6) Pacific Insurance Agency

Pacific Insurance Agency set up by CPIC Online Services was approved by CBIRC to carry out insurance agency business on 2 July 2018 (Yin Bao Jian Xu Ke [2018] No.488). Pacific Insurance Agency has obtained the business license with the unified social credit code of 91310104MA1FR59M09. The registered capital is RMB50 million.

(7) CPIC Funds

CPIC Asset Management acquired 51% equity interests of CPIC Funds (the former "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 CPIC Funds would be 51% while the Company would hold 50.83% of CPIC Funds's ownership indirectly through CPIC Asset Management. According to 'Approval of CPIC Asset Management's Share Acquisition of CPIC Funds' (Bao Jian Xu Ke [2017] No.873), the acquisition was approved by the CIRC on 26 July 2017. 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 approved by the Ministry of Commerce on 9 January 2018. According to 'Approval of CPIC Funds' Change of Equity' (Zheng Jian Xu Ke [2018] No.557), the acquisition was approved by the China Securities Regulatory Commission (the "CSRC") on 28 March 2018. On 25 April 2018, CPIC Funds held the 1st meeting of the Company's 5th term of board of directors and 55th meeting of the shareholders' meeting. The meeting approved and authorised resolutions regarding the appointment of CPIC Funds' chairman. CPIC Funds completed the change of business license on 27 April 2018.

(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 2018 are as follows (continued):

(7) CPIC Funds(continued)

The business combination was a business combination not under common control, the information as at the acquisition date was set out below:

(i) Business combinations not under common control

Acquiree	Transaction date	Purchase cost	Percentage of equity acquired	Acquisition method	Acquisition date	Acquisition date basis	Acquire's revenue from acquisition date to 31 December 2018	Acquire's net profit from acquisition date to 31 December 2018	Acquire's net cash flow from operating activities from acquisition date to 31 December 2018	Acquire's net cash flow from acquisition date to 31 December 2018
CPIC Funds	25 April 2018	RMB920.05 million	51.00%	Public tender	30 April 2018	Board of directors and shareholders meeting	124	9	(48)	(53)

(ii) Acquisition cost and Goodwill

	CPIC Funds
Acquisition cost	
Cash	1,045
Less:	
Dividend declared but not distributed	(125)
Fair value of net assets acquired by the Group	(525)
Goodwill	395

(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 2018 are as follows (continued):

(7) CPIC Funds(continued)

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

	Acquisition date	Acquisition date	31 December 2017
	Fair values	Carrying amounts	Carrying amounts
Property and equipment	11	9	9
Other intangible assets	660	6	7
Available-for-sale financial assets	22	22	22
Financial assets at fair value through profit or loss	360	360	352
Securities purchased under agreements to resell	-	-	3
Interest receivables	3	3	4
Deferred income tax assets	44	44	44
Other assets	53	53	69
Cash and short-term time deposits	309	309	276
Less:			
Deferred income tax liabilities	(164)	-	-
Other liabilities	(268)	(268)	(274)
Net assets	1,030	538	512
Less: Non-controlling interests	(505)		
Net assets acquired	525		

When determining the fair values of the identifiable assets and liabilities as at the acquisition date, the Group adopted income approach on the franchise license recognised in the intangible assets, adopted cost method on trademark rights, adopted market approach on outsourced software, and adopted replacement cost method and market approach on the transportation and other equipments recognised in property and equipment.

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

(8) Chengdu Project Company

Chengdu Project Company set up by CPIC Life, has obtained the business license with the unified social credit code of 91510115MA6B4BEJ4P on 24 December 2018. The registered capital is RMB1,000 million and CPIC Life has made the capital contribution of RMB400 million as of 26 December 2018.

(b) Shanghai Nanshanju Xuhong Nursing Home Co., Ltd. ("Nan Shan Ju"), the CPIC Aging Investment's subsidiary, was registered in Shanghai with a paid-in capital of RMB 15 million. Nan Shan Ju completed the liquidation work in 2018, and completed the termination procedures required by the government on 4 September 2018.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(c) As at 31 December 2018, consolidated structured entities material to the Group are as followings:

Name	Collective Holding by the Group (%)	Product Scale (Units in thousand)	Principal activities
CPIC Zengfu Annually Open Pure Type Launching Securities Investment Fund	100.00	5,009,999	Investing in financial instruments with high liquidity including national bonds, government bond, local treasury bonds, financial bonds,enterprise bonds, corporate bonds, Central Bank bills, medium term notes, short-term commercial paper , super short-term commercial paper ,SME private debt, asset-backed security, subordinated debt, the debt part of the convertible bonds, bonds repo, bank deposits(including agreement deposits, time deposits and other bank deposits), NCDs, money market instrument, treasury futures and other financial instruments that laws and regulations or the CSRC allow funds to invest (yet subject to related regulations of the CSRC).
CPIC Zengyu Annually Open Pure Type Launching Securities Investment Fund	100.00	5,009,999	Investing in financial instruments with high liquidity including national bonds, government bond, local treasury bonds, financial bonds,enterprise bonds, corporate bonds, Central Bank bills, medium term notes, short-term commercial paper , super short-term commercial paper, SME private debt, asset-backed security, subordinated debt, the debt part of the convertible bonds, bonds repo, bank deposits(including agreement deposits, time deposits and other bank deposits), NCDs, money market instrument, treasury bond futures and other financial instruments that laws and regulations or the CSRC allow funds to invest (yet subject to related regulations of the CSRC).
Pacific-China Nonferrous Metal Mining(Group) Co.,Ltd. (“CNMC”) Debt Investment Plan (Phase I)	53.91	2,430,000	Investing in projects operated by CNMC's subsidiaries through debt investment plan.
Pacific Excellent Wealth Focus Dividend &Value Equity	99.28	905,760	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.).

Note: CPIC Asset Management, CPIC Funds and Changjiang Pension are the asset managers of the consolidated structured entities.

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2018	2017
Long-term life insurance premiums	188,325	164,553
Short-term life insurance premiums	14,352	11,232
Property and casualty insurance premiums	119,218	105,859
	321,895	281,644

(b) Premiums ceded to reinsurers

	2018	2017
Long-term life insurance premiums ceded to reinsurers	(2,281)	(2,108)
Short-term life insurance premiums ceded to reinsurers	(404)	(199)
Property and casualty insurance premiums ceded to reinsurers	(14,878)	(13,477)
	(17,563)	(15,784)

(c) Net written premiums

	2018	2017
Net written premiums	304,332	265,860

7. INVESTMENT INCOME

	2018	2017
Interest and dividend income (a)	53,912	53,443
Realized losses (b)	(770)	(1,571)
Unrealized (losses)/gains (c)	(2,168)	1,443
Charge of impairment losses on financial assets, net	(975)	(658)
	49,999	52,657

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2018	2017
Financial assets at fair value through profit or loss		
- Fixed maturity investments	97	307
- Investment funds	44	84
- Equity securities	124	81
- Other equity investments	56	78
	321	550
Held-to-maturity financial assets		
- Fixed maturity investments	14,113	14,703
Loans and receivables		
- Fixed maturity investments	22,768	18,790
Available-for-sale financial assets		
- Fixed maturity investments	11,265	8,543
- Investment funds	1,674	7,551
- Equity securities	1,374	850
- Other equity investments	2,397	2,456
	16,710	19,400
	53,912	53,443

(b) Realized losses

	2018	2017
Financial assets at fair value through profit or loss		
- Fixed maturity investments	5	(129)
- Investment funds	(17)	(4)
- Equity securities	(532)	715
- Other equity investments	10	2
- Derivative instruments	-	(1)
	(534)	583
Available-for-sale financial assets		
- Fixed maturity investments	134	(182)
- Investment funds	(103)	(4,968)
- Equity securities	(316)	2,936
- Other equity investments	49	60
	(236)	(2,154)
	(770)	(1,571)

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(c) Unrealized (losses)/gains

	2018	2017
Financial assets at fair value through profit or loss		
- Fixed maturity investments	2	(113)
- Investment funds	(400)	280
- Equity securities	(1,790)	1,254
- Wealth management product and other equity investments	19	22
- Derivative instruments	1	-
	(2,168)	1,443

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2018		
	Gross	Ceded	Net
Life insurance death and other benefits paid	47,725	(1,511)	46,214
Claims incurred			
- Short-term life insurance	8,159	(358)	7,801
- Property and casualty insurance	63,421	(6,896)	56,525
Changes in long-term life insurance contract liabilities	105,630	(989)	104,641
Policyholder dividends	11,263	-	11,263
	236,198	(9,754)	226,444

	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

9. FINANCE COSTS

	2018	2017
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	1,804	2,676
- Interest expense on policyholder dividends	596	517
	2,400	3,193
Non-current liabilities		
- Interest expense on bonds payable	543	455
- Interest expense on asset-backed securities	13	53
- Funds from banks and other financial institutions	2	-
- Long-term borrowings	1	2
	559	510
	2,959	3,703

(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):

	2018	2017
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	21,733	19,612
Auditors' remuneration	27	28
Operating lease payments in respect of land and buildings	1,333	1,179
Depreciation of property and equipment (note 18)	1,481	1,348
Depreciation of investment properties (note 19)	328	312
Amortization of other intangible assets (note 20)	541	467
Amortization of prepaid land lease payments (note 21)	1	1
Amortization of other assets	28	28
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(18)	(168)
Charge of impairment loss on insurance receivables	127	55
Charge of impairment loss on financial assets (note 7)	975	658
Foreign exchange (gain)/loss, net	(53)	140

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

	2018	2017
Salaries, allowances and other short-term benefits	17,760	16,164
Contributions to defined contribution plans (1)	3,872	3,323
Early retirement benefit obligation	101	122
Deferred bonus (2)	-	3
	21,733	19,612

(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)	2018	2017
Fees	1,400	1,400
Other remuneration		
- Salaries, allowances and other short-term benefits	5,167	6,952
- Contributions to defined contribution plans	525	678
- Deferred bonus (1)	1,040	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	-	-
	6,732	9,363
	8,132	10,763

(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 2018 (2017: RMB1,400 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2018.

(in RMB thousand)	**2018**					
	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)	**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

(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)	2018				
	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:					
KONG Qingwei[1]	-	1,483	196	-	1,679
HE Qing	1,040	1,560	196	-	2,796
Non-executive directors:					
SUN Xiaoning	-	-	-	-	-
WU Junhao	-	-	-	-	-
WANG Tayu	-	250	-	-	250
KONG Xiangqing	-	250	-	-	250
ZHU Kebing[2]	-	208	-	-	208
CHEN Xuanmin	-	63	-	-	63
WANG Jian[3]	-	-	-	-	-
	1,040	3,814	392	-	5,246

1. The final amount of remuneration of Mr. KONG Qingwei is yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.
2. Resigned from non-executive director in October 2018
3. Resigned from non-executive director in June 2018

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

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. SUN Xiaoning, WU Junhao and WANG Jian, the non-executive director, waived remuneration during 2018.(2017：SUN Xiaoning). CHEN Xuanmin the non-executive director, had waived remuneration since April 2018. Except for Ms. SUN Xiaoning, Mr. WU Junhao, Mr. WANG Jian and Mr. CHEN Xuanmin, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2018.

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors

(in RMB thousand)	2018				
	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 Lichun[1]	-	104	-	-	104
ZHOU Zhuping[1]	-	104	-	-	104
ZHU Yonghong[2]	-	-	-	-	-
LU Ning[2]	-	-	-	-	-
JIN Zaiming[3]	-	895	133	-	1,028
ZHANG Xinmei	-	250	-	-	250
	-	1,353	133	-	1,486

[1.] Resigned from supervisor in June 2018
[2.] Supervisor since July 2018
[3.] Supervisor since May 2018.

(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	-	125	-	-	125
ZHOU Zhuping	-	125	-	-	125
LIN Lichun	-	250	-	-	250
SONG Junxiang	-	-	-	-	-
YUAN Songwen	-	1,352	176	-	1,528
ZHANG Xinmei	-	250	-	-	250
	-	2,102	176	-	2,278

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. Except for ZHU Yonghong and LU Ning, the supervisor, there was no other arrangement under which a supervisor waived or agreed to waive any remuneration during 2018.(2017:No arrangement under which a supervisor waived or agreed to waive any remuneration)

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(d) Directors' retirement benefits

There was no retirement benefits paid to the directors during 2018 and 2017.

(e) Directors' termination benefits

There was no termination benefits paid to directors during 2018 and 2017.

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

There was no payment to third parties for making available directors' services during 2018 and 2017.

(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 2018 and 2017.

(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 2018 in the Group include no director (2017: 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:

	2018	2017
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	2	3
RMB5,000,001 to RMB6,000,000	1	1
RMB6,000,001 to RMB7,000,000	2	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)	**2018**	**2017**
Salaries, allowances and other short-term benefits	25,538	25,375
Contributions to defined contribution plans	1,365	931
	26,903	26,306
The number of non-director individuals for the above remuneration	5	5

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2018	2017
Current income tax	10,512	5,668
Deferred income tax (note 33)	(938)	443
	9,574	6,111

(b) Tax recorded in other comprehensive income

	2018	2017
Deferred income tax (note 33)	429	(820)

(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:

	2018	2017
Profit before tax	28,008	21,102
Tax computed at the statutory tax rate	7,002	5,276
Adjustments to income tax in respect of previous periods	28	2
Income not subject to tax	(2,786)	(3,702)
Expenses not deductible for tax	5,178	4,490
Others	152	45
Tax expense at the Group's effective rate	9,574	6,111

15. EARNINGS PER SHARE

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

	2018	2017
Consolidated net profit for the year attributable to equity holders of the parent	18,019	14,662
Weighted average number of ordinary shares in issue (million)	9,062	9,062
Basic earnings per share	RMB 1.99	RMB1.62
Diluted earnings per share	RMB 1.99	RMB1.62

The Company had no dilutive potential ordinary shares as at 31 December 2018 and 2017.

(All amounts expressed in RMB million unless otherwise specified)

16. OTHER COMPREHENSIVE INCOME

	2018	**2017**
Exchange differences on translation of foreign operations	25	(33)
Available-for-sale financial assets		
Gains/(losses) arising during the year	4,069	(8,839)
Reclassification adjustments for gains included in profit or loss	236	2,154
Fair value change on available-for-sale financial assets attributable to policyholders	(3,594)	2,744
Impairment charges reclassified to the income statement	975	658
	1,686	(3,283)
Income tax relating to available-for-sale financial assets	(429)	820
Other comprehensive income/(loss)	1,282	(2,496)

17. GOODWILL

	As at 31 December 2018			
	Beginning of year	Additions	Disposals	End of year
Changjiang Pension	149	-	-	149
City Island	813	-	-	813
CPIC Funds	-	395	-	395
	962	395	-	1,357
Less: Impairment provision	-	-	-	-
	962	395	-	1,357

	As at 31 December 2017			
	Beginning of year	Additions	Disposals	End of year
Changjiang Pension	149	-	-	149
City Island	813	-	-	813
	962	-	-	962
Less: Impairment provision	-	-	-	-
	962	-	-	962

CPIC Assets Management, the Group's subsidiary, completed the acquisition of CPIC Funds in April 2018, forming a goodwill of RMB 395 million. Refer to Note 5(a)(7).

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. As at 31 December, the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is greater than its carrying amount, no impairment loss is recognised.

(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 2017	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
Additions	237	1,450	100	864	360	3,011
Transfer	2,169	(2,241)	-	47	1	(24)
Transfer to investment properties, net (note 19)	(179)	-	-	-	-	(179)
Acquisition of subsidiaries	-	1	2	15	-	18
Disposals	(20)	-	(53)	(897)	-	(970)
At 31 December 2018	16,218	3,386	1,152	5,403	2,986	29,145
Accumulated depreciation and impairment						
At 1 January 2017	(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)
Depreciation charge	(478)	-	(113)	(598)	(292)	(1,481)
Transfer to investment properties, net (note 19)	36	-	-	-	-	36
Acquisition of subsidiaries	-	-	-	(7)	-	(7)
Disposals	3	-	51	893	-	947
At 31 December 2018	(3,594)	-	(770)	(3,351)	(2,129)	(9,844)
Net book value						
At 31 December 2017	10,856	4,176	395	1,735	788	17,950
At 31 December 2018	12,624	3,386	382	2,052	857	19,301

(All amounts expressed in RMB million unless otherwise specified)

19. INVESTMENT PROPERTIES

Cost	
At 1 January 2017	9,972
Transfer from property and equipment, net	441
At 31 December 2017	10,413
Transfer from property and equipment, net	179
At 31 December 2018	10,592
Accumulated depreciation	
At 1 January 2017	(1,315)
Depreciation charge	(312)
Transfer from property and equipment, net	(59)
At 31 December 2017	(1,686)
Depreciation charge	(328)
Transfer from property and equipment, net	(36)
At 31 December 2018	(2,050)
Carrying amount	
At 31 December 2017	8,727
At 31 December 2018	8,542

The fair values of investment properties of the Group as at 31 December 2018 amounted to RMB 12,017 million (31 December 2017: RMB11,856 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, CPIC Aging Investment and CPIC Allianz Health 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	Franchise License	Total
Cost			
At 1 January 2017	3,488	-	3,488
Additions	785	-	785
At 31 December 2017	4,273	-	4,273
Additions	918	-	918
Transfer	24	-	24
Acquisition of a subsidiary	35	646	681
Disposals	(23)	-	(23)
At 31 December 2018	5,227	646	5,873
Accumulated amortization			
At 1 January 2017	(2,316)	-	(2,316)
Amortization	(467)	-	(467)
At 31 December 2017	(2,783)	-	(2,783)
Amortization	(541)	-	(541)
Acquisition of subsidiaries	(21)	-	(21)
Disposals	14	-	14
At 31 December 2018	(3,331)	-	(3,331)
Carrying amount			
At 31 December 2017	1,490	-	1,490
At 31 December 2018	1,896	646	2,542

21. PREPAID LAND LEASE PAYMENTS

Cost	
At 1 January 2017	65
Additions	-
At 31 December 2017	65
Additions	290
At 31 December 2018	355
Accumulated amortization	
At 1 January 2017	(9)
Amortization	(1)
At 31 December 2017	(10)
Amortization	(1)
At 31 December 2018	(11)
Carrying amount	
At 31 December 2017	55
At 31 December 2018	344

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 2018				
	Historical Cost	At 1 January 2018	Additions	Share of profit	Other equity movement	Dividend declared	At 31 December 2018
Taiji (Shanghai) InformationTechnology Co., Ltd. (the "Taiji")	2	1	-	-	-	-	1
Shanghai Juche Information Technology Co., Ltd. (the "Juche")	3	7	-	1	-	-	8
Zhongdao Automobile Rescue Industry Co., Ltd. (the "Zhongdao")	17	19	-	2	-	-	21
Shanghai Proton and Heavy Ion Hospital (the "Zhizhong")	100	67	-	(4)	-	-	63
Shanghai Dedao Co., Ltd. (the "Dedao")	5	2	-	(1)	-	-	1
Shanghai Xingongying Information Technology Co., Ltd. (the "Xingongying")	81	73	-	(10)	-	-	63
Shanghai Heji Business Management LP. (the"Heji")	500	198	300	1	-	(3)	496
Changjiang Pension - China National Chemical Corporation Infrastructure Debt Investment Scheme (the "CHEMCHINA Debt Investment Scheme")	2,160	2,164	-	116	-	(116)	2,164
Changjiang Pension - Sichuan Railway Xugu Highway Investment Infrastructure Debt Investment Scheme (the "Sichuan Railway Investment Scheme")	250	250	-	14	-	(14)	250
Ningbo Zhilin Investment Management LLP. (the "Ningbo Zhilin")	2,416	2,449	-	128	-	(102)	2,475
Changjiang Pension - Yunnan Energy Investment Infrastructure Debt Investment Scheme (the "Yunnan Energy Investment Scheme")	2,045	-	2,045	96	-	(92)	2,049
	7,579	5,230	2,345	343	-	(327)	7,591

(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 total commitments 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 19 November, 2018, CPIC Property injected capital to Heji by RMB300 million. After this capital injection, the total registered capital of Heji was changed to RMB502 million. CPIC Property's subscribed capital contribution reaches RMB500 million. The shareholding ratio increased from 99.0% to 99.6%.

Nature of investment in associates as at 31 December 2018

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	-	7.44%	7.54%	2,866	2,866	Information technology development and consulting, etc.
Heji(2)	Shanghai	-	98.11%		N/A	502,000	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%		N/A	2,684,798	Investment management, assets management
Yunnan Energy Investment Scheme(6)	N/A	-	89.19%		N/A	2,235,000	Debt investment scheme

Note:

(1) According to the articles of association of Xingongying, CPIC Property, the Group's subsidiary, has significant impact on Xingongying by accrediting a director 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.

(6) CPIC Life, the Group's subsidiary, and Changjiang Pension, the CPIC Life's subsidiary, hold over 50% shares of Yunnan Energy Investment Scheme. Since CPIC Group has no controlling power on relevant activities of Yunnan Energy Investment Scheme according to the Agreement of Investment Scheme, Yunnan Energy Investment Scheme is accounted under equity method.

Summarised financial information for principal associates

	31 December 2018/2018			
	Total assets as at 31 December	Total liabilities as at 31 December	Total revenue in current year	Net profit in current year
Ningbo Zhilin	2,842	16	180	166
CHEMCHINA Debt Investment Scheme	3,007	2	177	161
Yunnan Energy Investment Scheme	2,241	1	108	105

Summarised financial information for other associates

	2018	2017
Net loss for the year	(127)	(229)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(127)	(229)
Total comprehensive income/(loss) attributable to the Group	3	(38)
Carrying amount of the Group's interest	903	617

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES

	31 December 2018	31 December 2017
Share of net assets		
Ruiyongjing Real Estate	9,831	-
Others	50	41
	9,881	41

On 24 July 2018, CPIC Life and Shui On Development (Holding) Limited and Shanghai Yongye Enterprise (Group) Co., Ltd. signed the partnership contract to jointly establish Shanghai Ruiyongjing Real Estate Development Co., Ltd. ("Ruiyongjing Real Estate") with operating period of 20 years and the registered capital of RMB14,050 million. CPIC Life subscribed capital contribution of RMB9,835 million, which was 70% of the ownership interest of Ruiyongjing Real Estate and was fully paid on 31 December 2018.

On 16 November 2018, CPIC Aging Investment and Orpea (Shanghai) Investment Co., Ltd. signed the partnership contract to estabilish the Pacific Orpea (Shanghai) Senior Care Management Co., Ltd. ("Pacific Orpea") with operating period of 20 years and registered capital of RMB10 million. CPIC Aging Investment subscribed capital contribution of RMB5.6 million, which was 56% of the ownership interest of Pacific Orpea and was fully paid on 31 December 2018.

Particulars of the joint venture as at 31 December 2018 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	-	20.25%	20.25%	13,333	13,333	Computer network technology, technical Development, services, etc.
Aizhu (Shanghai) Information Technology Co., Ltd.	Shanghai	-	35.00%	35.00%	10,000	4,000	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
Ruiyongjing Real-estate [(1)]	Shanghai	-	68.80%	57.14%	14,050,000	14,050,000	Real estate

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES (continued)

Particulars of the joint venture as at 31 December 2018 are as follow: (continued)

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
Pacific Orpea [(2)]	Shanghai	-	55.04%	60.00%	10,000	10,000	Senior living management, consulting, etc.

Note:

(1) CPIC Life, the Group's subsidiary, holds over 50% of the ownership interest of Ruiyongjing Real-estate. Since CPIC Group has no controlling power on relevant activities of Ruiyongjing Real-estate according to the Articles of Association of Ruiyongjing Real-estate, Ruiyongjing Real-estate is accounted under equity method.

(2) CPIC Aging Investment, the Group's subsidiary, holds over 50% of the ownership interest of Pacific Orpea. Since CPIC Group has no controlling power on relevant activities of Pacific Orpea according to the Articles of Association of Pacific Orpea, Pacific Orpea is accounted under equity method.

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

	2018 (RMB thousand)	**2017 (RMB thousand)**
The joint venture's net income:	3,570	109,792

As at 31 December 2018, the Group's investment in joint ventures had no impairment.

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

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

	31 December 2018	**31 December 2017**
Listed		
Debt investments		
- Government bonds	701	463
- Finance bonds	5,731	5,871
- Corporate bonds	10,695	11,243
	17,127	17,577
Unlisted		
Debt investments		
- Government bonds	76,578	70,682
- Finance bonds	104,694	103,894
- Corporate bonds	86,345	95,344
	267,617	269,920
	284,744	287,497

(All amounts expressed in RMB million unless otherwise specified)

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2018	**31 December 2017**
Debt investments		
- Finance bonds	2,600	2,699
- Debt investment scheme	134,041	92,844
- Wealth management products	103,374	89,205
- Preferred Shares	32,000	32,000
	272,015	216,748

As at 31 December 2018, CPIC Asset Management, a subsidiary of the Group, issued and existed 70 debt investment schemes with a total value of RMB111.412 billion. Of these, the existing amounts approximately RMB47.993 billion are recognized as investments classified as loans and receivables in the Group's consolidated financial information (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 in the Group's consolidated financial information). As at 31 December 2018, Changjiang Pension, a subsidiary of the Group, issued and existed 47 debt investment schemes with a total value of RMB87.740 billion. Of these, the existing amounts approximately RMB 30.165 billion are recognized as investments classified as loans and receivables in the Group's consolidated financial information (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 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 RMB55.883 billion (31 December 2017, approximately RMB34.161 billion). The value guaranteed by third parties or pledge on debt investment schemes invested by the Group are approximately RMB98.467 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 2018	**31 December 2017**
At the beginning of the year	6,566	6,078
Movement	172	488
At the end of the year	6,738	6,566

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 2018		
	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
China Minsheng Bank	274	Term deposit	5 years and 1 month
Bank of Communications	250	Term deposit	5 years and 1 month
HengFeng 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	500	Term deposit	3 years
Agricultural Bank of China	320	Term deposit	3 years
Nanjing Bank	260	Term deposit	5 years and 1 month
China Minsheng Bank	240	Term deposit	5 years and 1 month
China Construction Bank	200	Term deposit	3 years
China Construction Bank	164	Term deposit	5 years
Subtotal	1,684		
Changjiang Pension			
Bank of Hangzhou	300	Term deposit	5 years and 1 month
Bank of Communications	200	Term deposit	5 years and 1 month
China CITIC Bank	100	Term deposit	5 years and 1 month
Bank of China	80	Term deposit	5 years and 1 month
Subtotal	680		
CPIC Allianz Health			
Bank of Communications	170	Term deposit	5 years and 1day
Bank of Communications	140	Term deposit	5 years
China Construction Bank	30	Term deposit	5 years
Subtotal	340		
Anxin			
China CITIC Bank	60	Term deposit	3 years
Bank of Shanghai	40	Term deposit	3 years
Agricultural Bank of China	30	Term deposit	3 years
Bank of Communications	10	Term deposit	3 years
Subtotal	140		
Total	6,738		

(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
HengFeng 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)

27. TERM DEPOSITS

Maturity Period	**31 December 2018**	**31 December 2017**
1 month to 3 months (including 3 months)	14,134	3,493
3 months to 1 year (including 1 year)	12,993	18,876
1 to 2 years (including 2 years)	23,589	25,030
2 to 3 years (including 3 years)	16,200	24,090
3 to 4 years (including 4 years)	16,400	16,200
4 to 5 years (including 5 years)	41,080	16,300
Over 5 years	4,000	-
	128,396	103,989

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	31 December 2018	**31 December 2017**
Listed		
Equity investments		
- Equity securities	48,913	49,294
- Investment funds	4,195	4,971
Debt investments		
- Government bonds	7,441	6,729
- Finance bonds	6,718	6,899
- Corporate bonds	54,728	43,258
	121,995	111,151
Unlisted		
Equity investments		
- Investment funds	33,873	30,355
- Wealth management products	3,281	19,447
- Other equity investments	37,330	27,615
- Preferred Shares	7,765	7,764
Debt investments		
- Government bonds	71,251	40,654
- Finance bonds	25,539	33,821
- Corporate bonds	114,530	97,602
- Wealth management products	304	459
	293,873	257,717
	415,868	368,868

(All amounts expressed in RMB million unless otherwise specified)

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	**31 December 2017**
Listed		
Equity investments		
- Equity securities	2,087	9,665
- Investment funds	105	292
Debt investments		
- Government bonds	173	128
- Finance bonds	90	52
- Corporate bonds	1,734	497
	4,189	10,634
Unlisted		
Equity investments		
- Investment funds	1,913	2,667
- Wealth management products	3,903	1,137
- Other equity investments	581	522
Debt investments		
- Finance bonds	31	194
- Corporate bonds	1,211	1,033
- Wealth management products	5	-
- Debt Investment scheme	2	-
	7,646	5,553
	11,835	16,187

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 RMB4,491 million (December 31 2017, RMB2,072 million). The rest are trading assets, with no material limitation in realization.

30. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2018	**31 December 2017**
Securities - bonds		
Inter-bank market	11,910	14,232
Stock exchange	11,185	2,894
	23,095	17,126

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 2018	31 December 2017
Interest receivables from debt investments	13,504	12,273
Interest receivables from deposits	4,648	3,657
Interest receivables from loans	1,137	835
Interest receivables from securities purchased under agreements to resell	20	9
	19,309	16,774
Less: Bad debt provision	(27)	(17)
	19,282	16,757

32. REINSURANCE ASSETS

	31 December 2018	31 December 2017
Reinsurers' share of insurance contracts (note 39)	23,467	22,575

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 2018	31 December 2017
Net deferred income tax assets, at beginning of year	822	445
Acquisition of subsidiary	(120)	-
Recognized in profit or loss (note 14(a))	938	(443)
Recognized in other comprehensive income (note 14(b))	(429)	820
Net deferred income tax assets, at end of year	1,211	822

	31 December 2018	31 December 2017
Insurance contract liabilities	995	819
Impairment of assets	448	496
Commissions and handling fees	641	424
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(604)	(944)
Fair value adjustments arising from acquisition of a subsidiary	(949)	(817)
Others	680	844
Net deferred income tax assets	1,211	822
Represented by:		
Deferred tax assets	2,379	1,742
Deferred tax liabilities	(1,168)	(920)

(All amounts expressed in RMB million unless otherwise specified)

34. INSURANCE RECEIVABLES

	31 December 2018	**31 December 2017**
Insurance receivables	19,551	16,777
Provision for impairment of insurance receivables	(539)	(444)
	19,012	16,333

An aged analysis of the insurance receivables is as follows:

	31 December 2018	**31 December 2017**
Within 3 months (including 3 months)	10,838	8,795
Over 3 months and within 1 year (including 1 year)	6,360	6,337
Over 1 year	1,814	1,201
	19,012	16,333

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 2018	**31 December 2017**
Insurance receivables that are individually determined to be impaired	77	171
Related provision for impairment	(68)	(72)
	9	99

(All amounts expressed in RMB million unless otherwise specified)

35. OTHER ASSETS

	31 December 2018	31 December 2017
Receivable for securities	6,149	5,461
Due from a related-party (1)	1,555	1,318
Due from agents	887	1,045
Co-insurance receivable	148	87
Tax receivable other than income tax	7	38
Others	6,307	4,129
	15,053	12,078

(1) As at 31 December 2018, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses amounted to approximately RMB1,555 million (31 December 2017, RMB1,318 million).

36. CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2018	31 December 2017
Cash at banks and on hand	13,978	9,969
Time deposits with original maturity of no more than three months	262	712
Other monetary assets	1,083	979
	15,323	11,660

The Group’s bank balances denominated in RMB amounted to RMB13,465 million as at 31 December 2018 (31 December 2017: RMB10,408 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 2018 RMB1,058 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2017, RMB955 million).

As of December 31 2018, the Group's use of restricted monetary funds for special-purpose funds and other reasons was RMB297 million.

(All amounts expressed in RMB million unless otherwise specified)

37. ISSUED CAPITAL

	31 December 2018	31 December 2017
Number of shares issued and fully paid at RMB1 each (million)	9,062	9,062

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 the Accounting Standard for Business Enterprises - Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods ("PRC GAAP"), to the SSR until the balance reaches 50% of the respective registered capital.

The Company does not set aside SSR in 2018. 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, RMB9,942 million as at 31 December 2018 (31 December 2017: RMB7,524 million) represents the Company's share of its subsidiaries' surplus reserve fund. RMB 2,418 million represents the Company's surplus reserve fund appropriated by subsidiaries in 2018(2017: RMB436 million).

(All amounts expressed in RMB million unless otherwise specified)

38. RESERVES AND RETAINED PROFITS (continued)

(b) Surplus reserves (continued)

(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.

According to the resolution of the first meeting of the 6th Board of Directors of CPIC Property on April 26 2018, CPIC Property proposed to appropriate RMB2 billion of discretionary surplus reserve from retained profits after making appropriations to the SSR. The proposal was approved by the general meeting of shareholders of CPIC Property on May 25 2018.

(c) General reserves

In accordance with the relevant regulations, general reserves should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance, banking, trust, securities, futures, fund management, leasing and financial guarantee businesses, etc. 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. The Company's subsidiaries operating in fund management should make appropriation for such reserve based on asset management product management fees. Such reserve is not available for profit distribution or transfer as capital injection.

Of the Group's reserves, RMB11,642 million as at 31 December 2018 (31 December 2017: RMB9,761 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, or PRC GAAP where the overseas listing place permits. Pursuant to the resolution of the 15th meeting of the Company's 8th term of board of directors held on 22 March 2019, a final dividend of approximately RMB 9,062 million (equivalent to RMB1.0 per share (including tax)) was proposed after the appropriation of 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 2018		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	831,352	(11,668)	819,684
Short-term life insurance contracts			
- Unearned premiums	3,803	(172)	3,631
- Claim reserves	3,733	(307)	3,426
	7,536	(479)	7,057
Property and casualty insurance contracts			
- Unearned premiums	45,652	(5,609)	40,043
- Claim reserves	35,131	(5,711)	29,420
	80,783	(11,320)	69,463
	919,671	(23,467)	896,204
Incurred but not reported claim reserves	8,102	(1,041)	7,061

	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

(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 2017	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
Increase	160,514	(2,500)	158,014
Decrease			
- Claims paid	(35,084)	1,511	(33,573)
- Surrender	(12,641)	-	(12,641)
At 31 December 2018	831,352	(11,668)	819,684

(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 2017	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
Premiums written	14,352	(404)	13,948
Premiums earned	(13,602)	320	(13,282)
At 31 December 2018	3,803	(172)	3,631

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2017	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
Claims incurred	8,159	(359)	7,800
Claims paid	(7,288)	163	(7,125)
At 31 December 2018	3,733	(307)	3,426

(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 2017	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
Premiums written	119,218	(14,878)	104,340
Premiums earned	(114,760)	14,358	(100,402)
At 31 December 2018	45,652	(5,609)	40,043

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2017	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
Claims incurred	63,408	(6,863)	56,545
Claims paid	(64,844)	7,760	(57,084)
At 31 December 2018	35,131	(5,711)	29,420

40. INVESTMENT CONTRACT LIABILITIES

At 1 January 2017	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
Deposits received	11,819
Deposits withdrawn	(8,703)
Fees deducted	(148)
Interest credited	2,531
Others	488
At 31 December 2018	62,255

(All amounts expressed in RMB million unless otherwise specified)

41. BONDS PAYABLE

On 7 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.

On 23 March 2018, CPIC Property issued a 10-year capital replenishment bond with a total face value of RMB5 billion in the interbank market. CPIC Property has the option to redeem the bond conditionally at the end of the fifth year. The initial coupon rate of the capital replenishment bond is 5.10% 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 6.10%.

On 27 July 2018, CPIC Property issued a 10-year capital replenishment bond with a total face value of RMB5 billion in the interbank market. CPIC Property has the option to redeem the bond conditionally at the end of the fifth year. The initial coupon rate of the capital replenishment bond is 4.99% 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 5.99%.

	31 December 2017	Issuance	Premium Amortization, etc.	Redemption	31 December 2018
CPIC Property	3,999	10,000	(14)	-	13,985

42. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2018	**31 December 2017**
Bonds		
Inter-bank market	65,384	44,646
Stock exchange	9,691	21,597
	75,075	66,243

As at 31 December 2018, bond investments of approximately RMB76,180 million (31 December 2017: RMB70,355 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 2018	**31 December 2017**
Annuity and other insurance payables	22,108	20,361
Payables for securities purchased but not settled	5,721	3,769
Salary and staff welfare payable	4,972	4,703
Commission and brokerage payable	4,520	3,888
Payables for asset-backed securities	2,750	910
Tax payable other than income tax	1,915	1,695
Accrued expenses	1,788	1,317
Payables to non-controlling interests of consolidated structured entities	1,614	1,197
Insurance guarantee fund	441	381
Co-insurance payable	365	261
Payables for construction and purchase of office buildings	356	382
Others	6,688	4,983
	53,238	43,847

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 2018			
	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	(17,662)	17,662	-2.12%
	-25 basis points	19,057	(19,057)	2.29%
Mortality rates	+10%	2,133	(2,133)	0.26%
	-10%	(2,115)	2,115	-0.25%
Morbidity rates	+10%	11,790	(11,790)	1.42%
	-10%	(12,084)	12,084	-1.45%
Surrender rates	+10%	(1,145)	1,145	-0.14%
	-10%	1,423	(1,423)	0.17%
Expenses	+10%	6,211	(6,211)	0.75%
	-10%	(6,211)	6,211	-0.75%
Policy dividend	+5%	15,911	(15,911)	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 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%

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 2018 by RMB1,471 million and RMB171 million (31 December 2017: RMB1,498 million and RMB138 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)					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	55,880	58,926	57,960	59,974	64,450	
One year later	55,420	57,737	57,071	57,147		
Two years later	55,098	56,376	55,725			
Three years later	54,798	55,752				
Four years later	54,738					
Current estimate of cumulative claims	54,738	55,752	55,725	57,147	64,450	287,812
Cumulative payments to date	(54,091)	(54,630)	(53,116)	(49,576)	(42,860)	(254,273)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						1,592
Total gross claim reserves included in the consolidated balance sheet						35,131

(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)					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	46,868	51,435	50,934	52,415	56,073	
One year later	46,816	50,423	50,251	50,539		
Two years later	46,654	49,470	49,406			
Three years later	46,351	49,077				
Four years later	46,255					
Current estimate of cumulative claims	46,255	49,077	49,406	50,539	56,073	251,350
Cumulative payments to date	(45,818)	(48,161)	(47,266)	(44,013)	(38,081)	(223,339)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						1,409
Total net claim reserves included in the consolidated balance sheet						29,420

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,939	2,072	2,496	3,301	4,112	
One year later	1,877	1,952	2,488	3,189		
Two years later	1,878	1,956	2,473			
Three years later	1,851	1,964				
Four years later	1,873					
Current estimate of cumulative claims	1,873	1,964	2,473	3,189	4,112	13,611
Cumulative payments to date	(1,872)	(1,956)	(2,447)	(3,032)	(2,499)	(11,806)
Risk adjustment and others						1,928
Total gross claim reserves included in the consolidated balance sheet						3,733

(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)					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,913	2,050	2,438	3,068	3,355	
One year later	1,843	1,916	2,414	2,960		
Two years later	1,826	1,944	2,365			
Three years later	1,809	1,930				
Four years later	1,830					
Current estimate of cumulative claims	1,830	1,930	2,365	2,960	3,355	12,440
Cumulative payments to date	(1,830)	(1,922)	(2,340)	(2,772)	(2,076)	(10,940)
Risk adjustment and others						1,926
Total net claim reserves included in the consolidated balance sheet						3,426

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 2018			
	RMB	**USD (in RMB)**	**HKD (in RMB)**	**Total**
Held-to-maturity financial assets	284,519	225	-	284,744
Investments classified as loans and receivables	272,015	-	-	272,015
Term deposits	127,536	860	-	128,396
Available-for-sale financial assets	413,850	1,947	71	415,868
Financial assets at fair value through profit or loss	11,646	-	189	11,835
Reinsurance assets	23,260	-	207	23,467
Cash and short-term time deposits	13,465	775	1,083	15,323
Others	129,323	1,162	432	130,917
	1,275,614	4,969	1,982	1,282,565
Insurance contract liabilities	919,456	-	215	919,671
Investment contract liabilities	62,255	-	-	62,255
Policyholders' deposits	70	-	-	70
Bonds payable	13,985	-	-	13,985
Securities sold under agreements to repurchase	75,075	-	-	75,075
Others	73,776	1,187	463	75,426
	1,144,617	1,187	678	1,146,482

(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 2017			
	RMB	**USD (in RMB)**	**HKD (in RMB)**	**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
Bonds payable	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

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 2018**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	174	255
USD and HKD	- 5%	(174)	(255)

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)

(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 2018					
	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	25,387	20,390	23,031	215,936	-	284,744
Investments classified as loans and receivables	34,502	66,378	59,552	104,754	6,829	272,015
Restricted statutory deposits	2,482	1,484	2,772	-	-	6,738
Term deposits	27,127	39,649	57,480	4,000	140	128,396
Available-for-sale financial assets	56,584	40,904	45,750	137,219	54	280,511
Financial assets at fair value through profit or loss	1,383	1,038	613	212	-	3,246
Securities purchased under agreements to resell	23,095	-	-	-	-	23,095
Policy loans	49,194	-	-	-	-	49,194
Deposits with original maturity of no more than three months	262	-	-	-	15,061	15,323
Financial liabilities:						
Investment contract liabilities	62,255	-	-	-	-	62,255
Policyholders' deposits	70	-	-	-	-	70
Bonds payable	4,000	-	-	9,985	-	13,985
Securities sold under agreements to repurchase	75,075	-	-	-	-	75,075

(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 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
Bonds payable	-	3,999	-	-	-	3,999
Securities sold under agreements to repurchase	66,243	-	-	-	-	66,243

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 2018	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(44)	(5,695)
-50 basis points	43	6,272

	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

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 2018	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	101	101
-50 basis points	(101)	(101)

	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)

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 2018, 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 RMB2,106 million (31 December 2017: RMB1,177 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 2018 and 31 December 2017. 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 2018						
	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	284,744	-	-	-	-	-	284,744
Investments classified as loans and receivables	272,015	-	-	-	-	-	272,015
Term deposits	128,396	-	-	-	-	-	128,396
Available-for-sale financial assets	280,511	-	-	-	-	-	280,511
Financial assets at fair value through profit or loss	3,246	-	-	-	-	-	3,246
Interest receivables	19,282	-	-	-	-	-	19,282
Reinsurance assets	23,467	-	-	-	-	-	23,467
Insurance receivables	16,358	-	-	-	-	2,654	19,012
Cash and short-term time deposits	15,323	-	-	-	-	-	15,323
Others	92,271	-	-	-	-	352	92,623
Total	1,135,613	-	-	-	-	3,006	1,138,619

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	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

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 2018					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	35,667	94,886	363,852	-	494,405
Investments classified as loans and receivables	-	39,514	173,263	135,678	-	348,455
Restricted statutory deposits	-	2,935	4,370	-	-	7,305
Term deposits	-	33,670	120,213	4,027	-	157,910
Available-for-sale financial assets	321	27,627	151,025	274,426	120,526	573,925
Financial assets at fair value through profit or loss	61	4,019	2,875	723	4,690	12,368
Securities purchased under agreements to resell	-	23,125	-	-	-	23,125
Insurance receivables	2,708	14,019	2,740	84	-	19,551
Cash and short-term time deposits	15,260	63	-	-	-	15,323
Others	1,085	61,583	1,568	-	-	64,236
Total	19,435	242,222	550,940	778,790	125,216	1,716,603
Liabilities:						
Insurance contract liabilities	-	99,612	82,905	737,154	-	919,671
Investment contract liabilities	63	723	3,500	57,969	-	62,255
Policyholders' deposits	-	70	-	-	-	70
Bonds payable	-	4,741	2,623	12,418	-	19,782
Securities sold under agreements to repurchase	-	75,238	-	-	-	75,238
Others	50,370	23,957	498	16	-	74,841
Total	50,433	204,341	89,526	807,557	-	1,151,857

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	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
Bonds payable	-	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)

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

	As at 31 December 2018		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	21,435	263,309	284,744
Investments classified as loans and receivables	24,859	247,156	272,015
Term deposits	27,127	101,269	128,396
Available-for-sale financial assets	135,651	280,217	415,868
Financial assets at fair value through profit or loss	8,596	3,239	11,835
Cash and short-term time deposits	15,323	-	15,323
Others	61,222	1,568	62,790
Total assets	294,213	896,758	1,190,971
Liabilities:			
Insurance contract liabilities	99,612	820,059	919,671
Investment contract liabilities	786	61,469	62,255
Policyholders’ deposits	70	-	70
Bonds payable	4,000	9,985	13,985
Securities sold under agreements to repurchase	75,075	-	75,075
Others	74,327	514	74,841
Total liabilities	253,870	892,027	1,145,897

	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
Bonds payable	-	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

(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 2018**	**31 December 2017**
Core capital	381,723	318,882
Actual capital	392,523	322,882
Minimum required capital	130,560	113,766
Core solvency margin ratio	292%	280%
Comprehensive solvency margin ratio	301%	284%

CPIC Property	**31 December 2018**	**31 December 2017**
Core capital	34,831	34,788
Actual capital	45,631	38,788
Minimum required capital	14,915	14,508
Core solvency margin ratio	234%	240%
Comprehensive solvency margin ratio	306%	267%

CPIC Life	**31 December 2018**	**31 December 2017**
Core capital	298,654	241,486
Actual capital	298,654	241,486
Minimum required capital	114,526	98,460
Core solvency margin ratio	261%	245%
Comprehensive solvency margin ratio	261%	245%

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

CPIC Allianz Health	**31 December 2018**	**31 December 2017**
Core capital	1,057	524
Actual capital	1,057	524
Minimum required capital	489	250
Core solvency margin ratio	216%	210%
Comprehensive solvency margin ratio	216%	210%

Anxin	**31 December 2018**	**31 December 2017**
Core capital	1,578	1,488
Actual capital	1,578	1,488
Minimum required capital	527	479
Core solvency margin ratio	300%	310%
Comprehensive solvency margin ratio	300%	310%

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 2018, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

	31 December 2018				
	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	149,510	-	-	-	Management fee
Insurance asset management products managed by affiliated parties	221,745	83,638	84,166	83,601	Investment income and management fee
Securities Investment Fund managed by affiliated parties	21,299	2,749	2,643	2,643	Investment income and management fee
Insurance asset management products managed by third parties	Note 1	77,991	78,955	78,575	Investment income
Trust products managed by third parties	Note 1	95,005	95,270	95,004	Investment income
Bank wealth management products and asset management products managed by third parties	Note 1	6,502	6,545	6,545	Investment income
Securities Investment Fund managed by third parties	Note 1	36,934	35,127	35,127	Investment income
Total		302,819	302,706	301,495	

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, bonds payable, 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 bonds payable whose fair values are not presented in the consolidated balance sheet.

	As at 31 December 2018	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	284,744	305,804
Investments classified as loans and receivables	272,015	272,101
Financial liabilities:		
Bonds payable	13,985	14,966

	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:		
Bonds payable	3,999	4,216

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 2018			
	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	1,777	310	-	2,087
- Investment funds	1,849	169	-	2,018
- Debt securities	1,626	1,613	-	3,239
- Others	-	3,903	588	4,491
	5,252	5,995	588	11,835
Available-for-sale financial assets				
- Equity securities	45,448	3,465	-	48,913
- Investment funds	25,029	13,039	-	38,068
- Debt securities	24,911	255,296	-	280,207
- Others	-	3,585	45,095	48,680
	95,388	275,385	45,095	415,868
Assets for which fair values are disclosed				
Investments classified as loans and receivables (note 47)	-	2,746	269,355	272,101
Held-to-maturity financial assets (note 47)	6,547	299,257	-	305,804
Investment properties(note 19)	-	-	12,017	12,017
Liabilities for which fair values are disclosed				
Bonds payable (note 47)	-	-	14,966	14,966

(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 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				
Bonds payable (note 47)	-	-	4,216	4,216

In 2018, 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 2018, the Group transferred the debt securities with a carrying amount of RMB9,667 million from Level 1 to Level 2 and RMB5,909 million from Level 2 to Level 1. 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.

(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 2018					
	Beginning of year	Increase	Transferred from 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						
- Wealth management product	-	5	-	-	-	5
- Debt Investment scheme	-	2	-	-	-	2
- Other equity investments	500	81	-	-	-	581
Available-for-sale financial assets						
- Common shares	4	-	(4)	-	-	-
- Preferred shares	7,764	-	-	-	1	7,765
- Other equity investments	27,284	7,720	-	(33)	2,359	37,330

	As at 31 December 2017					
	Beginnig 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

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

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 3.94% to 12.20% 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.

49. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

	2018	**2017**
Profit before tax	28,008	21,102
Investment income	(49,999)	(52,657)
Foreign currency (income)/loss	(53)	140
Finance costs	2,363	3,186
Charge of impairment losses on insurance receivables and other assets, net	127	55
Depreciation of property and equipment	1,481	1,348
Depreciation of investment properties	328	312
Amortization of other intangible assets	541	467
Amortization of prepaid land lease payments	1	1
Amortization of other assets	28	28
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(18)	(168)
	(17,193)	(26,186)
Increase in reinsurance assets	(892)	(2,434)
Increase in insurance receivables	(2,679)	(4,066)
Increase in other assets	(2,975)	(2,809)
Increase in insurance contract liabilities	110,290	108,690
Increase in other operating liabilities	11,013	16,733
Cash generated from operating activities	97,564	89,928

(All amounts expressed in RMB million unless otherwise specified)

49. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2018
Cash and cash equivalents paid for acquisition for 2018	-
Less: Cash and cash equivalents hold by subsidiary on acquisition date	309
Net inflow in respect of the acquisition	309

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

	2018	**2017**
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	4	7

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

	2018	**2017**
Equity holders who individually own more than 5% of equity interests of the Company	2,487	2,234

(c) Capital injections to the Company's subsidiaries

	2018	**2017**
China BAOWU Steel Group Corporation Ltd.	118	152
Shenergy Group Co., Ltd.	27	-
Total capital injections to the Company's subsidiaries	145	152

(d) Compensation of key management personnel

	2018	**2017**
Salaries, allowances and other short-term benefits	28	33
Deferred bonus (1)	2	3
Total compensation of key management personnel	30	36

(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.

(All amounts expressed in RMB million unless otherwise specified)

50. RELATED PARTY TRANSACTIONS (continued)

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

	2018	**2017**
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc	237	-

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 2017 and 2018, 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 2018	31 December 2017
Contracted, but not provided for	(1)(2)	355	850
Authorized, but not contracted for	(1)(2)(3)	6,256	1,023
		6,611	1,873

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 2018, the cumulative amount incurred by the Company amounted to RMB1,558 million. Of the balance, RMB90 million was disclosed as a capital commitment contracted but not provided for and RMB352 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 2018, the cumulative amount incurred by the Company amounted to RMB1,568 million. Of the balance, RMB145 million was disclosed as a capital commitment contracted but not provided for and RMB377 million was disclosed as a capital commitment authorized but not contracted for.

(3) In July 2018, CPIC Life and a third party bid for the use right of the land located at Huangpu District, Shanghai. Both parties set up a project company named Ruiyongjing Real Estate as the owner of the land use right to this parcel of land and construction development subject. The estimated total investment of the project is approximately RMB19,500 million. The registered capital of the joint venture is RMB14,050 million, of which CPIC Life shall make a contribution of RMB9,835 million, representing 70% of the registered capital. In addition, CPIC Life will provide shareholder's loans to the joint venture, which are estimated to be approximately RMB5,450 million. The total amount of the above two contributions to be made by CPIC Life to be made by CPIC Life is estimated to be RMB15,285 million.

(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 2018	**31 December 2017**
Within 1 year (including 1 year)	1,246	1,014
1 to 2 years (including 2 years)	992	817
2 to 3 years (including 3 years)	688	648
3 to 5 years (including 5 years)	625	474
More than 5 years	377	278
	3,928	3,231

(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 2018	**31 December 2017**
Within 1 year (including 1 year)	796	976
1 to 2 years (including 2 years)	547	767
2 to 3 years (including 3 years)	320	523
3 to 5 years (including 5 years)	325	373
More than 5 years	134	216
	2,122	2,855

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 2018, 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. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or the probability of loss is extremely low.

(All amounts expressed in RMB million unless otherwise specified)

53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Company	31 December 2018	31 December 2017
ASSETS		
Cash and short-term time deposits	93	121
Financial assets at fair value through profit or loss	38	62
Securities purchased under agreements to resell	320	60
Interest receivables	519	457
Term deposits	500	500
Available-for-sale financial assets	29,081	24,776
Held-to-maturity financial assets	800	900
Investments classified as loans and receivables	6,976	5,419
Long-term equity investments	64,279	63,039
Investment properties	3,472	3,553
Fixed assets	1,891	1,814
Construction in progress	-	1
Intangible assets	274	195
Deferred income tax assets	57	188
Other assets	366	1,013
Total assets	108,666	102,098
LIABILITIES AND EQUITY		
Liabilities		
Securities sold under agreements to repurchase	1,840	140
Commissions and brokerages payable	1	1
Salaries and welfare payable	200	208
Taxes payable	42	61
Interest payable	2	-
Other liabilities	1,007	919
Total liabilities	3,092	1,329
Equity		
Issued capital	9,062	9,062
Capital reserves	66,164	66,164
Other comprehensive income/(loss)	56	(388)
Surplus reserves	4,531	4,531
Retained profits	25,761	21,400
Total equity	105,574	100,769
Total liabilities and equity	108,666	102,098

KONG Qingwei	HE Qing
Director	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	2018					
	Issued capital	Capital reserves	Other comprehensive income	Surplus reserves	Retained profits	Total equity
At 1 January 2018	9,062	66,164	(388)	4,531	21,400	100,769
Amount of change this year	-	-	444	-	4,361	4,805
Net profit	-	-	-	-	11,611	11,611
Other comprehensive income	-	-	444	-	-	444
Total comprehensive income	-	-	444	-	11,611	12,055
Profit Distribution	-	-	-	-	(7,250)	(7,250)
Dividend declared	-	-	-	-	(7,250)	(7,250)
At 31 December 2018	9,062	66,164	56	4,531	25,761	105,574

Company	2017					
	Issued capital	Capital reserves	Other comprehensive loss	Surplus reserves	Retained profits	Total equity
At 1 January 2017	9,062	66,164	119	4,531	11,291	91,167
Amount of change this year	-	-	(507)	-	10,109	9,602
Net profit	-	-	-	-	16,452	16,452
Other comprehensive loss	-	-	(507)	-	-	(507)
Total comprehensive income	-	-	(507)	-	16,452	15,945
Profit Distribution	-	-	-	-	(6,343)	(6,343)
Dividend declared	-	-	-	-	(6,343)	(6,343)
At 31 December 2017	9,062	66,164	(388)	4,531	21,400	100,769

For the year ended 31 December 2018, the balance sheet and reserve movement of the Company disclosed in this note are prepared in accordance with PRC GAAP, the primary GAAP for the Company to determine the amount of retained profits available for distribution.

There is no material difference in recognition and measurement between PRC GAAP and the significant accounting policies as disclosed in note 2.2 in preparation of the above balance sheet and reserve movement of the Company, other than that the Company's investment in subsidiaries are stated at cost less any impairment losses and the results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The balance sheet as at 31 December 2017 and the reserve movement of the Company for the year then ended prepared in accordance with HKFRS have no difference in total assets, liabilities, equity and retained profits from those represented above in accordance with PRC GAAP.

There is no difference between the consolidated financial statements prepared in accordance with HKFRS and PRC GAAP by the Group in the equity as at 31 December 2018 and 31 December 2017 and no difference in the net profit for the respective years then ended.

(All amounts expressed in RMB million unless otherwise specified)

54. POST BALANCE SHEET EVENTS

On 7 March 2014, CPIC Property issued a 10-year subordinated debt with a total face value of RMB4 billion. CPIC Property had the option to redeem the subordinated debt at the end of the fifth year. On 26 February 2019, CPIC Property announced the "Announcement of CPIC Property's Redemption, Interest Payment and Delisting in 2019 of the Subordinated Debt issued in 2014", and exercised the redemption right on 7 March 2019.

Pursuant to the resolution of the 4th meeting of the CPIC Life's 6th term of board of directors, CPIC Life signed a capital increase agreement with Pacific Medical&Healthcare, the Group's subsidiary, to increase capital to Pacific Medical&Healthcare by RMB400 million. The transaction was officially approved by CBIRC on 1 March 2019(Yin Bao Jian Fu [2019] No.246). The capital contribution was paid on 19 March 2019.

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 22 March 2019.