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 2015

Chairman statement

Dear Shareholders:

2015 was a special year for us, and I am glad to say that in this year we witnessed significant improvement in our profitability and quality of development. Committed to sustainable value growth, in 2015 we delivered higher than expected growth of the Company's value. On the life side, the individual channel maintained robust growth, underpinned by successful transformation of the business mix and establishment of a growth model mainly driven by the individual business. For asset management, we put in place market-based asset entrustment mechanisms and continued to optimize asset allocation amid market volatility, reporting strong investment results and record Group profits. As for the property and casualty (P/C) business, we realized underwriting profits on the back of improved underwriting quality. **Moreover, we achieved breakthroughs in our transformation initiatives centered on customers' needs.** In particular, market segmentation based on customer profiling led to breakthroughs in targeted marketing and services, ultimately boosting the sustainability of our development. Moreover, **we stayed focused on insurance**, promoted synergy between new business segments such as health, pension and agricultural insurance with life and P/C businesses in distribution and products, and have achieved initial success of synergy.

In 2015, we realized strong business results on the back of adherence to value-oriented strategies and breakthroughs in the transformation initiatives. Group operating revenues[note 1] amounted to RMB247.202 billion, up 12.5% over the same period of 2014. Of this, gross written premiums (GWPs) surpassed the mark of RMB200 billion for the first time in the history of the Company, reaching RMB203.305 billion. Group net profits[note 2] amounted to RMB17.728 billion, a growth of 60.4%, with weighted average ROE[note 2] reaching 14.2%, 3.9pt higher than in 2014. As of the end of 2015, Group embedded value stood at RMB205.624 billion, an increase of 20.0% from the end of 2014. Of this, value of in-force business[note 3] reached RMB90.559 billion, up 22.3% from the end of 2014. The one-year NBV of our life business amounted to RMB12.022 billion, a growth of 37.8% and exceeding the mark of RMB10 billion for the first time. As at the end of 2015, Group assets under management (AuM)[note 4] stood at RMB1,087.932 billion, up 19.4% from the end of 2014 and surpassing the mark of RMB1 trillion for the first time in our history. Thanks to strong business performance, CPIC Group was listed amongst Fortune Global 500 for the 5th consecutive year, ranking 328th, 56 places higher than in 2014.

- **Our life company successfully established a growth model with the individual business at its core, which drives sustainable value growth.** In 2015, its one-year NBV amounted to RMB12.022 billion, up 37.8% and the share of individual business reached 95.6%, 3.2pt higher than in 2014. Besides, first year premiums (FYPs) from the individual business grew by 61.2%, accounting for 76.0% of total FYPs and premiums from the individual business accounted for 84.1% of total life premiums. The individual business also increased as a percentage of total agency FYPs of the life insurance market. All these testified to a fundamental shift of our life company’s business mix, with the individual business being the core driver of both value and volume growth. In the meantime, the development foundation for the individual business was further enhanced. In 2015, the monthly average number of agents reached 482,000, an increase of 40.1% from 2014, with FYPs per agent per month growing by 16.6%. Retention ratio improved. Shares of active and productive agents increased, pointing to continued improvement in sales force mix.
- **Our P/C business focused on sustainable development and delivered an underwriting turnaround after sustaining underwriting losses in 2014.** In 2015, CPIC P/C put forward

the strategy of "improving business quality, ensuring profitability, enhancing foundation and boosting long-term growth potential", introduced steps to enhance risk selection and claims management, and delivered a combined ratio of 99.8%, down by 4.0pt. Of this, the ratio of motor insurance was 98.0%, down by 4.0pt and better than the industry average. As for non-automobile business, CPIC P/C vigorously pushed for the establishment of the "e-agricultural insurance system", and promoted the use of new technologies such as photography by unmanned aerial vehicles and remote loss-adjustment via satellites in a bid to foster differentiation and competitiveness in agricultural insurance. In 2015, our agricultural business recorded GWPs of RMB1.155 billion, up 28.8%, with healthy underwriting profitability. On the other hand, there is no denying that the foundation for sustainable development of our P/C business is yet to be consolidated. In response to the deregulation of commercial automobile business, we'll continue to strengthen our ability to serve high-quality customers and improve the channel mix. Efforts will also be made to step up development of emerging business lines and improve the operational efficiency in order to achieve long-term and sustainable growth.

- **We put in place mechanisms for co-ordination of asset and liability management, and boosted our competitiveness on the asset management market, with rapid expansion of third-party assets.** In the face of a challenging market environment, we strengthened analysis of macro-economic trends and interest rate movements, improved asset allocation, and delivered rapid expansion of AuM and a considerable increase in investment income. As at the end of 2015, Group AuM[note 4] reached RMB1,087.932 billion, a rise of 19.4% from the end of 2014. Of this, third-party AuM[note 4] stood at RMB233.474 billion, rising 56.3% from the end of 2014. Its share of Group total AuM increased from 6.8% in 2011 to 21.5% in 2015. Third-party business contributed a fee income of RMB653 million, a growth of 64.9%. In the face of declining interest rates and market volatility, we took the challenges into our own stride, adhered to asset liability management (ALM), and recorded a total investment income of RMB55.910 billion, an increase of 33.2%. Total investment yield reached 7.3%, up 1.2pt, the highest in the past 5 years. The growth rate of investments' net asset value reached 8.2%, maintaining a high level.

It is our conviction that through implementation of the transformation initiatives, we can recharge growth and enhance our value-creating capabilities. Therefore, in 2015, we pressed ahead with this endeavor, so as to "upgrade" our mode of development. Since 2011 when its objectives were put forward, namely, understanding customer needs, improving customer interface and enhancing customer experience, transformation has been a broad-based effort of the entire organization. Based on the key issues/gaps identified, projects and innovations were rolled out, which has resulted in a shift of our development mode and put our growth on a more sustainable footing.

- **We focused on customer needs to deliver targeted marketing and service.** To this end, we carried out the Customer Profiling Initiative spanning the Group and 79 branch offices to facilitate market segmentation. The move seeks to obtain more insights into our customers from multiple angles, such as age, gender, location, distribution channels, products, the number of polices, types of protection, level of premium payment and interfaces to obtain more insights into their protection gaps and need for wealth management. Such insights became the basis of up-sell strategies targeting customers with only one policy, customers who only covered their children and those whose premium payment period expired. The 3 customer segments in 2015 generated a premium income of RMB8.14 billion, RMB5.57 billion and RMB4.48 billion respectively. We provided differentiated service to high-quality motor business customers such as female customers and customers with good claims record, as well as first-time claimants for new vehicles. The *Jin Yao Shi* initiative, Assistance in Claims Reporting Program, micro credit in claims payment and emergency assistance all helped to improve customer loyalty.
- **We improved customer interface through enhanced application of mobile internet technologies.** To bring convenience to our customers, we vigorously promoted the use of mobile internet technologies to re-engineer service processes and boost on-line and off-line integration. By the end of 2015, our e-commerce platform had accumulated 8.33 million registered users, and had responded to 18.84 million service requests. Our *Wechat Zhongguo Taibao*, had attracted 4.73 million fans. The entire service chain from obtaining information, making inquiries, claims handling to policy loans is now available on-line. We provided our agents with 190,000 terminals of *Shenxing Taibao*, a smart mobile insurance platform, which supported all new policy issuance from the individual business and assisted our agents in providing better service to our customers. In 2015, 43% of post-sale service requests were handled on mobile applications. Besides, we also used new technology to carry out welcome calls. In 2015, 54.2% of such calls were conducted on-line. Our community-based convenience stores can now support 10 service items such as enquiries about progress of claims-handling, quotation for motor insurance, underwriting and policy loans, thanks to the use of new technologies.

- **We strive to enhance customer experience through product and service innovations.** Our life company launched a number of innovative products embedded in life scenarios to cater to diverse needs for insurance protection and wealth management of our customers at different stages of their lifecycle. The product *Anxingbao* offers comprehensive personal accident protection, and *Aiwuyou* provides high level of cancer protection and requires no physical checks. There was also *Yinfa Ankang*, which offers cancer protection and was customized for the elderly population. Our P/C subsidiary developed tailor-made products for small and medium-sized enterprises (SMEs) under the brand of *Caifu U Bao*, with 3 specific product combinations for the catering & entertainment sector, hotels & hospitality and electric & machinery manufacturing. The products are available in 41 of our branch offices. As of the end of 2015, these products provided over RMB1,500 billion in sum assured for property coverage and over RMB340 billion in liability coverage to a total of 90,000 SMEs. We also set up a team of financial planners, branded as the Golden Magnolia, which now covers 12 cities to provide high-end service to urban customers.

Synergy is a competitive edge. In 2015, we continued to promote the strategic collaboration of our business segments along the insurance value chain. To seize opportunities in health care, CPIC Allianz Health focused on product and service innovations in health insurance and health management, and promoted development in collaboration with the individual business of CPIC Life. To seize opportunities of the pension business, Changjiang Pension integrated both its enterprise annuity and occupational annuity business into the platform of collaboration with CPIC Life to promote resources-sharing between CPIC Life's group & partnerships and Changjiang Pension's pension capabilities for corporate clients. At the same time, it accelerated the development of its pension-related asset management business to raise CPIC Group's visibility in pension asset management for individuals. Given opportunities of agricultural insurance, Anxin Agricultural launched a number of product innovations such as the Temperature Index Insurance for Tea in Shaoxing, Sugar-canes Target Price (Futures) Index Insurance in Guangxi, Eggs Target Price (Futures) Index Insurance in Shanghai and the Shopping Basket Insurance Program in Hangzhou, cementing collaboration with CPIC P/C in distribution channels and customers.

In 2015, we continued to integrate corporate social responsibility (CSR) into our business model in an all-around way so that we can play our due role as "the social stabilizer", and create value for all our stakeholders. In particular, given favorable government policies in health, agricultural and pension insurance, we were actively involved in the effort to improve the well-being of the Chinese people via improving their access to health-care, providing protection for farmers and improving old-age provisions for the elderly people. In health insurance, we launched plans for tax-deductible health insurance, and developed innovative critical illness products targeting different customers segments. We contributed to the improvement of China's health-care system, launching programs for supplementary insurance for terminal illnesses in many locations and helping to improve people's access to health-care services. In agricultural insurance, we vigorously participated in government subsidized agricultural insurance programs and launched a number of product innovations linked to target prices, temperatures and wind velocity index, which considerably enhanced our capabilities to serve agriculture, farmers and the countryside. Old-age protection is a core competency of insurance companies. In 2015, committed to promoting "universal access to enterprise annuities", we developed a trust-type old-age protection product for individuals and established an Elderly Population Assistance Community to advocate new ways of providing for the elderly. At the same time we shouldered our corporate social responsibilities, promoted social harmony through charitable activities, such as donating for schools, taking care of the underprivileged communities and participating in poverty and disaster relief efforts. To give back to society, in 2015, we made almost RMB18 million worth of donations, and fulfilled our commitments as a corporate citizen.

The year 2016 is the first year of China's 13th Five Year Program, and is also a critical stage of China's transition from an insurance market that is only large to a market both large and strong, which will bring a window of opportunity for the industry's development. At the same time, declining interest rates would be a challenge to the ALM of life insurance companies. The deregulation of commercial motor insurance will have profound implications for the business model of P/C insurers. In the face of such challenges and opportunities, we will remain focused on insurance, promote transformation and upgrade, and improve the quality and profitability of development continuously.

2016 will mark the 25th anniversary of CPIC. Over the past 25 years we focused on China's insurance market, served the Chinese consumers, and have demonstrated our commitment to sustainable value growth. **I would like to express our gratitude to our 90 million customers for their trust and to all our shareholders your support.** I am sure that with the hard work of our employees and agents, 2016 will mark the beginning of a new journey of even greater success.

Notes：

1. Based on PRC GAAP.

2. Attributable to equity holders of the parent.

3. Based on Group's share of life's value of in-force business after solvency.

4. Figures for the same period of 2014 have been restated.

Review and analysis of operating results

Company Overview

I. Key Businesses

CPIC Group, as a leading integrated insurance group, provides, through its subsidiaries, a broad range of risk and protection solutions, financial planning and wealth management services along the insurance value chain. In particular, we provide life insurance through CPIC Life, property and casualty insurance through CPIC P/C and CPIC HK and health insurance & services through CPIC Allianz Health. We manage insurance funds, including third-party assets, through our investment arm, CPIC AMC. We conduct pension business, manage insurance funds, including third-party assets via Changjiang Pension. We also provide comprehensive services, life, property and casualty insurance products and individual retirement plans via the e-commerce platform of CPIC Online (www.ecpic.com.cn). Besides, we engage in the investment in, and construction, operation and management of the elderly care facilities via CPIC Elderly Care Investment Management.

In 2015, China's insurance sector maintained strong growth momentum, with a premium income of RMB2.4 trillion, a growth of 20%. Of this, the premium income of property and casualty companies amounted to RMB842.326 billion, up 11.6%, with CPIC P/C accounting for 11.2%, and that of life insurance companies RMB1,585.913 billion, up 25.0%, with CPIC Life representing 6.8%.

II. Core Competitiveness

We are a leading integrated insurance group in China, ranking 328th on the list of Fortune Global 500. We persist in the focus on insurance, committed to the pursuit of sustainable value growth and generating sustainable returns for our shareholders.

- We have a comprehensive insurance-based business portfolio, encapsulating life, P/C, pension, health, agricultural insurance, asset management and elderly care investment, with continued enhancement in collaboration and synergy between these segments.
- We have a leading insurance franchise in China, with over 94 million customers, a nation-wide distribution network and an integrated service platform.

- Our life business implemented the Targeted Marketing Initiative underpinned by up-sell to existing customers and acquisition of new customers, and put in place a business model mainly driven by the individual business, paving the way for sustainable value growth. Our P/C business delivered continued improvement in underwriting profitability through increased share of core distribution channels with better combined ratios such as telemarketing & internet, cross-sell and car dealerships.
- With improved investment capabilities, we strengthened our competitiveness on the market, reformed the asset entrustment model based on contracts, and delivered an investment return higher than the cost of liabilities across all investment pools. On the back of enhanced investment capabilities for third-party business and continued efforts to innovate asset management products in response to customer needs, we have delivered sustained growth of third-party assets, with a more diversified client base.
- We boast sound and efficient governance, which safeguards the interests of all stakeholders such as shareholders, customers, the Company and the employees. We established an industry-leading system for risk management and internal control, which is instrumental in the healthy and sustainable development of the Company.
- With state-of-the-art and reliable IT systems and investment in enterprise-level applications, we have fostered market-leading capabilities in operational support and new technology application.
- We have established a scientific decision-making process for modern enterprises, with an experienced management team and a Group-centralized platform of management.

Performance Overview

We persisted in value-oriented development strategies, pressed ahead with the transformation initiatives, and delivered sustained value growth and solid financial results for the reporting period.

I. Performance highlights

We delivered solid business results for 2015. Group operating revenues[note 1] amounted to RMB247.202 billion, a growth of 12.5%. We recorded net profits[note2] of RMB17.728 billion, a sharp increase of 60.4%. Weighted average ROE[note2] reached 14.2%, 3.9pt higher year-on-year. Our life insurance business delivered RMB12.022 billion in one-year NBV, up 37.8%. CPIC P/C delivered underwriting profits, with a combined ratio of 99.8%, a decrease of 4.0pt from the previous year. Group embedded value stood at RMB205.624 billion, an increase of 20.0% from the end of 2014. Of this, value of in-force business[note 3] reached RMB90.559 billion, up 22.3%

from the end of 2014.

Individual business became core driver of both value and volume growth, leading to sustained growth of NBV

- The one-year NBV of our life business grew by 37.8% and reached RMB12.022 billion, with the NBV margin[note 4] reaching 29.2%, up 4.7pt.
- The NBV from the individual business amounted to RMB11.497 billion, up 42.5% and accounting for 95.6% of total NBV, rising by 3.2pt from the same period in 2014. The individual business reported GWPs of RMB91.339 billion, and its share of total life GWPs reached 84.1%. Of this, FYPs amounted to RMB27.864 billion, a growth of 61.2%, with the individual business accounting for 76.0% of total life FYPs.
- The monthly average number of agents stood at 482,000, an increase of 40.1% year-on-year. FYPs per agent per month reached RMB4,776, up 16.6%.

Our property and casualty business focused on sustainable development, and achieved underwriting profitability.

- Our property and casualty insurance business[note 5] reported a combined ratio of 99.8%, a decrease of 4.0pt from 2014, with GWPs amounting to RMB94.710 billion, up 1.7%.
- CPIC P/C registered GWPs of RMB74.961 billion from automobile business, up 2.4%, with a combined ratio of 98.0%, down by 4.0pt from 2014, which was a key contributor of underwriting profitability of our property and casualty insurance. Core distribution channels such as telemarketing & internet, cross-sell and car dealerships experienced faster growth, at 16.0%, and their share of automobile business reached 55.5%, up 6.5pt.
- CPIC P/C vigorously pushed for the establishment of the “e-agricultural insurance system”, and promoted the use new technologies such as photography by unmanned aerial vehicles and remote loss-adjustment via satellites. In 2015, its agricultural business recorded GWPs of RMB1.155 billion, up 28.8%, with healthy underwriting profitability.

Rapid growth of investment income for asset management business, with enhanced market competitiveness

- Group in-house assets generated a total investment income of RMB55.910 billion, an increase of 33.2%. Total investment yield reached 7.3%, up 1.2pt, the highest in the past 5 years. Net investment income amounted to RMB39.881 billion, up 8.6%, with a net investment yield of 5.2%, down by 0.1pt. The growth rate of investments’ net asset value was 8.2%, a decrease of 0.6pt from 2014.
- Third-party assets managed by CPIC AMC and Changjiang Pension combined exceeded RMB230 billion, with a fee income of RMB653 million, up 64.9%.

Notes：

1. Based on PRC GAAP.

2. Attributable to shareholders of the parent.

3. Based on Group's share of life's value of in-force business after solvency.

4. NBV margin=NBV/annualized first year premiums.

5. This includes both CPIC P/C and CPIC HK.

II. Key performance indicators

Unit: RMB million

Indicators	As at 31 December 2015/for the period between January and December in 2015	As at 31 December 2014/for the period between January and December in 2014	Changes (%)
Key value indicators			
Embedded value of the Group	205,624	171,294	20.0
Value of in-force business[note 1]	90,559	74,064	22.3
Net assets of the Group[note 2]	133,336	117,131	13.8
NBV of CPIC Life	12,022	8,725	37.8
New business margin of CPIC Life (%)	29.2	24.5	4.7pt
Combined ratio of CPIC P/C (%)	99.8	103.8	(4.0pt)
Growth rate of investments' net asset value (%)	8.2	8.8	(0.6pt)
Key operating indicators			
GWPs	203,305	191,805	6.0
CPIC Life	108,589	98,692	10.0
CPIC P/C	94,615	93,026	1.7
Market share			
CPIC Life (%)	6.8	7.8	(1.0pt)
CPIC P/C (%)	11.2	12.3	(1.1pt)
Number of Group customers (in thousand)[note 3]	94,356	88,838	6.2
Average number of insurance policies per customer	1.58	1.52	3.9
Monthly average agent number (in thousand)	482	344	40.1
Monthly average first year premiums per agent (RMB)	4,776	4,097	16.6
Total investment yield (%)	7.3	6.1	1.2pt
Net investment yield (%)	5.2	5.3	(0.1pt)
Third-party AuM[note 4]	233,474	149,400	56.3
Third-party AuM by CPIC AMC	149,786	89,841	66.7
Assets under investment management by Changjiang Pension[note 4]	83,688	59,559	40.5
Key financial indicators			

Net Profit attributable to equity holders of the parent	17,728	11,049	60.4
CPIC Life	10,582	9,084	16.5
CPIC P/C	5,331	1,037	414.1
Solvency margin ratio (%)			
CPIC Group	280	280	-
CPIC Life	201	218	(17pt)
CPIC P/C	211	177	34pt

Notes:

1. Based on Group's share of life's value of in-force business after solvency.
2. Attributable to shareholders of the parent.
3. The number of Group customers refers to the number of applicants and insureds who hold at least one insurance policy within the insurance period issued by one or any of CPIC subsidiaries as at the end of the period/year. In the event that the applicants and insureds are the same person, they shall be deemed as one customer.
4. Figures for the same period of 2014 have been restated.

Life Insurance Business

In 2015, CPIC Life adhered to sustainable development, continued to strengthen its "customer operation" capabilities, and established a business model with the individual business serving as the key driver of both value and volume growth, which paved the way for a rapid NBV growth and sustained improvement of the NBV margin. For the reporting period, one-year NBV amounted to RMB12.022 billion, up 37.8%. The NBV margin reached 29.2%, up 4.7pt from 2014. CPIC Allianz Health continued to promote distribution channel collaboration with CPIC Life and CPIC P/C, improved its product line-up so as to provide professional health insurance products and services to CPIC's customers.

I. CPIC Life

(I) Business analysis

In 2015, CPIC Life adhered to sustainable development, deepened the business strategy of focusing on the agency channel and regular premium business, strengthened its "customer operation" capabilities, and established a business model with the individual business serving as the key driver of both value and volume growth, which paved the way for rapid NBV growth and sustained improvement of the NBV margin. For the reporting period, it reported GWPs of RMB108.589 billion, up 10.0%. Of this, FYPs amounted to RMB36.671 billion, a growth of 13.7% and renewal business RMB71.918 billion, a growth of 8.2%. The one-year NBV amounted to RMB12.022 billion, up 37.8%. The NBV margin reached 29.2%, up 4.7pt from 2014.

1. Analysis by channels

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Individual business			
GWPs	91,339	71,693	27.4
New policies	27,864	17,281	61.2
Regular premium	26,726	16,148	65.5
Single premium	1,138	1,133	0.4
Renewed policies	63,475	54,412	16.7
Group & Partnerships			
GWPs	17,250	26,999	(36.1)
New policies	8,807	14,969	(41.2)
Regular premium	1,066	1,394	(23.5)
Single premium	7,741	13,575	(43.0)
Renewed policies	8,443	12,030	(29.8)
Total	**108,589**	**98,692**	**10.0**

(1) Individual business

For the reporting period, we realized RMB91.339 billion in GWPs for individual business, up 27.4%, representing 84.1% of total life GWPs. Of this, new polices contributed RMB27.864 billion, up 61.2%, and renewal business RMB63.475 billion, an increase of 16.7%.

We persisted in promoting the quality and productivity of our sales force, stepped up selection during recruitment and revamped agency management rules to promote retention. Monthly average headcount in 2015 reached 482,000, up 40.1%, with increased proportions of productive and high-performing agents, continued improvement in agent retention and sales force mix. We enhanced customer insights and innovated customized products to drive the "upgrade of customer operation", and delivered targeted marketing and customer services. We also focused on agency productivity management and agency infrastructure management in training and attendance so as to enhance agents' skills and capabilities in an all-around way. Monthly average FYPs per agent reached RMB4,776, up 16.6%.

For 12 months ended 31 December	2015	2014	Changes (%)
Monthly average agent number (in thousand)	482	344	40.1
Monthly average first-year GWPs per agent (RMB)	4,776	4,097	16.6
Average number of new long-term life insurance policies per agent per month	1.37	1.21	13.2

(2) Group & partnerships

In 2015, group & partnerships enhanced business selection, and realized RMB17.250 billion in GWPs, down by 36.1%, which consisted of RMB8.807 billion in first year premiums, down by 41.2% and RMB8.443 billion in renewal business, down by 29.8%.

The group & partnerships focused on 3 priorities, namely, partnerships, employee benefits (EB) and government-sponsored programs, with continued efforts in reform and transformation to deliver sustainable profitability. For partnerships, we stepped up the transformation of bancassurance, and re-defined the positioning of different customer segments to boost innovations and profitability. For the EB business, we strived to shift away from provision of single products to comprehensive EB solutions, with innovative products and services and improved interface for corporate clients. As for government business, we actively participated in government-sponsored health insurance program for terminal illnesses, while continuing to extend our scope of service, duplicating on successful pilot programs, promoting brand awareness so as to play our due role in public administration. As of the end of 2015, we already launched 35 such programs in a number of provinces/municipalities. At the same time, we seized opportunities in tax-deductible health insurance and made adequate preparations in product development and customer accumulation.

2. Analysis by product types

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
GWPs	**108,589**	**98,692**	**10.0**
Traditional	23,778	24,178	(1.7)
Participating	77,204	67,929	13.7
Universal	40	43	(7.0)
Short-term accident and health	7,567	6,542	15.7

We give priority to risk protection and long-term savings products. For the reporting period, traditional business generated RMB23.778 billion in GWPs, down by 1.7%, with participating business realizing GWPs of RMB77.204 billion, up by 13.7%, and short-term accident & health RMB7.567 billion, up 15.7%.

Information of the top five products

Unit: RMB million

For 12 months ended 31 December 2015

Ranking	Name	Type	Premiums	Sales channel
1	EM1A-*Jin You Ren Sheng Whole Life A (2014)* 金佑人生終身壽險（分紅型）A 款（2014 版）	Participating	8,029	Individual business and group & partnerships
2	EM43-*Li Ying Nian Nian Annuity* 利赢年年年金保險（分紅型）	Participating	6,687	Individual business
3	EM11-*Hong Fa Nian Nian Annuity* 鴻發年年全能定投年金	Participating	5,891	Individual business and group & partnerships
4	EL82-*Hongxin Rensheng Endowment* 鴻鑫人生兩全保險	Participating	5,676	Individual business and group & partnerships
5	EM20-*Hong Fa Nian Nian* Annuity A 2013 鴻發年年全能年金保險（分紅型）A 款（2013 版）	Participating	3,933	Individual business and group & partnerships

3.Policy persistency ratio

For 12 months ended 31 December	2015	2014	Changes
Individual life insurance customer 13-month persistency ratio (%)[note 1]	90.3	89.8	0.5pt
Individual life insurance customer 25-month persistency ratio (%)[note 2]	85.6	86.4	(0.8pt)

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 on the back of healthy business mix.

4. Top 10 regions for GWPs

Our GWPs mainly came from economically developed regions or populous areas.

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
GWPs	**108,589**	**98,692**	**10.0**
Jiangsu	11,342	10,407	9.0
Henan	10,561	8,936	18.2
Shandong	9,513	8,122	17.1
Zhejiang	7,650	6,975	9.7
Guangdong	7,310	7,230	1.1
Hebei	6,318	5,582	13.2
Shanxi	5,512	4,703	17.2
Hubei	4,915	4,730	3.9
Beijing	3,950	3,897	1.4
Heilongjiang	3,406	2,729	24.8
Subtotal	70,477	63,311	11.3
Others	38,112	35,381	7.7

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Net premiums earned	106,553	97,234	9.6
Investment income[note]	43,761	34,922	25.3
Other operating income	1,214	966	25.7
Total income	**151,528**	**133,122**	**13.8**
Net policyholders' benefits and claims	(105,410)	(95,069)	10.9
Finance costs	(2,235)	(2,690)	(16.9)
Interest credited to investment contracts	(1,436)	(1,373)	4.6
Other operating and administrative expenses	(28,011)	(22,284)	25.7
Total benefits, claims and expenses	**(137,092)**	**(121,416)**	**12.9**
Profit before tax	14,436	11,706	23.3
Income tax	(3,854)	(2,622)	47.0
Net profit	**10,582**	**9,084**	**16.5**

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

Investment income for the reporting period was RMB43.761 billion, up 25.3%, due to higher securities trading gains.

Net policyholders' benefits and claims amounted to RMB105.410 billion, up 10.9%. Of this, death and other benefits paid increased by 23.0%, largely due to the impact of higher pay-outs in maturity and survival benefits.

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Net policyholders' benefits and claims	**105,410**	**95,069**	**10.9**
Life insurance death and other benefits paid	49,490	40,245	23.0
Claims incurred	3,125	2,604	20.0
Changes in long-term insurance contract liabilities	45,741	47,250	(3.2)
Policyholder dividends	7,054	4,970	41.9

Finance expenses for 2015 amounted to RMB2.235 billion, down by 16.9%, mainly due to decreases in interest payment on securities sold under agreements to repurchase.

Other operating and management expenses for 2015 amounted to RMB28.011 billion, up 25.7%. The increase was mainly caused by business growth.

As a result, CPIC Life recorded a net profit of RMB10.582 billion for 2015.

(II) CPIC Allianz Health

2015 was the first full fiscal year of CPIC Allianz Health, which saw rapid business growth. The health subsidiary continued to promote distribution channel collaboration with CPIC Life and CPIC P/C, improved its product line-up and introduced professional health management services from Allianz so as to provide professional health insurance products and services to CPIC's customers.

Property and Casualty Insurance

In 2015, our property and casualty business, in the face of formidable challenges, reported RMB94.710 billion in GWPs, up 1.7%, with the combined ratio at 99.8%, down by 4.0pt from 2014. Going forward, we will step up development of emerging business lines while consolidating the foundation for traditional business in market share and profitability, so as to deliver sustainable value growth.

I. CPIC P/C

(I) Business analysis

In 2015, CPIC P/C reported GWPs of RMB94.615 billion, up 1.7%, with a combined ratio of 99.8%, down by 4.0pt.

Next, CPIC P/C will focus on the deregulation of commercial automobile insurance and innovate the "customer operation" model. As for non-automobile business, it'll enhance specialized management and innovate the development mode, including the development mode for agricultural business via intensified application of new technologies and development of new products. Efforts will also be made to beef up a centralized model for operation, with rationalized allocation of resources, in order to deliver healthy and sustainable business development.

1. Analysis by lines of business

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
GWPs	**94,615**	**93,026**	**1.7**
Automobile insurance	74,961	73,175	2.4
Compulsory motor insurance	16,219	15,869	2.2
Commercial automobile insurance	58,742	57,306	2.5
Non-automobile insurance	19,654	19,851	(1.0)
Commercial property insurance	5,433	5,912	(8.1)
Liability insurance	3,768	3,706	1.7
Accident insurance	2,502	2,610	(4.1)
Cargo insurance	1,745	1,794	(2.7)
Others	6,206	5,829	6.5

(1) Automobile insurance

For the reporting period, we reported GWPs of RMB74.961 billion from automobile business, up 2.4%, with a combined ratio of 98.0%, a decrease of 4.0pt from 2014, largely due to strengthened business quality control and improved business mix.

During 2015, we implemented differentiation between individual customers and corporate clients, focusing on individual customers while seeking to consolidate the status of our corporate business. We accelerated the development of core distribution channels such as telemarketing & internet, cross-sell and car dealerships whose share of automobile business reached 55.5%, up 6.5pt compared with 2014. Another priority was to increase the share of high-quality customers through increased investment. As a result, the proportion of renewal commercial automobile policies with reported claims from 0 to 1 reached 64.2%, up by 0.6pt.

Going forward, we will pro-actively tackle the deregulation of commercial automobile insurance and innovate the “customer operation” model for automobile insurance, whereby we’ll improve our pricing mechanisms on the back of new technologies and big data, enhance our risk management capabilities based on customer segmentation, and put in place a differentiated marketing & service system. We’ll also step up channel specialization, enhance the competitiveness of core channels and improve the business mix. Efforts will also be made to further rationalize the centralized claims management system, increase the use of new technologies for claims management to enhance customer experience.

(2) Non-automobile insurance

For the reporting period, in the context of economic slow-down, increased competitions, major accidents & disasters such as the Tianjin Blast and typhoons, and improved business mix, GWPs from non-automobile business amounted to RMB19.654 billion, down 1.0%, with a combined ratio of 108.9%, down by 3.7pt.

During the reporting period, we seized the opportunities of the new *Guo Shi Tiao* and the shift of government roles, and delivered a growth of 7.8% for our government-sponsored casualty business. In particular, we participated in government-sponsored health insurance programs in a large number of regions, with the health insurance growing by 31.4% in GWPs year-on-year. We stepped up preparations for micro-loans credit insurance and launched the brand *Tai Xiang Dai*. We intensified efforts in internet business, which saw rapid growth in 2015. We vigorously pushed further for the establishment of the "e-agricultural insurance system", promoting the use new technologies and the development of new products. In 2015, our agricultural business recorded GWPs of RMB1.155 billion, up 28.8%, with healthy underwriting profitability, marking a new stage of development.

Going forward, we will continue with the optimization of risk selection so as to ensure stable business quality. Other priorities on the agenda include innovation of the "customer operation" model for corporate clients, entrenching our leading position in traditional business lines and the use of new technologies and new product development in order to accelerate development of business from individual customers, SMEs and the internet. In agricultural insurance, we'll foster our competitive edge through digitalization, and deepen our strategic co-operation with Anxin Agricultural to achieve complementarity and synergy in market development and insurance expertise.

(3) Key financials of major business lines

Unit: RMB million

For 12 months ended 31 December 2015

Name of insurance	Premiums	Amounts Insured	Claims paid	Reserves	Underwriting profit	Combined ratio (%)
Automobile insurance	74,961	12,437,515	44,845	51,234	1,373	98.0
Commercial property insurance	5,413	11,127,347	3,254	6,262	(469)	113.5
Liability insurance	3,759	12,578,603	1,983	4,006	(414)	114.8
Accident insurance	2,501	29,088,841	1,281	2,218	(236)	109.3
Cargo insurance	1,732	6,019,193	1,028	903	46	96.1

2. Analysis by distribution channels

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
GWPs	**94,615**	**93,026**	**1.7**
Direct sales	13,729	14,805	(7.3)
Agents	51,439	50,996	0.9
Brokers	7,013	7,566	(7.3)
Telemarketing, Internet sales and cross-selling	22,434	19,659	14.1

In 2015, we made steadfast efforts to boost telemarketing & internet to enhance their ability to acquire customers and contribute value. GWPs from telemarketing & internet amounted to RMB18.001 billion, up 12.2%. We refined the model for cross-sell to promote resource-sharing, with RMB4.433 billion in GWPs from cross-selling, up 22.8%. These two channels combined represented 23.7% of total GWPs of CPIC P/C, up by 2.6pt.

3. Top 10 regions for GWPs

We derived our GWPs mainly from China's eastern coastal provinces and prosperous inland regions. Looking ahead, we will rely on our nationwide distribution network to implement differentiated regional development strategies based on factors like market potential and operational efficiency.

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
GWPs	**94,615**	**93,026**	**1.7**
Guangdong	12,660	13,164	(3.8)
Jiangsu	10,999	10,819	1.7
Zhejiang	9,493	8,890	6.8
Shanghai	7,459	7,090	5.2
Shandong	5,671	6,167	(8.0)
Beijing	5,435	5,227	4.0
Fujian	3,149	3,013	4.5
Chongqing	3,028	2,471	22.5
Sichuan	2,955	3,065	(3.6)
Guangxi	2,747	2,555	7.5
Sub-total	63,596	62,461	1.8
Others	31,019	30,565	1.5

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Net premiums earned	82,362	75,254	9.4
Investment income[note]	7,132	4,455	60.1
Other operating income	424	386	9.8
Total income	**89,918**	**80,095**	**12.3**
Claims incurred	(53,337)	(51,184)	4.2
Finance costs	(295)	(365)	(19.2)
Interest credited to investment contract	-	(1)	(100.0)
Other operating and administrative expenses	(29,247)	(27,266)	7.3
Total benefits, claims and expenses	**(82,879)**	**(78,816)**	**5.2**
Profit before tax	7,039	1,279	450.4
Income tax	(1,708)	(242)	605.8
Net profit	**5,331**	**1,037**	**414.1**

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

Investment income for the reporting period amounted to RMB7.132 billion, up 60.1%, mainly attributable to increase in securities trading gains.

Claims incurred totaled RMB53.337 billion, representing an increase of 4.2%, mainly due to business growth.

Other operating and administrative expenses amounted to RMB29.247 billion, up 7.3%, mainly due to business growth and market competitions.

Hence, a net profit of RMB5.331 billion was booked for CPIC P/C for 2015.

II. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December 2015, its total assets stood at RMB889 million, with net assets reaching RMB364 million. GWPs for the reporting period amounted to RMB456 million, with a combined ratio of 89.0%, and a net profit of RMB59 million.

Asset Management

Our asset management business, while serving in-house clients, continued to improve its investment capabilities and competitiveness and made a great effort to expand its third-party business. As of the end of 2015, Group AuM reached RMB1,087.932 billion, a growth of 19.4% from the end of 2014. Of this, Group in-house assets stood at RMB854.458 billion, up 12.2% from the end of 2014, with a growth rate of investments' net asset value of 8.2%. Third-party AuM totaled RMB233.474 billion, rising 56.3% from the end of 2014, with a fee income of RMB653 million, up 64.9% year-on-year.

I. Group AuM

As of the end of 2015, Group AuM reached RMB1,087.932 billion, a growth of 19.4% from the end of 2014.

Unit: RMB million

	31 December 2015	31 December 2014	Changes (%)
AuM of the Group[note]	**1,087,932**	**911,286**	**19.4**
Group in-house assets	854,458	761,886	12.2
Third-party AuM[note]	233,474	149,400	56.3
Third-party AuM by CPIC AMC	149,786	89,841	66.7
Assets under investment management by Changjiang Pension[note]	83,688	59,559	40.5

Note: Figures for the same period of 2014 have been restated.

II. Group in-house assets

During the reporting period, amid China's economic slow-down, there were several cuts on benchmark interest rates and the Required Reserve Ratio by the PBOC, and yields on fixed income assets fell sharply. At the same time, in spite of its rallies within the year, the equity market experienced much greater volatility, with polarized performances of individual stocks. We pre-emptively adjusted our asset allocation. While maintaining largely stable positions in traditional asset classes such as bonds, bank deposits and stocks & funds, we moderately increased, to the extent that it was aligned with the profiles of our liabilities and our risk tolerance, allocation in debt investment plans, financial products and "quasi-fixed income products" such as IPO funds, preferred shares and the A tranche of structured funds. The move helped to increase the diversification of our investment portfolio, control risks and stabilize the overall investment return.

(I) Consolidated investment portfolios

Unit: RMB million

	31 December 2015	Share (%)	Share change(pt)	Change (%)
Group investment assets (Total)	**854,458**	**100.0**	**-**	**12.2**
By investment category				
Fixed income investments	700,644	82.1	(4.6)	6.0
- Debt securities	430,633	50.4	(4.8)	2.5
- Term deposits	154,398	18.1	(3.6)	(6.7)
- Debt investment plans	53,025	6.2	(0.1)	11.5
- Wealth management products[note 1]	25,240	3.0	1.8	167.1
- Preferred shares	11,800	1.4	1.4	/
- Other fixed income investments[note 2]	25,548	3.0	0.7	43.3
Equity investments	123,279	14.4	3.8	53.0
- Investment funds[note3]	45,956	5.4	1.0	37.6
- Equity securities	33,645	3.9	0.1	15.8
- Wealth management products[note 1]	25,715	3.0	2.0	242.4
- Preferred shares	2,217	0.3	0.3	/
- Other equity investments[note 4]	15,746	1.8	0.4	48.3
Investment properties	6,344	0.7	(0.2)	(3.3)
Cash and cash equivalents	24,191	2.8	1.0	72.3
By investment purpose				
Financial assets at fair value through profit or loss	22,215	2.6	0.3	25.1
Available-for-sale financial assets	218,062	25.5	3.6	30.9
Held-to-maturity financial assets	310,343	36.3	(4.7)	(0.5)
Interests in associates	306	-	-	20.9
Investment in joint ventures	18	-	-	63.6
Loans and other investments[note 5]	303,514	35.6	0.8	14.4

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. The aggregate amounts of bond funds and money market funds as at 31 December 2015 and 31 December 2014 were RMB19.475 billion and RMB17.453 billion, respectively.
4. Other equity investments include unlisted equities, etc.
5. Loan and other investments include term deposits, cash and short-term time deposits, securities purchased under agreements to resell, policy loans, restricted statutory deposits, and investments classified as loans and receivables, and investment properties, etc.

1. By investment category

In the reporting period, our fixed income assets increased by RMB39.945 billion. Of this, bond investments increased by 2.5%, while term deposits decreased by 6.7% from the end of 2014. As of the end of 2015, T-bonds, financial bonds and enterprise bonds accounted for 19.4%, 30.2% and 50.4% respectively of total bond holdings. The vast majority of bond holdings had a credit-rating of AA+ or above. Debt investment plans and fixed-income wealth management products grew by 11.5% and 167.1% from the end of 2014 respectively. New fixed income assets for the period were mainly allocated in instruments of high credit ratings, with overall credit risk under control. The share of equity investments stood at 14.4%, up by 3.8pt from the end of 2014.

The non-standard assets of our investment portfolio mainly consisted of wealth management products issued by commercial banks, credit assets backed securities by banking institutions, collective trust plans by trust firms, special asset management plans by securities firms, infrastructure-related investment plans by insurance asset management companies, real estate investment plans and project assets backed schemes. As of the end of the reporting period, non-standard assets totaled RMB103.074 billion, up 59.9% from the end of 2014, accounting for 12.1% of our total in-house assets.

In the context of relaxation of investment restrictions over the past few years, insurance companies can now invest in more classes of non-standard assets. We enhanced the study and analysis of the new instruments and products and made continued efforts to improve internal investment policies and procedures to strengthen risk control. Risk management covers the whole process of non-standard assets investment including product screening, pre-investment assessment and follow-up management. Our non-standard assets have an overall high credit-rating. As of the end of the reporting period, for those assets with an external credit-rating, 95.2% had an AAA rating, and 4.8% AA and above.

2. By investment purpose

By investment purpose, our in-house assets are mainly in three categories, namely, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments as well as loans and other investments. Of this, AFS financial assets grew by 30.9% from the end of 2014, primarily due to increased investment in bonds, shares, funds and financial products. HTM investments decreased by 0.5% from the end of 2014 due to bond expiration and loans and other investments grew by 14.4% from the end of 2014 as a result of increases in debt investment plans and financial products.

(II) Investment income

For the reporting period, our total investment income totaled RMB55.910 billion, up 33.2%. Total investment yield reached 7.3%, up 1.2pt, which was mainly attributable to a steep rise in trading gains on equity securities and decrease in asset impairment provisions.

Net investment income amounted to RMB39.881 billion, up 8.6%. This increase stemmed mainly from higher interest income on fixed income investments, which grew by 9.3%. Net investment yield reached 5.2%, down by 0.1pt from 2014.

The growth rate of investments' net asset value reached 8.2%, down by 0.6pt year-on-year, mainly due to reduced increases in unrealized gains on AFS financial assets as a result of equity market volatility.

1. Group consolidated

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Interest income from fixed income investments	36,274	33,185	9.3
Dividend income from equity securities	3,019	3,010	0.3
Rental income from investment properties	588	523	12.4
Net investment income	**39,881**	**36,718**	**8.6**
Realized gains	15,906	7,938	100.4
Unrealized gains	52	713	(92.7)
Charge of impairment losses on investment assets	(282)	(3,672)	(92.3)
Other income[note 1]	353	276	27.9
Total investment income	**55,910**	**41,973**	**33.2**
Net investment yield (%)[note 2]	5.2	5.3	(0.1pt)
Total investment yield (%)[note 2]	7.3	6.1	1.2pt
Growth rate of investments' net asset value (%)[notes 2, 3]	8.2	8.8	(0.6pt)

Notes:

1. Other income includes interest income on cash and short-term time deposits, securities purchased under agreements to resell and share of profit in equity accounted investees, 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/average investment assets.

2. CPIC Life

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Net investment income	33,348	30,770	8.4
Net investment yield (%)	**5.1**	**5.3**	**(0.2pt)**
Total investment income	44,118	35,256	25.1
Total investment yield (%)	**6.8**	**6.1**	**0.7pt**

Note: The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets used as the denominator in the calculation of net/total investment yield are computed based on the Modified Dietz method.

3. CPIC P/C

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
Net investment income	4,589	4,110	11.7
Net investment yield (%)	**5.2**	**5.3**	**(0.1pt)**
Total investment income	7,132	4,455	60.1
Total investment yield (%)	**8.1**	**5.7**	**2.4pt**

Note: The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets used as the denominator in the calculation of net/total investment yield are computed based on the Modified Dietz method.

(III) Total investment yield on a consolidated basis

Unit: %

For 12 months ended 31 December	2015	2014	Changes
Total investment yield	**7.3**	**6.1**	**1.2pt**
Fixed income investments[note]	5.6	5.7	(0.1pt)

Equity investment[note]	19.6	8.4	11.2pt
Investment properties[note]	9.5	8.1	1.4pt
Cash and cash equivalents[note]	1.6	1.6	-

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

III. Third-party AuM

(I) Third-party AuM by CPIC AMC

CPIC AMC is committed to fostering core competencies in asset management and expanding its third-party business vigorously and steadily through innovations in asset management products. As of the end of 2015, its third-party AuM rose by 66.7% from the end of 2014, reaching RMB149.786 billion, with a fee income of RMB373 million, up 96.3%. During the reporting period, CPIC AMC successfully issued 12 debt investment plans, raising in total RMB12.571 billion. In particular, in December 2015, it successfully launched the Pacific-Jintong & Jintou Micro-loans Asset Backed Plans for a total amount of RMB3 billion, with underlying assets being the micro-loans held by Nanning Jintong Micro-loans Company Limited, a subsidiary of Guangxi Financial Investment Group Limited. The plan was an exploratory effort for insurance funds to boost economic development of China's outlying regions and improve SMEs' access to financing.

Besides, CPIC AMC established a diversified product line-up covering cash management, fixed income, equity and alternative investments, which can meet needs of clients with diverse risk-reward profiles. In 2015, the products under its management outperformed benchmarks in an all-around way. At the same time, CPIC AMC beefed up innovations to better satisfy clients' demand while ensuring stringent control of risks. In April 2015, the company successfully issued a USD-denominated deposit product, the first of its kind on the market, and became the first insurance asset manager whose products diversified into foreign currency.

(II) Assets under investment management by Changjiang Pension

In 2015, within the Group framework of "development driven equally by insurance and asset management", Changjiang Pension committed itself to becoming a specialized pension asset management company with market-oriented mechanisms and a comprehensive business scope. It promoted all-around collaboration with the Group in customers, products and asset management, introduced market-based reforms, boosted business innovations, stepped up recruitment of high-caliber people and achieved rapid business development, with investment results outperforming benchmarks, leading to sustained value growth for beneficiaries, shareholders and the company.

In the face of opportunities as well as challenges of the reform of China's social security system, implementation of the new *Guo Shi Tiao* internet finance and the evolution of China's pan-asset management, Changjiang Pension made great efforts to improve its supply of asset management products and services for both individual and corporate clients in order to entrench its leadership and enhance its edge on the market. In enterprise annuity, it tapped the potential of existing clients by way of meeting their potential needs and continued to play an important role on the enterprise annuity market. In old-age protection, Changjiang Pension leveraged its advantage in group product innovations and focused on deferred payment products and employees' ownership plans. On the other hand, it made foray into the individual segment, and launched its first individual pension product, which saw strong growth in 2015, with breakthroughs in internet sales, development of actively-managed products and quasi-publicly placed products. In insurance asset management, it explored overseas allocation of pension assets and became the first pension company which invested overseas for AuM. In alternative investment, it stepped up innovations, and obtained qualifications for real estate backed investment plans, the first among pension companies. In government-sponsored programs, it was amongst the first batch of asset managers qualified for the management of China's Social Security Guarantee Fund. Meanwhile, given its key value proposition as a market-oriented pension manager, it made preparations in occupational annuity and social security funds so as to better participate in the reform of China's social insurance system.

As of the end of the reporting period, Changjiang Pension's third-party assets under investment management reached RMB83.688 billion, rising by 40.5% from the end of 2014, with assets under custody of RMB60.829 billion, up 22.5% from the end of 2014.

Analysis of Specific Items

I. Key consolidated results

Unit: RMB million

	31 December 2015/Year 2015	31 December 2014/Year 2014	Changes (%)	Main Reasons
Total assets	923,843	825,100	12.0	Business expansion
Total liabilities	788,161	705,905	11.7	Business expansion
Total equity	135,682	119,195	13.8	Profit for the period, fair value change on available-for-sale financial assets
Net profit attributable to equity holders of the parent	17,728	11,049	60.4	Increase in investment yield and decrease in the combined ratio

II. Liquidity analysis

(I) Cash flow statement

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)

Net cash inflow from operating activities	40,895	40,050	2.1
Net cash outflow from investing activities	(38,554)	(46,940)	(17.9)
Net cash inflow from financing activities	7,746	1,570	393.4

(II) Gearing ratio

	31 December 2015	31 December 2014	Changes
Gearing ratio (%)	85.6	85.8	(0.2pt)

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

(III) Liquidity analysis

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

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

We usually record net cash inflows from our operating activities due to growing premium income. Meanwhile, we adhere to ALM, and in line with our strategic asset allocation (SAA), we maintain an appropriate level of allocation in high liquidity assets to meet liquidity requirement.

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

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

III. Solvency

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

Unit: RMB million

	31 December 2015	31 December 2014	Reasons of Change
CPIC Group			
Actual solvency margin	109,920	103,293	Profit for the period, profit distribution to shareholders, and change of the fair value of investment assets
Minimum solvency margin	39,196	36,842	Growth of life and property-casualty insurance business
Solvency margin ratio (%)	280	280	
CPIC Life			
Actual solvency margin	53,579	53,747	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets

Minimum solvency margin	26,679	24,611	Growth of insurance business
Solvency margin ratio (%)	201	218	
CPIC P/C			
Actual solvency margin	26,101	21,461	Profit for the period and change of the fair value of investment assets
Minimum solvency margin	12,372	12,106	Growth of insurance business
Solvency margin ratio (%)	211	177	

The first quarter of 2015 marked the beginning of the transitional period of C-ROSS. The new regime is risk oriented and features 3 pillars. It is more favorable to companies with prudent operation and committed to sustainable value growth. The results of quantitative testing under Pillar I indicate that as of the end of the reporting period, the solvency margin ratios of CPIC Group, CPIC Life and CPIC P/C all improved vis-a-vis the levels under the previous system.

IV. 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 2015 / 31 December 2015	
Market value	**Impact on profit before tax**	**Impact on equity**
+10%	699	4,630
-10%	(699)	(4,630)

Notes:
1. After policyholder participation.
2. Equity assets do not include bond funds, money market funds, wealth management products, preferred shares and other equity investments etc.

V. Insurance contract liabilities

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

As at 31 December 2015, insurance contract liabilities of CPIC Life amounted to RMB548.825 billion, representing an increase of 10.4% from the end of 2014. Those of CPIC P/C amounted to RMB72.147 billion, an increase of 6.9%. The rise was mainly caused by business expansion and accumulation of insurance liabilities.

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

Unit: RMB million

	31 December 2015	31 December 2014	Changes (%)
CPIC Life			
Unearned premiums	2,094	1,868	12.1
Claim reserves	1,604	1,316	21.9
Long-term life insurance contract liabilities	545,127	493,905	10.4
CPIC P/C			
Unearned premiums	37,606	37,297	0.8
Claim reserves	34,541	30,168	14.5

VI. Investment contract liabilities

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

Unit: RMB million

	31 December 2014	Increase for the period			Decrease for the period		31 December 2015
		Deposit received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	35,662	7,365	1,436	997	(5,276)	(151)	40,033

VII. Reinsurance business

In 2015, premiums ceded to reinsurers are shown below:

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
CPIC Life	1,864	1,424	30.9
Traditional insurance	1,484	1,113	33.3
Participating insurance	238	247	(3.6)
Universal insurance	2	3	(33.3)
Short-term accident and health insurance	140	61	129.5
CPIC P/C	11,989	12,344	(2.9)
Automobile insurance	5,943	6,181	(3.9)
Non-automobile insurance	6,046	6,163	(1.9)

The increase in ceded premiums for CPIC Life was due to higher reinsurance ratio whereas the decrease in ceded premiums for CPIC P/C was because of reduced ceded business.

In 2015, premiums ceded inwardly are set out below:

Unit: RMB million

For 12 months ended 31 December	2015	2014	Changes (%)
CPIC P/C	177	188	(5.9)
Automobile insurance	-	-	/
Non-automobile insurance	177	188	(5.9)

As at the end of 2015, reinsurance assets are set out below:

Unit: RMB million

	31 December 2015	31 December 2014	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	65	11	490.9

Claim reserves	15	11	36.4
Long-term life insurance contract liabilities	7,743	6,873	12.7
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	4,304	4,259	1.1
Claim reserves	6,442	6,202	3.9

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

OUTLOOK

I. Market Environment

In 2016, China's economy is expected to grow steadily, with room for further progress and improvement, which provides a favorable environment for the healthy development of the insurance industry. In particular, the central government put forward the goal of building China into a moderately prosperous society in an all-around way in terms of economic output, industry mix, demand structure, people's income and urbanization. The insurance sector can play an even more important role in economic upgrade, improvement of the lot of the Chinese people and public administration. The target growth of 6.5% set by the government for the 13th Five Year Program, and the decision to implement the Supplementary Insurance Program for Terminal Illnesses and the agenda of building "a healthy China" will provide huge opportunities for health insurance, elderly care, health management and pension business. The government intends for insurance to play a bigger part in the provision of public services through, say, the roll-out of mandatory liability insurance for work-place safety, which paves the way for insurance to contribute to public safety and the mitigation of natural disasters. The One Belt and One Road Initiative provides opportunities for insurance funds to participate in infrastructure projects, helping the industry to go overseas. With big data, insurance companies can gain insights into customers' needs, innovate products and services and deliver targeted marketing and services. New technologies can empower insurance agents, and are increasingly used in product pricing, claims management, customer service and mid and back office support. At the same time, insurance customers are also changing fast, with an increasing appetite for on-line interfaces. Demand for insurance is on the rise, and customers' wealth is increasing. There are also opportunities for government-related business and corporate business.

On the other hand, China's economy is in a transitional period, with shifting drivers, and chronic systemic issues are showing. The market environment of the industry is undergoing profound changes. A low interest rate environment poses challenges to ALM of life insurance companies, making it all the more important for the sector to be mindful of liability costs and ALM, so as to prevent the risk of negative spread. The all-around deepening of market-based reforms would compel insurers to rationalize development philosophies, business strategies, product offerings and sales model.

II. Business Plans

In 2016, the Company will continue to promote the upgrade of its "customer operation" model, focusing on value and quality, while enhancing customer services and preventing risks.

The life business will continue to drive NBV growth via the upgrade of its "customer operation" model. The P/C segment will strive for advantage in the combined ratio through sustained focus on new channels, new business lines and new technologies. Asset management is committed to further enhancing its competitiveness and expansion of third-party business. We'll seize opportunities in tax-deductible commercial health insurance and tax-deferred pension schemes to further shore up our footing in the health insurance and pension market. We'll accelerate investments in internet+ to achieve integrated development of on-line and off-line. We'll also put in place a centralized operational platform which serves front-end innovations and ensures back-office reliability.

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 2015, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2015 by approximately RMB4.844 billion and a decrease in profit before tax for 2015 by approximately RMB4.844 billion.

Embedded Value

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

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2015, and the value of one year's sales of CPIC Life in the 12 month to 31 December 2015 at risk discount rate of 11%.

Unit: RMB Million

Valuation Date	31 December 2015	31 December 2014
Group Adjusted Net Worth	**115,065**	**97,230**
Adjusted Net Worth of CPIC Life	59,785	50,386
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written prior to June 1999	(4,503)	(4,721)
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written since June 1999	113,762	94,938
Cost of Solvency Margin Held for CPIC Life	(17,127)	(14,867)
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held	92,132	75,351
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held attributable to the shareholders of CPIC Group	**90,559**	**74,064**
Group Embedded Value	**205,624**	**171,294**
Life Embedded Value	151,918	125,737
Value of One Year's Sales of CPIC Life Before Cost of Solvency Margin Held	14,180	10,205
Cost of Solvency Margin	(2,158)	(1,479)
Value of One Year's Sales of CPIC Life After Cost of Solvency Margin Held	**12,022**	**8,725**

Note that figures may not be additive due to rounding

The Group Adjusted Net Worth represents the shareholder net equity of the Company based on the China Accounting Standards, and adjusting the relevant differences, such as difference between China Accounting Standards reserves and PRC statutory reserves, inclusive of adjustments of the value of certain assets to market value. 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 solvency margin held at risk discount rate of 11% for year 2015.

Unit: RMB Million

	First Year Annual Premium (FYAP)		Value of One Year's Sales After Cost of Solvency Margin Held	
	2015	**2014**	**2015**	**2014**
Individual business	30,948	19,503	11,497	8,069
Group & Partnerships	10,246	16,105	525	656
Total	**41,194**	**35,608**	**12,022**	**8,725**

Note: Figures may not be additive due to rounding.

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2014 to 31 December 2015.

Unit: RMB Million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2014**	**125,737**	
2	Expected Return on Embedded Value	13,051	Expected returns on the 2014 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2015
3	Value of One Year's Sales	12,022	Value of one year's sale in respect of new business written in the 12 months prior to 31 December 2015
4	Investment Experience Variance	3,548	Reflects the difference between actual and assumed investment return in 2015
5	Operating Experience Variance	(97)	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	40	Reflects assumption and methodology changes, together with model enhancements
7	Change in market value adjustment	2,772	Reflects the change in value of certain assets not valued on a market value basis
8	Shareholder Dividends	(5,052)	Shareholder dividends distributed to shareholders of CPIC Life
9	Others	(103)	
10	**Embedded Value of the life business at 31 December 2015**	**151,918**	Increased by 20.8% relative to 31 December 2014
11	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2014**	**48,578**	
12	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	11,569	

13	Shareholder dividends	(4,617)	Dividend distributed to shareholders of CPIC Group
14	Change in market value adjustment	1,789	Reflects the change in value of assets not valued on a market value basis
15	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2015**	**57,319**	
16	Minority interests relating to equity and market value adjustments	(3,612)	Minority interests on Embedded Value as at 31 December 2015
17	**Group Embedded Value as at 31 December 2015**	**205,624**	
18	**Embedded Value as at 31 December 2015 per share (RMB)**	**22.69**	

Note that 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 substantially all of the recommended best practices of Corporate Governance Code.

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

During the year ended 31 December 2015, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

Proposed final dividend

On 25 March 2016, the Board recommended a final dividend of RMB1.00 per share (including tax) for the year ended 31 December 2015, amounting to approximately RMB9.062 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2015 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 Thursday, 11 August 2016 to the shareholders whose names appear on the H Share Register of Members of the Company on Tuesday, 28 June 2016.

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 its non-resident enterprise shareholders whose names appear on the H Share Register of Members of the Company on Tuesday, 28 June 2016.

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 individual holders of H Shares whose names appear on the Company's H Share Register of Members on Tuesday, 28 June 2016. 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 for H Share shareholders whose names appear on the Company's H Share Register of Members on Tuesday, 28 June 2016. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share shareholders or any disputes over the withholding and payment mechanism or arrangements.

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

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

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

Shanghai-Hong Kong Stock Connect Program, the Company will withhold individual income tax in the same way as the foregoing requirements;

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

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

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A shares of the Company listed on the Shanghai Stock Exchange (the "Shanghai Stock Connect"), the dividends received by them will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such A shares. Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81 號)), the Company will withhold income tax at the rate of 10% on behalf of those investors and will undertake the reporting procedures on the tax withholding and payment with the tax authorities, and the after-tax cash dividend will be RMB[0.90] 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.

Eligibility for proposed final dividend and closure of H share register of members

The H Share Register of Members of the Company will be closed from Thursday, 23 June 2016 to Tuesday, 28 June 2016 (both days inclusive), during which no transfer of H shares will be registered. In order to be eligible for the entitlement of the final dividend, H Share shareholders should ensure that all transfer documents, accompanied with the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Wednesday, 22 June 2016.

The Company will announce details on the payment of the final dividend for the year 2015 to A Share shareholders on the Shanghai Stock Exchange.

Eligibility for attending the AGM and closure of H share register of members

The 2015 AGM will be held on Friday, 17 June 2016. The H Share Register of Members of the Company will be closed for the purpose of determining H Share shareholders' entitlement to attend the AGM, from Tuesday, 17 May 2016 to Friday, 17 June 2016 (both days inclusive), during which no transfer of H Shares will be registered. In order to attend the AGM, H Share shareholders should ensure that all transfer documents, accompanied with the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Monday, 16 May 2016.

The Company will announce details on A Share shareholders' eligibility for attending the AGM on the Shanghai Stock Exchange.

Review of accounts

The audit committee of the Company has reviewed the principal accounting policies of the Group and the audited financial statements for the year ended 31 December 2015 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 2015 will be dispatched to shareholders in due course and will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.cpic.com.cn).

Definitions

"The Company", "the Group", "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 Allianz Health"	CPIC Allianz Health Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC HK"	China Pacific Insurance Co., (H.K.) Limited, a wholly-owned subsidiary of China Pacific Insurance (Group) Co., Ltd.
"Changjiang Pension"	Changjiang Pension Insurance Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC Online"	Pacific Insurance Online Services Technology Co., Ltd., a wholly-owned subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC AII"	Pacific Insurance Aging Industry Investment Management Co., Ltd., a holding subsidiary of China Pacific Insurance (Group) Co., Ltd.
"Anxin Agricultural"	Anxin Agricultural Insurance Co., Ltd.
"New *Guo Shi Tiao*"	Several Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry
"C-ROSS"	China Risk Oriented Solvency System
"CIRC"	China Insurance Regulatory Commission
"CSRC"	China Securities Regulatory Commission
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"PRC GAAP"	China Accounting Standards for Business Enterprises issued by Ministry of Finance of the People's Republic of China, and the application guide, interpretation and other related regulations issued afterwards
"Corporate Governance Code"	Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"RMB"	Renminbi
"pt"	Percentage point

By Order of the Board

China Pacific Insurance (Group) Co., Ltd.

GAO Guofu

Chairman

Hong Kong, 28 March 2016

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

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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)

We have audited the consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 116, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
25 March 2016

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2015

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2015**	**2014**
Gross written premiums	6(a)	203,305	191,805
Less: Premiums ceded to reinsurers	6(b)	(13,405)	(13,437)
Net written premiums	6	189,900	178,368
Net change in unearned premium reserves		(524)	(5,477)
Net premiums earned		189,376	172,891
Investment income	7	55,287	41,428
Other operating income		2,300	1,886
Other income		57,587	43,314
Total income		246,963	216,205
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(49,490)	(40,245)
Claims incurred	8	(56,734)	(54,032)
Changes in long-term life insurance contract liabilities	8	(46,623)	(47,337)
Policyholder dividends	8	(7,054)	(4,970)
Finance costs	9	(2,640)	(3,153)
Interest credited to investment contracts		(1,436)	(1,374)
Other operating and administrative expenses		(58,710)	(50,616)
Total benefits, claims and expenses		(222,687)	(201,727)
Share of profit in equity accounted investees		35	22
Profit before tax	10	24,311	14,500
Income tax	14	(6,273)	(3,255)
Net profit for the year		18,038	11,245
Attributable to:			
Equity holders of the parent		17,728	11,049
Non-controlling interests		310	196
		18,038	11,245
Basic earnings per share	15	RMB1.96	RMB1.22
Diluted earnings per share	15	RMB1.96	RMB1.22

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 2015

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2015**	**2014**
Net profit for the year		18,038	11,245
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	16	23	1
Available-for-sale financial assets	16	4,070	14,523
Income tax relating to available-for-sale financial assets	16	(1,036)	(3,617)
Share of other comprehensive income in equity accounted investees	16	9	10
Other comprehensive income to be reclassified to profit or loss in subsequent periods		3,066	10,917
Other comprehensive income for the year	16	3,066	10,917
Total comprehensive income for the year		21,104	22,162
Attributable to:			
Equity holders of the parent		20,736	21,788
Non-controlling interests		368	374
		21,104	22,162

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2015

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2015**	**31 December 2014**
ASSETS			
Goodwill	17	962	962
Property and equipment	18	14,254	12,960
Investment properties	19	6,344	6,563
Other intangible assets	20	1,048	886
Prepaid land lease payments	21	57	58
Interests in associates	22	306	253
Investment in joint ventures	23	18	11
Held-to-maturity financial assets	24	310,343	311,998
Investments classified as loans and receivables	25	93,033	61,259
Restricted statutory deposits	26	5,938	5,580
Term deposits	27	154,398	165,562
Available-for-sale financial assets	28	218,062	166,601
Financial assets at fair value through profit or loss	29	22,251	17,764
Securities purchased under agreements to resell	30	14,691	2,822
Policy loans		19,610	12,253
Interest receivables	31	15,764	15,232
Reinsurance assets	32	18,257	17,167
Deferred income tax assets	33	80	148
Insurance receivables	34	8,091	8,357
Other assets	35	10,835	7,444
Cash and short-term time deposits	36	9,501	11,220
Total assets		923,843	825,100

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

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2015	31 December 2014
EQUITY AND LIABILITIES			
Equity			
Issued capital	37	9,062	9,062
Reserves	38	86,546	81,375
Retained profits	38	37,728	26,694
Equity attributable to equity holders of the parent		133,336	117,131
Non-controlling interests		2,346	2,064
Total equity		135,682	119,195
Liabilities			
Insurance contract liabilities	39	621,079	564,643
Investment contract liabilities	40	40,033	35,662
Policyholders' deposits		75	76
Subordinated debts	41	19,497	19,496
Long-term borrowings		-	187
Securities sold under agreements to repurchase	42	28,981	26,908
Deferred income tax liabilities	33	2,499	1,628
Income tax payable		2,974	1,631
Premium received in advance		17,265	7,860
Policyholder dividend payable		19,014	16,024
Payables to reinsurers		3,396	3,577
Other liabilities	43	33,348	28,213
Total liabilities		788,161	705,905
Total equity and liabilities		923,843	825,100

GAO Guofu
Director

HUO Lianhong
Director

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

(All amounts expressed in RMB million unless otherwise specified)

Group

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

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

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2015

(All amounts expressed in RMB million unless otherwise specified)

Group

	2014										
	Attributable to equity holders of the parent										
		Reserves									
	Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Share of other comprehensive income in equity accounted investees	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2014	9,062	66,742	3,089	4,544	(5,155)	(64)	-	20,750	98,968	1,418	100,386
Total comprehensive income	-	-	-	-	10,728	1	10	11,049	21,788	374	22,162
Dividend declared [1]	-	-	-	-	-	-	-	(3,625)	(3,625)	-	(3,625)
Changes in ownership interests in subsidiaries without change of control	-	-	-	-	-	-	-	-	-	109	109
Non-controlling interests on newly established subsidiaries	-	-	-	-	-	-	-	-	-	230	230
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(67)	(67)
Appropriations to general reserves	-	-	-	995	-	-	-	(995)	-	-	-
Appropriations to surplus reserves	-	-	485	-	-	-	-	(485)	-	-	-
At 31 December 2014	9,062	66,742	3,574	5,539	5,573	(63)	10	26,694	117,131	2,064	119,195

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2013, amounting to RMB3,625 million (RMB0.40 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 2015

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2015**	**2014**
OPERATING ACTIVITIES			
Cash generated from operating activities	49	45,922	42,521
Income tax paid		(5,027)	(2,471)
Net cash inflow from operating activities		40,895	40,050
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(3,257)	(3,645)
Proceeds from sale of property and equipment, intangible assets and other assets		46	56
Purchases of investments, net		(73,981)	(76,655)
Acquisition of a subsidiary and other business entities, net		(27)	(221)
Interest received		35,941	30,540
Dividends received from investments		3,054	2,985
Other cash payment related to investing activities		(330)	-
Net cash outflow from investing activities		(38,554)	(46,940)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		2,073	1,709
Repayment of borrowings		(187)	(2)
Proceeds from issuance of subordinated debts		-	4,000
Interest paid		(2,111)	(2,431)
Dividends paid		(4,617)	(3,692)
Capital injection to subsidiaries by NCI		-	339
Proceeds from NCI of consolidated structured entities		12,588	1,647
Net cash inflow from financing activities		7,746	1,570
Effects of exchange rate changes on cash and cash equivalents		63	27
Net increase/(decrease) in cash and cash equivalents		10,150	(5,293)
Cash and cash equivalents at beginning of year		14,042	19,335
Cash and cash equivalents at end of year		24,192	14,042
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		8,124	7,819
Time deposits with original maturity of no more than three months		439	2,803
Other monetary assets		938	598
Investments with original maturity of no more than three months		14,691	2,822
Cash and cash equivalents at end of year		24,192	14,042

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

(All amounts expressed in RMB million unless otherwise specified)

1. CORPORATE INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

(1) Changes in accounting policy and disclosures

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

HKAS 19 Amendments	Defined Benefit Plans: Employee Contributions
Annual Improvements 2012 and 2013	Amendments to a number of HKFRSs Issued from the 2010 – 2013 reporting cycle

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

(2) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(3) New and revised standards not yet adopted

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

HKFRS 11 Amendments	Accounting for Acquisitions of Interests in Joint Operation[1]
HKAS 16 and HKAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture[1]
HKAS 27 Amendments	Equity Method[1]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 9	Financial Instruments[4]
Annual Improvements 2014	Amendments to a number of HKFRSs Issued from the 2012 – 2014 reporting cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 July 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 January 2018

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

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

HKFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 ‘Revenue’ and HKAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the full impact of HKFRS 15.

IFRS 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 IFRS 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 IAS 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 IFRS 15 'Revenue from contracts with customers' at the same time. The group is currently assessing the impact of IFRS 16.

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies

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

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2015. The financial statements of the subsidiaries for the purpose of preparing the consolidated financial statements are prepared for the same reporting period, using consistent accounting policies. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(2) Foreign currency translation

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

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

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

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

(3) Subsidiaries

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(3) Subsidiaries (continued)

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

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

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

(4) Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

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

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

(5) Business combinations and goodwill

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(6) Related parties

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

(a) the party is a person or a close member of that person's family and that person:
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or its parent.

or

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

(7) Property and equipment and depreciation

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

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

Land and buildings	1.39% to 3.23%
Motor vehicles	12.13% to 32.33%
Office furniture and equipment	10% to 33.33%
Leasehold improvements	Over the shorter of the lease terms and 20%

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(7) Property and equipment and depreciation (continued)

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

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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

(8) Investment properties

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(9) Intangible assets (other than goodwill)

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

(10) Operating leases

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

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

(11) Investments and other financial assets

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

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

Held-to-maturity financial assets

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Available-for-sale financial assets

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

(12) Derivative financial instruments

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

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

(13) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(13) Fair value measurement (continued)

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

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

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

(14) Impairment of financial assets

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

Assets carried at amortized cost

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Assets carried at amortized cost (continued)

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

Available-for-sale financial assets

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

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

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

Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement. Increases in their fair value after impairment are recognized directly in other comprehensive income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(15) Derecognition of financial assets

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

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

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

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

(16) Offsetting of financial instruments

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

(17) Securities purchased under agreements to resell

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

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

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

(19) Reinsurance

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(19) Reinsurance (continued)

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts payable to reinsurers are estimated in a manner consistent with that of the associated reinsurance contracts.

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

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

(20) Cash and cash equivalents

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

(21) Insurance contracts

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

(a) If the insurance risk portion and other risk portion are distinct and separately measurable, the insurance risk portion and other risk portion should be unbundled. The portion with insurance risk should be treated as an insurance contract, while the portion with other risks should not be treated as an insurance contract.

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(22) Testing the significance of insurance risk

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities

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

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

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

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

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

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

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

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 brenchmark and the Group's experience.

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

(25) Investment contract liabilities

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

(26) Financial liabilities

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(26) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

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

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

(27) Derecognition of financial liabilities

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

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

(28) Securities sold under agreements to repurchase

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

(29) Provisions

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(29) Provisions (continued)

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

(30) Income tax

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(30) Income tax (continued)

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

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

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

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

(31) Revenue recognition

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

(a) Gross premiums

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

- The insurance contracts are issued;
- The related insurance risk is undertaken by the Group;
- It is probable that the related economic benefits will flow to the Group; and
- The related income can be reliably measured.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(31) Revenue recognition (continued)

(a) Gross premiums (continued)

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

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

(b) Income from investment contracts

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

Income from investment contracts is included in other operating income.

(c) Investment income

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

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

(32) Employee benefits

(a) Pension schemes

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(32) Employee benefits (continued)

(a) Pension schemes (continued)

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

(b) Housing benefits

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

(c) Medical benefits

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

(d) Deferred bonus plans

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

(33) Borrowing costs

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

(34) Dividends

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Significant judgements

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

(1) Classification of financial assets

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

(2) Unbundling and classification of hybrid contracts

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

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

(3) Measurement unit for insurance contracts

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Significant judgements (continued)

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

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

(5) Determination of control over structured entities

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

3.2 Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

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

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

Unearned premium and long-term life insurance contract reserves

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by reference to the 750-day moving average bond yield curve, published on the "China Bond" website. A premium is added by considering the liquidity, taxation impacts and other relevant factors. The ranges of discount rates used as at 31 December 2014 and 2015 were from 3.57% to 6.28% and from 3.47% to 5.96%, 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 2014 and 2015 were from 5.00% to 5.20% and from 5.10% to 5.20%, respectively.

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

(b) Mortality and morbidity

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

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

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

(c) Loss ratios

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(d) Surrender rates

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

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

(e) Expenses

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

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

(f) Policy dividend

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Claim reserves

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

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

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

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

(3) Deferred income tax assets

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Significant judgement is required to estimate the amount and timing of future taxable profit so as to determine, together with the tax planning strategies, the amount of deferred income tax assets to be recognized.

(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 2015, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2015 by approximately RMB 4,844 million and a decrease in profit before tax for 2015 by approximately RMB 4,844 million.

4. SEGMENT INFORMATION

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

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

The Group's operating segments are listed as follows:

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

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

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

In 2015, gross written premiums from transactions with the top five external customers amounted to 0.31% (2014: 0.6%) 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 2015

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

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2015

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

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

Other segment information for the year ended 31 December 2015

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

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimin a-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Gross written premiums	98,692	93,026	456	(369)	93,113	-	-	191,805
Less: Premiums ceded to reinsurers	(1,424)	(12,344)	(38)	369	(12,013)	-	-	(13,437)
Net written premiums	97,268	80,682	418	-	81,100	-	-	178,368
Net change in unearned premium reserves	(34)	(5,428)	(15)	-	(5,443)	-	-	(5,477)
Net premiums earned	97,234	75,254	403	-	75,657	-	-	172,891
Investment income	34,897	4,434	27	-	4,461	3,012	(942)	41,428
Other operating income	966	386	2	-	388	2,293	(1,761)	1,886
Other income	35,863	4,820	29	-	4,849	5,305	(2,703)	43,314
Segment income	133,097	80,074	432	-	80,506	5,305	(2,703)	216,205
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(40,245)	-	-	-	-	-	-	(40,245)
Claims incurred	(2,604)	(51,184)	(244)	-	(51,428)	-	-	(54,032)
Changes in long-term life insurance contract liabilities	(47,250)	-	-	-	-	-	(87)	(47,337)
Policyholder dividends	(4,970)	-	-	-	-	-	-	(4,970)
Finance costs	(2,690)	(365)	-	-	(365)	(98)	-	(3,153)
Interest credited to investment contracts	(1,373)	(1)	-	-	(1)	-	-	(1,374)
Other operating and administrative expenses	(22,284)	(27,266)	(151)	-	(27,417)	(2,440)	1,525	(50,616)
Segment benefits, claims and expenses	(121,416)	(78,816)	(395)	-	(79,211)	(2,538)	1,438	(201,727)
Segment results	11,681	1,258	37	-	1,295	2,767	(1,265)	14,478
Share of profit in equity accounted investees	25	21	-	-	21	-	(24)	22
Profit before tax	11,706	1,279	37	-	1,316	2,767	(1,289)	14,500
Income tax	(2,622)	(242)	(6)	-	(248)	(344)	(41)	(3,255)
Net profit for the year	9,084	1,037	31	-	1,068	2,423	(1,330)	11,245

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Investment in associates	-	-	-	-	-	253	-	253
Investment in joint ventures	-	11	-	-	11	-	-	11
Financial assets *	480,381	56,794	381	-	57,175	20,066	-	557,622
Term deposits	132,733	24,189	-	-	24,189	8,640	-	165,562
Others	57,151	33,487	383	(361)	33,509	27,701	(16,709)	101,652
Segment assets	670,265	114,481	764	(361)	114,884	56,660	(16,709)	825,100
Insurance contract liabilities	497,089	67,465	324	(235)	67,554	-	-	564,643
Investment contract liabilities	35,622	40	-	-	40	-	-	35,662
Policyholders' deposits	11	65	-	-	65	-	-	76
Subordinated debts	15,500	3,996	-	-	3,996	-	-	19,496
Securities sold under agreements to repurchase	22,273	1,903	-	-	1,903	2,732	-	26,908
Others	41,236	13,083	150	(126)	13,107	5,501	(724)	59,120
Segment liabilities	611,731	86,552	474	(361)	86,665	8,233	(724)	705,905

* 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 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Depreciation and amortization	613	687	2	-	689	419	-	1,721
Capital expenditure	1,250	1,038	2	-	1,040	1,640	-	3,930
Impairment loss charges	3,567	151	1	-	152	81	-	3,800
Interest income	27,971	3,787	27	-	3,814	1,898	(244)	33,439
Unrealized gains from financial assets at fair value through profit or loss	654	54	-	-	54	5	-	713

(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 2015 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
							Direct	Indirect	
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Limited company	Property and casualty insurance	Shanghai	The PRC	19,470,000	19,470,000	98.50	-	98.50
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Limited company	Life insurance	Shanghai	The PRC	8,420,000	8,420,000	98.29	-	98.29
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Limited company	Investment management	Shanghai	Shanghai	500,000	500,000	80.00	19.67	100.00
China Pacific Insurance Co., (H.K.) Ltd.	Limited company	Property and casualty insurance	Hong Kong	Hong Kong	HK$250,000 thousand	HK$250,000 thousand	100.00	-	100.00
Shanghai Pacific Real Estate Co., Ltd.	Limited company	Management of properties	Shanghai	Shanghai	115,000	115,000	100.00	-	100.00
Fenghua Xikou Garden Hotel	Limited company	Hotel operations	Zhejiang	Zhejiang	8,000	8,000	-	98.39	100.00
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Limited company	Pension business and investment management	Shanghai	Shanghai	787,610	787,610	-	51.00	51.75
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Limited company	Investment management	Hong Kong	Hong Kong	HK$50,000 thousand	HK$50,000 thousand	49.00	50.83	100.00
City Island Developments Limited ("City Island")	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US$50,000	US$1,000	-	98.29	100.00

(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 2015 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: Direct	Percentage of equity attributable to the Company: Indirect	Percentage of voting rights attributable to the Company
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.	Limited company	Consulting services, etc	Shandong	The PRC	200,000	200,000	100.00	-	100.00
Tianjin Trophy Real Estate Co., Ltd. ("Tianjin Trophy")	Limited company	Real estate	Tianjin	Tianjin	353,690	353,690	-	98.29	100.00
Pacific Insurance Aging Industry Investment Management Co., Ltd. ("CPIC Aging Investment")	Limited company	Pension business investment, etc	Shanghai	Shanghai	219,000	219,000	-	98.29	100.00
CPIC Allianz Health Insurance Co.,Ltd. ("CPIC Allianz Health")	Limited company	Health insurance	Shanghai	Shanghai	1,000,000	1,000,000	77.05	-	77.05
Shanghai Nan Shan Ju Xuhong Nursing Home Co., Ltd. ("Nan Shan Ju")	Limited company	Pension services	Shanghai	Shanghai	20,000	15,000	-	98.29	100.00

* Subsidiaries of City Island

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(b) As at 31 December 2015, consolidated structured entities material to the Group are as followings:

Name	Collective Holding by the Group (%)	Paid-in capital (Units in thousand)	Principal activities
Pacific Excellent Wealth CSI 300 Index	100.00	3,357,811	Investing in financial instruments with good liquidity, including CSI 300 Index Constituent and Proxy Stocks. In addition, to successfully achieve the investment goal, this product also allocates a few investments in non-constituent stocks to be listed in CSI 300 Index Constituent Stocks, stocks newly-issued or additionally-issued in the primary market, government bond to be due within one year, exchange repo, demand deposits at band, funds in monetary market, etc. Product Manager may bring other financial instruments that are allowed by laws and regulations or regulators into the scope of investment after implementation of proper procedures.
Pacific Excellent Wealth Bond funds Enhanced	25.51	1,524,063	Investing in fixed-income assets such as treasury bonds, central bank bills, local government bonds, policy bank bonds, commercial bank bonds, corporate bonds, medium term notes, commercial papers, subordinated debts, hybrid capital bonds, pure debt of warrant bonds, repo, bank deposit and deposit receipt; financial instruments such as asset-backed securities, bond funds and monetary market funds; financial products permitted by regulators such as infrastructure investments, real estate investments and project and asset support plans investments; and other fixed-income securities that permitted by laws and regulations or regulators.
Changjiang Pension Golden Wealth Management No. 6 Assets Management Product	100.00	1,000,000	This product, excluding monetary assets (with percentages no more than 10% of the product's net asset value), shall allocate to Huaxin Trust - Haorui No. 11 Assembled Funds Trust Plan in full amount.
Pacific Excellent Wealth Focus Dividend &Value Equity	100.00	863,780	Investing in financial instruments with strong liquidity including: legally listed domestic stocks (including: stocks listed in SME, GEM and others approved by CSRC), cash management products (including: cash, call deposits, short-term financing bonds, time deposits and certificate of deposits due within 1 year (inclusive), bond repurchase and central bank bill matured within 1 year (inclusive), bonds, asset-backed securities, medium term notes, monetary funds with residual maturity within 397 days (inclusive) and other cash management products approved by regulators.

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

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2015	2014
Long-term life insurance premiums	101,022	92,150
Short-term life insurance premiums	7,573	6,542
Property and casualty insurance premiums	94,710	93,113
	203,305	191,805

(b) Premiums ceded to reinsurers

	2015	2014
Long-term life insurance premiums ceded to reinsurers	(1,724)	(1,363)
Short-term life insurance premiums ceded to reinsurers	(47)	(61)
Property and casualty insurance premiums ceded to reinsurers	(11,634)	(12,013)
	(13,405)	(13,437)

(c) Net written premiums

	2015	2014
Net written premiums	189,900	178,368

7. INVESTMENT INCOME

	2015	2014
Interest and dividend income (a)	39,611	36,449
Realized gains (b)	15,906	7,938
Unrealized gains (c)	52	713
Charge of impairment losses on financial assets	(282)	(3,672)
	55,287	41,428

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2015	2014
Financial assets at fair value through profit or loss		
- Fixed maturity investments	715	398
- Investment funds	48	16
- Equity securities	46	48
	809	462
Held-to-maturity financial assets		
- Fixed maturity investments	15,699	14,521
Loans and receivables		
- Fixed maturity investments	15,400	13,043
Available-for-sale financial assets		
- Fixed maturity investments	4,778	5,477
- Investment funds	1,368	1,348
- Equity securities	628	1,145
- Other equity investments	929	453
	7,703	8,423
	39,611	36,449

(b) Realized gains

	2015	2014
Financial assets at fair value through profit or loss		
- Fixed maturity investments	427	1,028
- Investment funds	(37)	6
- Equity securities	2,616	703
- Other equity investments	3	-
	3,009	1,737
Available-for-sale financial assets		
- Fixed maturity investments	344	13
- Investment funds	3,949	1,998
- Equity securities	8,583	4,190
- Other equity investments	21	-
	12,897	6,201
	15,906	7,938

(c) Unrealized gains

	2015	2014
Financial assets at fair value through profit or loss		
- Fixed maturity investments	130	323
- Investment funds	-	15
- Equity securities	(76)	375
- Other equity investments	(2)	-
	52	713

(All amounts expressed in RMB million unless otherwise specified)

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2015		
	Gross	Ceded	Net
Life insurance death and other benefits paid	50,177	(687)	49,490
Claims incurred			
- Short-term life insurance	3,147	(16)	3,131
- Property and casualty insurance	60,750	(7,147)	53,603
Changes in long-term life insurance contract liabilities	47,493	(870)	46,623
Policyholder dividends	7,054	-	7,054
	168,621	(8,720)	159,901

	2014		
	Gross	Ceded	Net
Life insurance death and other benefits paid	40,748	(503)	40,245
Claims incurred			
- Short-term life insurance	2,607	(3)	2,604
- Property and casualty insurance	60,334	(8,906)	51,428
Changes in long-term life insurance contract liabilities	47,863	(526)	47,337
Policyholder dividends	4,970	-	4,970
	156,522	(9,938)	146,584

9. FINANCE COSTS

	2015	2014
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	1,103	1,693
- Interest expense on policyholder dividends	505	470
	1,608	2,163
Non-current liabilities		
- Interest expense on subordinated debts	1,021	977
- Long-term borrowings	11	13
	1,032	990
	2,640	3,153

(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):

	2015	2014
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	15,400	12,049
Auditors' remuneration	19	13
Operating lease payments in respect of land and buildings	864	802
Depreciation of property and equipment (note 18)	1,086	1,127
Depreciation of investment properties (note 19)	219	227
Amortization of other intangible assets (note 20)	350	339
Amortization of prepaid land lease payments (note 21)	1	1
Amortization of other assets	23	20
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(30)	(38)
Charge of impairment loss on insurance receivables	38	118
Charge of impairment loss on financial assets (note 7)	282	3,672
Foreign exchange gain, net	(109)	(40)

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

	2015	2014
Salaries, allowances and other short-term benefits	12,791	9,741
Contributions to defined contribution plans (1)	2,489	2,159
Early retirement benefit obligation	54	21
Deferred bonus (2)	66	128
	15,400	12,049

(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)	2015	2014
Fees	1,288	1,233
Other remuneration		
- Salaries, allowances and other short-term benefits	6,171	9,699
- Contributions to defined contribution plans	665	795
- Deferred bonus (1)	-	2,677
	6,836	13,171
	8,124	14,404

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

(a) Independent non-executive directors

Included in the fees is an amount of RMB 1,288 thousand paid to independent non-executive directors for the year ended 31 December 2015 (2014: RMB 1,233 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2015.

(in RMB thousand)	**2015**				
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LIN Zhiquan	300	-	-	-	300
ZHOU Zhonghui	300	-	-	-	300
BAI Wei	250	-	-	-	250
HUO Guangwen[1]	150	-	-	-	150
GAO Shanwen	267	-	-	-	267
LI Jiashi[2]	21	-	-	-	21
	1,288	-	-	-	1,288

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

(in RMB thousand)	**2014**				
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LIN Zhiquan	300	-	-	-	300
ZHOU Zhonghui	300	-	-	-	300
BAI Wei	250	-	-	-	250
HUO Guangwen	300	-	-	-	300
GAO Shanwen[1]	83	-	-	-	83
	1,233	-	-	-	1,233

1. Independent non-executive director since August 2014

(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)	**2015**			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu	-	1,002	194	1,196
HUO Lianhong	-	1,008	188	1,196
Non-executive directors:				
YANG Xianghai[1]	-	-	-	-
WANG Chengran	-	250	-	250
SUN Xiaoning	-	-	-	-
ZHENG Anguo	-	250	-	250
WU Jumin	-	250	-	250
WU Junhao	-	250	-	250
HA Erman	-	250	-	250
WANG Jian[2]	-	104	-	104
	-	3,364	382	3,746

1. Resign from non-executive director since May 2015
2. Non-executive director since July 2015

(in RMB thousand)	**2014**			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu [1]	948	2,622	241	3,811
HUO Lianhong[1]	859	2,363	231	3,453
Non-executive directors:				
YANG Xianghai	-	250	-	250
WANG Chengran	-	250	-	250
SUN Xiaoning	-	-	-	-
ZHENG Anguo	-	250	-	250
WU Jumin	-	250	-	250
WU Junhao	-	250	-	250
HA Erman[2]	-	83	-	83
	1,807	6,318	472	8,597

1 Part of the above amounts of two executive directors' remuneration for 2014, which was subject to review and approval, will be disclosed when it is confirmed.
2. Non-executive director since August 2014

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB250,000 (before tax) per year. In May 2011, the 2010 annual general meeting resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. Except for SUN Xiaoning and YANG Xianghai, the non-executive director, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2015(2014：SUN Xiaoning).

(c) Supervisors

(in RMB thousand)	2015			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
DAI Zhihao	-	250	-	250
ZHANG Jianwei[1]	-	208	-	208
LIN Lichun	-	250	-	250
SONG Junxiang	-	903	173	1,076
YUAN Songwen	-	1,196	110	1,306
ZHANG Xinmei [2]	-	-	-	-
	-	2,807	283	3,090

[1.] Resign from supervisors since October 2015
[2.] Supervisors since December 2015

(in RMB thousand)	2014			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
DAI Zhihao	-	250	-	250
ZHANG Jianwei	-	250	-	250
LIN Lichun	-	250	-	250
SONG Junxiang	721	1,955	215	2,891
YUAN Songwen	149	676	108	933
	870	3,381	323	4,574

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors (continued)

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing supervisors (excluding employees' representative supervisors) is RMB250,000 (before tax) per year. There was no arrangement under which a supervisor waived or agreed to waive any remuneration during 2015 and 2014.

(d) Directors' retirement benefits

There was no retirement benefits paid to the directors during 2015 and 2014.

(e) Directors' termination benefits

There was no termination benefits paid to directors during 2015 and 2014.

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

There was no payment to third parties for making available directors' services during 2015 and 2014.

(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 2015 and 2014.

(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 2015 in the Group include no director (2014: one 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:

	2015	**2014**
Nil to RMB1,000,000	-	-
RMB1,000,001 to RMB2,000,000	-	-
RMB2,000,001 to RMB3,000,000	-	-
RMB3,000,001 to RMB4,000,000	1	3
RMB4,000,001 to RMB5,000,000	3	-
RMB5,000,001 to RMB6,000,000	1	-
RMB6,000,001 to RMB7,000,000	-	-
RMB7,000,001 to RMB8,000,000	-	1
Total	5	4

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

(in RMB thousand)	**2015**	**2014**
Salaries, allowances and other short-term benefits	14,549	12,220
Contributions to defined contribution plans	1,083	730
Deferred bonus (1)	6,218	5,324
	21,850	18,274
The number of non-director individuals for the above remuneration	5	4

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

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2015	2014
Current income tax	6,370	3,235
Deferred income tax (note 33)	(97)	20
	6,273	3,255

(b) Tax recorded in other comprehensive income

	2015	2014
Deferred income tax (note 33)	1,036	3,617

(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:

	2015	2014
Profit before tax	24,311	14,500
Tax computed at the statutory tax rate	6,078	3,625
Adjustments to income tax in respect of previous periods	(124)	(146)
Income not subject to tax	(1,432)	(1,322)
Expenses not deductible for tax	1,713	1,067
Others	38	31
Tax expense at the Group's effective rate	6,273	3,255

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	2015	2014
Consolidated net profit for the year attributable to equity holders of the parent	17,728	11,049
Weighted average number of ordinary shares in issue (million)	9,062	9,062
Basic earnings per share	RMB1.96	RMB1.22
Diluted earnings per share	RMB1.96	RMB1.22

The Company had no dilutive potential ordinary shares as at 31 December 2015 and 2014.

16. OTHER COMPREHENSIVE INCOME

	2015	2014
Exchange differences on translation of foreign operations	23	1
Available-for-sale financial assets		
Gains arising during the year	19,145	20,337
Reclassification adjustments for (gains) included in profit or loss	(12,897)	(6,216)
Fair value change on available-for-sale financial assets attributable to policyholders	(2,460)	(3,270)
Impairment charges reclassified to the income statement	282	3,672
	4,070	14,523
Income tax relating to available-for-sale financial assets	(1,036)	(3,617)
Share of other comprehensive income in equity accounted investees	9	10
Other comprehensive income	3,066	10,917

17. GOODWILL

Cost	
At 1 January 2014, 31 December 2014 and 2015	962
Impairment	
At 1 January 2014, 31 December 2014 and 2015	-
Carrying Value	
At 31 December 2014 and 2015	962

(All amounts expressed in RMB million unless otherwise specified)

18. PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2014	8,375	1,945	888	4,021	1,448	16,677
Additions	100	2,677	98	459	224	3,558
Transfer	1,174	(1,174)	-	-	-	-
Transfer from investment properties, net (note 19)	6	-	-	-	-	6
Disposals	(25)	-	(63)	(138)	-	(226)
At 31 December 2014	9,630	3,448	923	4,342	1,672	20,015
Additions	115	1,467	130	453	223	2,388
Transfer	784	(792)	-	-	8	-
Disposals	(13)	-	(69)	(220)	-	(302)
At 31 December 2015	10,516	4,123	984	4,575	1,903	22,101
Accumulated depreciation and impairment						
At 1 January 2014	(1,788)	-	(469)	(2,907)	(971)	(6,135)
Depreciation charge	(351)	-	(111)	(483)	(182)	(1,127)
Transfer from investment properties, net (note 19)	(1)	-	-	-	-	(1)
Disposals	11	-	60	137	-	208
At 31 December 2014	(2,129)	-	(520)	(3,253)	(1,153)	(7,055)
Depreciation charge	(327)	-	(116)	(440)	(203)	(1,086)
Disposals	8	-	66	220	-	294
At 31 December 2015	(2,448)	-	(570)	(3,473)	(1,356)	(7,847)
Net book value						
At 31 December 2014	7,501	3,448	403	1,089	519	12,960
At 31 December 2015	8,068	4,123	414	1,102	547	14,254

(All amounts expressed in RMB million unless otherwise specified)

19. INVESTMENT PROPERTIES

Cost	
At 1 January 2014	7,388
Transfer to property and equipment, net	(6)
At 31 December 2014 and 31 December 2015	7,382
Accumulated depreciation	
At 1 January 2014	(593)
Depreciation charge	(227)
Transfer to property and equipment, net	1
At 31 December 2014	(819)
Depreciation charge	(219)
At 31 December 2015	(1,038)
Carrying amount	
At 31 December 2014	6,563
At 31 December 2015	6,344

The fair values of investment properties of the Group as at 31 December 2015 amounted to RMB 8,542 million (31 December 2014: RMB8,456 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, CPIC Asset Management, CPIC Allianz Health and Changjiang Pension 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.

As at 31 December 2015, the Group's long-term borrowings with carrying value of RMB186 million has been expired. The investment property of the Group amounted to RMB583 million was pledged as security for the borrowings, and the cancellation of the mortgage registration is in procedure.

(All amounts expressed in RMB million unless otherwise specified)

20. OTHER INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2014	2,111
Additions	318
At 31 December 2014	2,429
Additions	512
Disposals	(5)
At 31 December 2015	2,936
Accumulated amortization	
At 1 January 2014	(1,204)
Amortization	(339)
At 31 December 2014	(1,543)
Amortization	(350)
Disposals	5
At 31 December 2015	(1,888)
Carrying amount	
At 31 December 2014	886
At 31 December 2015	1,048

21. PREPAID LAND LEASE PAYMENTS

Cost	
At 1 January 2014、31 December 2014 and 31 December 2015	65
Accumulated amortization	
At 1 January 2014	(6)
Amortization	(1)
At 31 December 2014	(7)
Amortization	(1)
At 31 December 2015	(8)
Carrying amount	
At 31 December 2014	58
At 31 December 2015	57

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 2015					
	Historical cost	At 1 January 2015	Additions	Share of profit	Other comprehensive income	Dividend declared	At 31 December 2015
Anxin Agriculture Insurance Co., Ltd.(the "Anxin")	219	251	-	38	9	(9)	289
Taiji (Shanghai) InformationTechnology Co., Ltd.(the "Taiji")	2	2	-	(1)	-	-	1
Shanghai Juche Information Technology Co., Ltd.(the "Juche")	3	-	3	(1)	-	-	2
Zhongdao Automobile Rescue Industry Co., Ltd.(the "Zhongdao")	14	-	14	-	-	-	14
	238	253	17	36	9	(9)	306

On 7 July 2014, CPIC Property signed the ownership transfer contract with Shanghai International Group and Shanghai State-owned Asset Management Co., Ltd. for transferring 171,669,200 shares of Anxin. After this transaction, the Company has an ownership percentage of 33.825 percent, which is held indirectly through CPIC Property. This provides CPIC Property for 34.34 percent of the voting rights in Anxin's. On 11 October 2014, the CIRC officially approved this transaction.

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

On 10 September 2015, CPIC Property, CPIC Online Services, Shanghai Huizhong Investment Management LLP., Shanghai Taihui Investment Management LLP., and Suzhou Industrial Area 825 New Media Investment Management LLP., set up Juche lasting 20 years with registered capital of RMB5 million. Among all, CPIC Property stands for 32 percent shares and its first capital contribution reaches RMB1.6 million; CPIC Online Services stands for 16 percent shares and its first capital contribution reaches RMB0.8 million.

On 25 September 2015, CPIC Property, CPIC Online Services signed the ownership transfer contract with Shanghai Bochen Business Informaiton Consulting Firm, Shanghai Shiji Investment Management LLP., and individual shareholders Jun Fan for transferring 33.6% shares of Zhongdao. After this transaction, CPIC Property held 25.6 percentage shares of Zhongdao, and CPIC Online Services held 8 percentage shares of Zhongdao, respectively.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

Nature of investment in associates as at 31 December 2015

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				
Anxin	Shanghai	-	33.83%	34.34%	500,000	500,000	Insurance
Taiji	Shanghai	-	40.00%	40.00%	15,000	4,600	Technology development and consulting, etc.
Juche	Shanghai	-	47.52%	48.00%	5,000	5,000	Internet
Zhongdao	Shanghai	-	33.22%	33.60%	50,000	40,000	Automobile rescue services

Summarised financial information for associates

	2015	2014
Net profit for the year	109	87
Other comprehensive income for the year	28	26
Total comprehensive income for the year	137	113
Total comprehensive income attributable to the Group	45	32
Carrying amount of the Group's interest	306	253

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES

	31 December 2015	31 December 2014
Share of net assets	18	11

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

On 10 June 2015, CPIC Online Services and Jiaxing-Taiyi Technology and Jiaxing-Taizhong Investment set up Taiyi lasting 20 years with registered capital of RMB10 million. Among all, CPIC Online Services stands for 48 percent shares and its first capital contribution reaches RMB4.8 million.

On 6 September 2015, CPIC Online Services and Hangzhou Fujing Investment Management LLP. set up Dayu with registered capital of RMB7 million. Among all, CPIC Online Services stands for 42.86 percent shares and its first capital contribution reaches RMB3 million.

Particulars of the joint venture as at 31 December 2015 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
Binjiang-Xiangrui	Shanghai	-	35.16%	35.70%	150,000	30,000	Real estate
Tai-Yi	Shanghai	-	48.00%	48.00%	10,000	10,000	Used car information service platform
Dayu	Hangzhou	-	42.86%	42.86%	7,000	7,000	Technology development services, consulting, etc.

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

	2015 (RMB thousand)	2014 (RMB thousand)
The joint venture's net income/(loss):	118	(17)
The joint venture's other comprehensive income:	-	-

As at 31 December 2015, Binjiang-Xiangrui was still under construction and the net income reaches RMB 119,000 (31 December 2014: net loss RMB17,000).

As at 31 December 2015, the Group's investment in joint ventures had no impairment. The Group received no cash dividend from Binjiang-Xiangrui.

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

(All amounts expressed in RMB million unless otherwise specified)

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

	31 December 2015	31 December 2014
Listed		
Debt investments		
- Government bonds	1,362	1,357
- Finance bonds	6,036	6,070
- Corporate bonds	13,716	12,573
	21,114	20,000
Unlisted		
Debt investments		
- Government bonds	70,386	70,384
- Finance bonds	107,470	109,053
- Corporate bonds	111,373	112,561
	289,229	291,998
	310,343	311,998

(All amounts expressed in RMB million unless otherwise specified)

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2015	31 December 2014
Debt investments		
- Finance bonds	3,419	5,688
- Debt investment scheme	53,025	47,573
- Wealth management products	24,789	7,998
- Preferred Shares	11,800	-
	93,033	61,259

As at 31 December 2015, CPIC Asset Management, a subsidiary of the Group, issued and existed 63 debt investment schemes with a total value of RMB 106.86 billion. Of these, the existing amounts approximately RMB 39.07 billion are recognized in the Group's consolidated financial information(As at 31 December 2014, CPIC Asset Management issued and existed 54 debt investment schemes with a total value of RMB99.21 billion. Of these, the existing amounts approximately RMB39.23 billion are recognized in the Group's consolidated financial information) As at 31 December 2015, Changjiang Pension, a subsidiary of the Group, issued and existed 7 debt investment schemes with a total value of RMB7.9 billion. Of these, the existing amounts approximately RMB440 million are recognized in the Group's consolidated financial information(31 December 2014, Changjiang Pension, a subsidiary of the Group, issued and existed 4 debt investment schemes with a total value of RMB5 billion. Of these, the existing amounts approximately RMB40 million are recognized in the Group's consolidated financial information) Meanwhile, the Group also had investments in debt investment schemes launched by other insurance asset management companies with a value of approximately RMB13,517 million (31 December 2014, RMB8,304million). The value guaranteed by third parties or pledge on debt investment schemes invested by the Group are RMB 49.06 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 2015	31 December 2014
At the beginning of the year	5,580	3,600
Movement	358	1,980
At the end of the year	5,938	5,580

In accordance with relevant provision of Insurance Law of the PRC, CPIC Property, CPIC Life, Changjiang Pension and CPIC Allianz Health 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 2015		
	Amount	Storage	Period
CPIC Property			
Bank of Communications	818	Term deposit	5 years
Industrial and Commercial Bank of China	100	Term deposit	5 years
China Construction Bank	100	Term deposit	5 years
China Minsheng Bank	240	Term deposit	5 years
China Merchants Bank	642	Term deposit	5 years
Shanghai Pudong Development Bank	1,000	Term deposit	5 years
China Everbright Bank	500	Term deposit	5 years
Bank of China	294	Term deposit	5 years
Evergrowing Bank	200	Term deposit	5 years
Subtotal	3,894		
CPIC Life			
Bank of Communications	680	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
Bank of China	500	Term deposit	5 years and 6 months
China Construction Bank	164	Term deposit	5 years
Subtotal	1,684		
Changjiang Pension			
Bank of Communications	50	Term deposit	3 years
China Minsheng Bank	30	Term deposit	3 years
Bank of China	80	Term deposit	5 years and 1 month
	160		
CPIC Allianz Health			
China Construction Bank	30	Term deposit	5 years
Bank of Communications	170	Term deposit	5 years and 1 month
Subtotal	200		
Total	5,938		

(All amounts expressed in RMB million unless otherwise specified)

26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2014		
	Amount	Storage	Period
CPIC Property			
Bank of Communications	818	Term deposit	5 years
Industrial and Commercial Bank of China	100	Term deposit	5 years
China Construction Bank	100	Term deposit	5 years
China Minsheng Bank	240	Term deposit	5 years
China Merchants Bank	642	Term deposit	5 years
Shanghai Pudong Development Bank	1,000	Term deposit	5 years
China Everbright Bank	500	Term deposit	5 years
Evergrowing Bank	200	Term deposit	5 years
Subtotal	3,600		
CPIC Life			
Bank of Communications	680	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
Bank of China	500	Term deposit	5 years and 6 months
Subtotal	1,520		
Changjiang Pension			
Bank of Communications	30	Term deposit	5 years
China Minsheng Bank	150	Term deposit	5 years and 1 month
Bank of China	80	Term deposit	5 years and 1 month
	260		
CPIC Allianz Health			
China Construction Bank	30	Term deposit	5 years
Bank of Communications	170	Term deposit	5 years and 1 month
Subtotal	200		
Total	5,580		

27. TERM DEPOSITS

	31 December 2015	31 December 2014
1 month to 3 months (including 3 months)	24,122	5,581
3 months to 1 year (including 1 year)	23,541	22,367
1 to 2 years (including 2 years)	45,160	47,180
2 to 3 years (including 3 years)	21,180	45,160
3 to 4 years (including 4 years)	16,340	20,950
4 to 5 years (including 5 years)	24,055	24,184
More than 5 years	-	140
	154,398	165,562

(All amounts expressed in RMB million unless otherwise specified)

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	31 December 2015	**31 December 2014**
Listed		
Equity investments		
- Equity securities	29,292	24,886
- Investment funds	7,639	6,609
- Wealth management products	1,024	1,000
Debt investments		
- Government bonds	6,168	19
- Finance bonds	806	1,492
- Corporate bonds	14,917	11,844
- Wealth management products	-	1,384
	59,846	47,234
Unlisted		
Equity investments		
- Investment funds	33,939	25,078
- Wealth management products	24,501	6,471
- Other equity investments	15,402	10,354
- Preferred Shares	2,217	-
Debt investments		
- Government bonds	5,693	89
- Finance bonds	10,908	10,590
- Corporate bonds	65,105	66,717
- Wealth management products	451	68
	158,216	119,367
	218,062	166,601

(All amounts expressed in RMB million unless otherwise specified)

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 December 2015	**31 December 2014**
Listed		
Equity investments		
- Equity securities	4,353	4,160
- Investment funds	410	180
Debt investments		
- Government bonds	82	86
- Finance bonds	329	441
- Corporate bonds	7,126	11,317
	12,300	16,184
Unlisted		
Equity investments		
- Investment funds	3,969	1,540
- Wealth management products	190	40
- Other equity investments	29	-
Debt investments		
- Corporate bonds	4,691	-
- Finance bonds	1,064	-
- Wealth management products	8	-
	9,951	1,580
	22,251	17,764

30. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2015	**31 December 2014**
Securities - bonds		
Inter-bank market	13,173	2,034
Stock exchange	1,518	788
	14,691	2,822

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 2015	31 December 2014
Interest receivables from deposits	6,499	6,146
Interest receivables from debt investments	8,853	8,779
Interest receivables from loans	411	305
Interest receivables from securities purchased under agreements to resell	2	3
	15,765	15,233
Less: Bad debt provision	(1)	(1)
	15,764	15,232

32. REINSURANCE ASSETS

	31 December 2015	31 December 2014
Reinsurers' share of insurance contracts (note 39)	18,257	17,167

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.

	2015	2014
Net deferred income tax assets, at beginning of year	(1,480)	2,157
Recognized in profit or loss (note 14(a))	97	(20)
Recognized in other comprehensive income (note 14(b))	(1,036)	(3,617)
Net deferred income tax liabilities, at end of year	(2,419)	(1,480)

	31 December 2015	31 December 2014
Insurance contract liabilities	450	347
Impairment of assets	226	257
Commissions and handling fees	308	235
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(3,432)	(2,116)
Fair value adjustments arising from acquisition of a subsidiary	(820)	(848)
Others	849	645
Net deferred income tax liabilities	(2,419)	(1,480)
Represented by:		
Deferred tax assets	80	148
Deferred tax liabilities	(2,499)	(1,628)

(All amounts expressed in RMB million unless otherwise specified)

34. INSURANCE RECEIVABLES

	31 December 2015	31 December 2014
Insurance receivables	8,450	8,694
Provision for impairment of insurance receivables	(359)	(337)
	8,091	8,357

An aged analysis of the insurance receivables is as follows:

	31 December 2015	31 December 2014
Within 3 months (including 3 months)	5,620	6,472
Over 3 months and within 1 year (including 1 year)	1,782	1,172
Over 1 year	689	713
	8,091	8,357

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.

(All amounts expressed in RMB million unless otherwise specified)

34. INSURANCE RECEIVABLES (continued)

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

	31 December 2015	31 December 2014
Insurance receivables that are individually determined to be impaired	68	109
Related provision for impairment	(59)	(57)
	9	52

35. OTHER ASSETS

	31 December 2015	31 December 2014
Due from a related-party (1)	1,206	1,080
Tax receivable other than income tax	580	1,293
Receivable from securities clearance	5,953	2,789
Due from agents	712	441
Co-insurance receivable	106	96
Others	2,278	1,745
	10,835	7,444

(1) As at 31 December 2015, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses amounted to approximately RMB 1,206million (31 December 2014, RMB1,080 million).

(All amounts expressed in RMB million unless otherwise specified)

36. CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2015	31 December 2014
Cash at banks and on hand	8,124	7,819
Time deposits with original maturity of no more than three months	439	2,803
Other monetary assets	938	598
	9,501	11,220

The Group's bank balances denominated in RMB amounted to RMB 8,395 million as at 31 December 2015 (31 December 2014: RMB10,585 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 2015, RMB823 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2014, RMB454 million).

37. ISSUED CAPITAL

	31 December 2015	31 December 2014
Number of shares issued and fully paid at RMB1 each (million)	9,062	9,062

(All amounts expressed in RMB million unless otherwise specified)

38. RESERVES AND RETAINED PROFITS

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

(a) Capital reserves

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

(b) Surplus reserves

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

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

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

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, RMB 6,584 million as at 31 December 2015 (31 December 2014: RMB5,630 million) represents the Company's share of its subsidiaries' surplus reserve fund.

(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.

(c) General reserves

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

Of the Group's reserves, RMB 7,105 million as at 31 December 2015 (31 December 2014: RMB5,539 million) represents the Company's share of its subsidiaries' general reserves.

(All amounts expressed in RMB million unless otherwise specified)

38. RESERVES AND RETAINED PROFITS (continued)

(d) Other reserves

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

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. Pursuant to the resolution of the 12th meeting of the Company's 7th term of board of directors held on 25 March 2016, a final dividend of approximately RMB 9,062 million (equivalent to RMB 1.0 per share (including tax)) was proposed after the appropriation of statutory surplus reserves and is subject to the approval of the forthcoming annual general meeting.

(All amounts expressed in RMB million unless otherwise specified)

39. INSURANCE CONTRACT LIABILITIES

	31 December 2015		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	545,127	(7,743)	537,384
Short-term life insurance contracts			
- Unearned premiums	2,118	(2)	2,116
- Claim reserves	1,615	(16)	1,599
	3,733	(18)	3,715
Property and casualty insurance contracts			
- Unearned premiums	37,618	(4,155)	33,463
- Claim reserves	34,601	(6,341)	28,260
	72,219	(10,496)	61,723
	621,079	(18,257)	602,822
Incurred but not reported claim reserves	6,086	(885)	5,201

	31 December 2014		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
Long-term life insurance contracts	493,905	(6,873)	487,032
Short-term life insurance contracts			
- Unearned premiums	1,868	(11)	1,857
- Claim reserves	1,316	(11)	1,305
	3,184	(22)	3,162
Property and casualty insurance contracts			
- Unearned premiums	37,322	(4,133)	33,189
- Claim reserves	30,232	(6,139)	24,093
	67,554	(10,272)	57,282
	564,643	(17,167)	547,476
Incurred but not reported claim reserves	5,164	(877)	4,287

(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 2014	441,924	(6,347)	435,577
Valuation premiums	92,150	(1,363)	90,787
Liabilities released for payments on benefits and claims	(40,748)	503	(40,245)
Other movements	579	334	913
At 31 December 2014	493,905	(6,873)	487,032
Valuation premiums	101,022	(1,724)	99,298
Liabilities released for payments on benefits and claims	(50,177)	687	(49,490)
Other movements	377	167	544
At 31 December 2015	545,127	(7,743)	537,384

(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 2014	1,879	(55)	1,824
Premiums written	6,542	(61)	6,481
Premiums earned	(6,553)	105	(6,448)
At 31 December 2014	1,868	(11)	1,857
Premiums written	7,573	(47)	7,526
Premiums earned	(7,323)	56	(7,267)
At 31 December 2015	2,118	(2)	2,116

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2014	958	(32)	926
Claims incurred	2,607	(3)	2,604
Claims paid	(2,249)	24	(2,225)
At 31 December 2014	1,316	(11)	1,305
Claims incurred	3,156	(18)	3,138
Claims paid	(2,857)	13	(2,844)
At 31 December 2015	1,615	(16)	1,599

(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 2014	33,418	(5,673)	27,745
Premiums written	93,113	(12,013)	81,100
Premiums earned	(89,209)	13,553	(75,656)
At 31 December 2014	37,322	(4,133)	33,189
Premiums written	94,710	(11,634)	83,076
Premiums earned	(94,414)	11,612	(82,802)
At 31 December 2015	37,618	(4,155)	33,463

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 32)	Net
At 1 January 2014	24,357	(5,281)	19,076
Claims incurred	60,334	(8,906)	51,428
Claims paid	(54,459)	8,048	(46,411)
At 31 December 2014	30,232	(6,139)	24,093
Claims incurred	60,735	(7,142)	53,593
Claims paid	(56,366)	6,940	(49,426)
At 31 December 2015	34,601	(6,341)	28,260

40. INVESTMENT CONTRACT LIABILITIES

At 1 January 2014	34,443
Deposits received	5,259
Deposits withdrawn	(6,199)
Fees deducted	(164)
Interest credited	1,374
Others	949
At 31 December 2014	35,662
Deposits received	7,365
Deposits withdrawn	(5,276)
Fees deducted	(151)
Interest credited	1,436
Others	997
At 31 December 2015	40,033

(All amounts expressed in RMB million unless otherwise specified)

41. SUBORDINATED DEBTS

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

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

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

	31 December 2014	Issuance	Premium amortization	Redemption	31 December 2015
CPIC Life	15,500	-	-	-	15,500
CPIC Property	3,996	-	1	-	3,997
	19,496	-	1	-	19,497

(All amounts expressed in RMB million unless otherwise specified)

42. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2015	31 December 2014
Bonds		
Inter-bank market	20,709	22,415
Stock exchange	8,272	4,493
	28,981	26,908

As at 31 December 2015, bond investments of approximately RMB 29,229million (31 December 2014: RMB27,610 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.

43. OTHER LIABILITIES

	31 December 2015	31 December 2014
Annuity and other insurance payables	15,714	13,590
Payables for securities purchased but not settled	3,724	1,587
Salary and staff welfare payable	2,819	2,472
Commission and brokerage payable	2,781	2,199
Payables to non-controlling interests of consolidated structured entities	1,762	2,206
Tax payable other than income tax	1,309	1,398
Accrued expenses	795	581
Co-insurance payable	253	464
Insurance guarantee fund	247	298
Payables for construction and purchase of office buildings	93	254
Others	3,851	3,164
	33,348	28,213

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

(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 2014			
	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	(7,152)	7,152	-1.45%
	-25 basis points	7,751	(7,751)	1.57%
Mortality rates	+10%	557	(557)	0.11%
	-10%	(522)	522	-0.11%
Morbidity rates	+10%	2,069	(2,069)	0.42%
	-10%	(2,108)	2,108	-0.43%
Surrender rates	+10%	(321)	321	-0.06%
	-10%	403	(403)	0.08%
Expenses	+10%	2,824	(2,824)	0.57%
	-10%	(2,824)	2,824	-0.57%
Policy dividend	+5%	7,556	(7,556)	1.53%

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 2015 by RMB 1,413 million and RMB 80 million (31 December 2014: RMB1,205 million and RMB65 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)					
	2011	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	33,232	39,674	49,007	55,276	58,229	
One year later	32,574	41,169	51,154	54,811		
Two years later	31,753	41,592	51,753			
Three years later	31,996	41,627				
Four years later	32,154					
Current estimate of cumulative claims	32,154	41,627	51,753	54,811	58,229	238,574
Cumulative payments to date	(31,915)	(41,003)	(49,827)	(48,134)	(33,837)	(204,716)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						743
Total gross claim reserves included in the consolidated balance sheet						34,601

(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)					
	2011	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	27,311	33,427	41,726	46,272	50,751	
One year later	26,960	34,653	43,646	46,216		
Two years later	26,400	35,378	44,111			
Three years later	26,676	35,580				
Four years later	26,790					
Current estimate of cumulative claims	26,790	35,580	44,111	46,216	50,751	203,448
Cumulative payments to date	(26,633)	(35,175)	(42,722)	(41,032)	(30,334)	(175,896)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						708
Total net claim reserves included in the consolidated balance sheet						28,260

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2011	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,423	1,500	1,612	1,939	2,072	
One year later	1,419	1,549	1,633	1,877		
Two years later	1,413	1,525	1,612			
Three years later	1,393	1,528				
Four years later	1,373					
Current estimate of cumulative claims	1,373	1,528	1,612	1,877	2,072	8,462
Cumulative payments to date	(1,372)	(1,518)	(1,584)	(1,767)	(1,246)	(7,487)
Risk adjustment and others						640
Total gross claim reserves included in the consolidated balance sheet						1,615

(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)					
	2011	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,091	1,288	1,553	1,913	2,050	
One year later	1,073	1,348	1,579	1,843		
Two years later	1,087	1,333	1,552			
Three years later	1,065	1,323				
Four years later	1,050					
Current estimate of cumulative claims	1,050	1,323	1,552	1,843	2,050	7,818
Cumulative payments to date	(1,050)	(1,314)	(1,518)	(1,727)	(1,246)	(6,855)
Risk adjustment and others						636
Total net claim reserves included in the consolidated balance sheet						1,599

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

<u>Market risk</u>

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

(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 2014			
	RMB	**USD**	**HKD**	**Total**
Held-to-maturity financial assets	311,832	158	8	311,998
Investments classified as loans and receivables	61,259	-	-	61,259
Term deposits	164,138	583	841	165,562
Available-for-sale financial assets	166,347	218	36	166,601
Financial assets at fair value through profit or loss	17,764	-	-	17,764
Reinsurance assets	17,153	-	14	17,167
Cash and short-term time deposits	10,585	538	97	11,220
Others	50,197	1,044	67	51,308
	799,275	2,541	1,063	802,879
Insurance contract liabilities	564,554	-	89	564,643
Investment contract liabilities	35,662	-	-	35,662
Policyholders' deposits	76	-	-	76
Subordinated debts	19,496	-	-	19,496
Long-term borrowings	187	-	-	187
Securities sold under agreements to repurchase	26,908	-	-	26,908
Others	42,101	498	143	42,742
	688,984	498	232	689,714

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 2015**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	123	124
USD and HKD	- 5%	(123)	(124)

Currency	**Changes in exchange rate**	**31 December 2014**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	146	147
USD and HKD	- 5%	(146)	(147)

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

(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 2014					
	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	4,861	22,585	29,565	254,987	-	311,998
Investments classified as loans and receivables	20,874	8,660	11,613	12,014	8,098	61,259
Restricted statutory deposits	50	3,798	1,602	-	130	5,580
Term deposits	27,868	84,290	45,134	-	8,270	165,562
Available-for-sale financial assets	20,520	21,318	23,380	26,985	-	92,203
Financial assets at fair value through profit or loss	501	2,187	3,067	6,089	-	11,844
Securities purchased under agreements to resell	2,822	-	-	-	-	2,822
Policy loans	12,253	-		-	-	12,253
Deposits with original maturity of no more than three months	2,803	-	-	-	8,417	11,220
Financial liabilities:						
Investment contract liabilities	35,662	-	-	-	-	35,662
Policyholders' deposits	76	-	-	-	-	76
Subordinated debts	-	15,500	3,996	-	-	19,496
Long-term borrowings	187	-	-	-	-	187
Securities sold under agreements to repurchase	26,908	-	-	-	-	26,908

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 2015	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(94)	(1,940)
-50 basis points	96	2,109

	31 December 2014	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(84)	(899)
-50 basis points	86	925

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 2015	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	134	134
-50 basis points	(134)	(134)

	31 December 2014	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	124	124
-50 basis points	(124)	(124)

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

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

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

As at 31 December 2015, 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 RMB 2,470million (31 December 2014: RMB1,067 million).

Credit risk

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

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

The Group performs regular credit assessment of the reinsurance companies. Reinsurance of the Group is mainly placed with highly rated reinsurance companies.

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

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

	As at 31 December 2015						
	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	310,343	-	-	-	-	-	310,343
Investments classified as loans and receivables	93,033	-	-	-	-	-	93,033
Term deposits	154,398	-	-	-	-	-	154,398
Available-for-sale financial assets	103,996	-	-	-	-	52	104,048
Financial assets at fair value through profit or loss	13,300	-	-	-	-	-	13,300
Interest receivables	15,764	-	-	-	-	-	15,764
Reinsurance assets	18,257						18,257
Insurance receivables	6,735	-	-	-	-	1,356	8,091
Cash and short-term time deposits	9,501	-	-	-	-	-	9,501
Others	50,291	-	-	-	-	325	50,616
Total	775,618	-	-	-	-	1,733	777,351

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	As at 31 December 2014						
	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	311,998	-	-	-	-	-	311,998
Investments classified as loans and receivables	61,259	-	-	-	-	-	61,259
Term deposits	165,562	-	-	-	-	-	165,562
Available-for-sale financial assets	92,203	-	-	-	-	-	92,203
Financial assets at fair value through profit or loss	11,844	-	-	-	-	-	11,844
Interest receivables	15,232	-	-	-	-	-	15,232
Reinsurance assets	17,167	-	-	-	-	-	17,167
Insurance receivables	5,336	-	-	-	-	3,021	8,357
Cash and short-term time deposits	11,220	-	-	-	-	-	11,220
Others	27,319	-	-	-	-	400	27,719
Total	719,140	-	-	-	-	3,421	722,561

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2014					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	20,490	111,170	443,268	-	574,928
Investments classified as loans and receivables	-	7,807	48,778	20,275	-	76,860
Restricted statutory deposits	-	464	5,943	-	-	6,407
Term deposits	-	36,281	154,781	160	-	191,222
Available-for-sale financial assets	-	30,261	58,900	32,035	66,378	187,574
Financial assets at fair value through profit or loss	-	1,164	7,528	6,657	5,920	21,269
Securities purchased under agreements to resell	-	2,828	-	-	-	2,828
Insurance receivables	1,664	6,847	153	30	-	8,694
Cash and short-term time deposits	8,417	2,804	-	-	-	11,221
Others	918	17,878	1,091	-	-	19,887
Total	10,999	126,824	388,344	502,425	72,298	1,100,890
Liabilities:						
Insurance contract liabilities	-	81,412	97,354	385,877	-	564,643
Investment contract liabilities	105	2,769	2,277	30,511	-	35,662
Policyholders' deposits	-	76	-	-	-	76
Subordinated debts	-	1,020	21,571	-	-	22,591
Long-term borrowings	-	199	-	-	-	199
Securities sold under agreements to repurchase	-	26,973	-	-	-	26,973
Others	30,724	11,337	281	14	20	42,376
Total	30,829	123,786	121,483	416,402	20	692,520

(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 2015		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	4,960	305,383	310,343
Investments classified as loans and receivables	5,200	87,833	93,033
Term deposits	47,663	106,735	154,398
Available-for-sale financial assets	113,000	105,062	218,062
Financial assets at fair value through profit or loss	10,762	11,489	22,251
Cash and short-term time deposits	9,501	-	9,501
Others	28,761	1,226	29,987
Total assets	219,847	617,728	837,575
Liabilities:			
Insurance contract liabilities	92,271	528,808	621,079
Investment contract liabilities	3,619	36,414	40,033
Policyholders' deposits	75	-	75
Subordinated debts	8,000	11,497	19,497
Securities sold under agreements to repurchase	28,981	-	28,981
Others	49,600	205	49,805
Total liabilities	182,546	576,924	759,470

	As at 31 December 2014		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	4,862	307,136	311,998
Investments classified as loans and receivables	4,631	56,628	61,259
Term deposits	27,448	138,114	165,562
Available-for-sale financial assets	91,953	74,648	166,601
Financial assets at fair value through profit or loss	6,422	11,342	17,764
Cash and short-term time deposits	11,220	-	11,220
Others	18,230	1,091	19,321
Total assets	164,766	588,959	753,725
Liabilities:			
Insurance contract liabilities	81,412	483,231	564,643
Investment contract liabilities	2,874	32,788	35,662
Policyholders' deposits	76	-	76
Subordinated debts	-	19,496	19,496
Long-term borrowings	-	187	187
Securities sold under agreements to repurchase	26,908	-	26,908
Others	42,073	295	42,368
Total liabilities	153,343	535,997	689,340

(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 solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations.

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

Group	**31 December 2015**	**31 December 2014**
Actual solvency margin	109,920	103,293
Minimum solvency margin	39,196	36,842
Surplus	70,724	66,451
Solvency margin ratio	280%	280%

CPIC Property	**31 December 2015**	**31 December 2014**
Actual solvency margin	26,101	21,461
Minimum solvency margin	12,372	12,106
Surplus	13,729	9,355
Solvency margin ratio	211%	177%

CPIC Life	**31 December 2015**	**31 December 2014**
Actual solvency margin	53,579	53,747
Minimum solvency margin	26,679	24,611
Surplus	26,900	29,136
Solvency margin ratio	201%	218%

According to the relevant regulations, if the actual solvency margin of an insurance company falls below the minimum solvency margin, the CIRC may take additional necessary measures depending on the circumstances, until the minimum solvency margin requirement is satisfied.

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.

(All amounts expressed in RMB million unless otherwise specified)

46. STRUCTURED ENTITIES (continued)

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.

As at 31 December 2015, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

	31 December 2015				
	Size	Funding provided by the Group	Group's maximum exposure	Carrying amount of Group's investment	Interest held by Group
Entrusted management business by third parties	13,160	-	-	-	Management fee
Asset-backed securitization managed by third parties	6,543	450	451	451	Investment income
Cash management products managed by affiliated parties	17,129	-	-	-	Investment income and management fee
Debt investment schemes and asset backed plans managed by affiliated parties	124,275	40,312	40,839	40,308	Investment income and management fee
Debt investment schemes and asset backed plans managed by third parties	Note 1	22,204	22,423	22,210	Investment income
Trust products managed by third parties	Note 1	21,722	21,776	21,719	Investment income
Bank wealth management products managed by third parties	Note 1	24,733	24,734	24,958	Investment income
Insurance asset management products managed by third parties	Note 1	80	80	82	Investment income
Asset management plans managed by third parties	Note 1	1,000	1,000	1,025	Investment income
Net asset value management products managed by affiliated parties	37,440	731	731	779	Investment income and management fee
Net asset value management products managed by third parties	Note 1	465	465	494	Investment income
Net asset value management products managed by affiliated parties	22,006	1,200	1,202	1,200	Investment income and management fee
Net asset value management products managed by third parties	Note 1	30	30	30	Investment income
Total		112,927	113,731	113,256	

(All amounts expressed in RMB million unless otherwise specified)

46. STRUCTURED ENTITIES (continued)

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

The Group's investments in unconsolidated structured entities are disclosed in wealth management products 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.

47. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

<u>Fair value of financial assets and liabilities not carried at fair value</u>

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

(All amounts expressed in RMB million unless otherwise specified)

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

	As at 31 December 2015	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	310,343	343,030
Investments classified as loans and receivables	93,033	93,328
Financial liabilities:		
Subordinated debts	19,497	20,361

	As at 31 December 2014	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	311,998	317,417
Investments classified as loans and receivables	61,259	60,929
Financial liabilities:		
Subordinated debts	19,496	19,985

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

(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 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	3,948	212	-	4,160
- Investment funds	1,720	-	-	1,720
- Debt securities	10,453	1,391	-	11,844
- Others	-	40	-	40
	16,121	1,643	-	17,764
Available-for-sale financial assets				
- Equity securities	20,282	4,604	-	24,886
- Investment funds	30,631	1,056	-	31,687
- Debt securities	11,036	79,715	-	90,751
- Others	-	8,923	10,354	19,277
	61,949	94,298	10,354	166,601
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 47)	-	5,858	55,071	60,929
Held-to-maturity financial assets (Note 47)	20,212	297,205	-	317,417
Investment properties(Note 19)	-	-	8,456	8,456
Liabilities for which fair values are disclosed				
Subordinated debts (Note 47)	-	-	19,985	19,985

In 2015, 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 2015, the Group transferred the debt securities with a carrying amount of RMB 11,632 million from Level 1 to Level 2 and RMB 696 million from Level 2 to Level 1. As at 31 December 2014, the Group also transferred the debt securities with a carrying amount of RMB2,127 million from Level 1 to Level 2 and RMB8,102 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 2015			
	Beginning of year	Purchases	Net unrealised gain recognized in other comprehensive income	End of year
Financial assets at fair value through profit or loss				
-Wealth management products	-	8	-	8
Available-for-sale financial assets				
- Other equity investments	10,354	4,363	302	15,019

	As at 31 December 2014			
	Beginning of year	Purchases	Net unrealised loss recognized in other comprehensive income	End of year
Available-for-sale financial assets				
- Other equity investments	6,526	2,943	885	10,354

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 comparable company valuation multiples, recent transaction prices of the same or similar instruments, with appropriate adjustments have been made where applicable, for example, for lack of liquidity using option pricing models. The valuation requires management to make certain assumptions about unobservable inputs to the model, which mainly include historical volatility and estimated time period prior to the listing of the unquoted equity instruments, etc. The fair value of the unquoted equity investments is not significantly sensitive to a reasonable change in these unobservable inputs.

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

(All amounts expressed in RMB million unless otherwise specified)

49. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

	2015	2014
Profit before tax	24,311	14,500
Investment income	(55,287)	(41,428)
Foreign currency income	(109)	(40)
Finance costs	2,135	2,683
Charge of impairment losses on insurance receivables and other assets, net	38	128
Depreciation of property and equipment	1,086	1,127
Depreciation of investment properties	219	227
Amortization of other intangible assets	350	339
Amortization of prepaid land lease payments	1	1
Amortization of other assets	23	20
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(30)	(38)
Rreversal of provision for lawsuits	-	2
	(27,263)	(22,479)
Decrease/(increase) in reinsurance assets	(1,090)	221
Decrease/(increase) in insurance receivables	266	(594)
Increase in other assets	(3,391)	(2,882)
Change in insurance contract liabilities	52,702	62,107
Increase in other operating liabilities	24,698	6,148
Cash generated from operating activities	45,922	42,521

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

	2015	2014
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	33	38

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

(b) Transactions of asset management products

	2015	2014
Associates of the Company	7,354	148

(All amounts expressed in RMB million unless otherwise specified)

50. RELATED PARTY TRANSACTIONS (continued)

(c) Dividends paid

	2015	2014
Equity holders who individually own more than 5% of equity interests of the Company	1,489	1,236

(d) Capital injections to the Company's subsidiaries

	2015	2014
Equity holders who individually own more than 5% of equity interests of the Company	-	61

(e) Compensation of key management personnel

	2015	2014
Salaries, allowances and other short-term benefits	23	29
Deferred bonus (1)	3	9
Total compensation of key management personnel	26	38

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

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

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

	2015	2014
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc	126	46

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

(g) 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 2014 and 2015, 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).

(All amounts expressed in RMB million unless otherwise specified)

50. RELATED PARTY TRANSACTIONS (continued)

(g) Transactions with other government-related entities in the PRC (continued)

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.

51. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

		31 December 2015	31 December 2014
Contracted, but not provided for	(1)(2)	918	841
Authorized, but not contracted for	(1)(2)	944	1,344
		1,862	2,185

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 billion. As at 31 December 2015, the cumulative amount incurred by the Company amounted to RMB1,217 million. Of the balance, RMB393 million was disclosed as a capital commitment contracted but not provided for and RMB390 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 billion. As at 31 December 2015, the cumulative amount incurred by the Company amounted to RMB1,207 million. Of the balance, RMB257million was disclosed as a capital commitment contracted but not provided for and RMB536million was disclosed as a capital commitment authorized but not contracted for.

(All amounts expressed in RMB million unless otherwise specified)

51. COMMITMENTS (continued)

(b) Operating lease commitments

The Group leases office premises and staff quarters under various operating lease agreements as the leasee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2015	31 December 2014
Within 1 year (including 1 year)	718	666
1 to 2 years (including 2 years)	493	453
2 to 3 years (including 3 years)	355	306
3 to 5 years (including 5 years)	359	289
More than 5 years	335	170
	2,260	1,884

(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 2015	31 December 2014
Within 1 year (including 1 year)	543	288
1 to 2 years (including 2 years)	363	159
2 to 3 years (including 3 years)	131	88
3 to 5 years (including 5 years)	82	13
More than 5 years	2	5
	1,121	553

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 2015, the Group was the defendant in certain pending litigation and disputes. Provisions have been made for the possible loss based on best estimate by the directors and the Group would only be contingently liable for any claim that is in excess of what had been provided.

(All amounts expressed in RMB million unless otherwise specified)

53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Company	31 December 2015	31 December 2014
ASSETS		
Investments in subsidiaries	62,079	62,079
Property and equipment	2,838	2,461
Investment properties	2,184	2,271
Intangible assets	59	30
Prepaid land lease payments	34	35
Held-to-maturity financial assets	900	965
Investments classified as loans and receivables	248	1,130
Term deposits	1,507	3,860
Available-for-sale financial assets	20,757	15,530
Financial assets at fair value through profit or loss	97	20
Securities purchased under agreements to resell	1,100	100
Interest receivables	422	429
Other assets	285	181
Cash and short-term time deposits	153	389
Total assets	92,663	89,480
EQUITY AND LIABILITIES		
Equity		
Issued capital	9,062	9,062
Reserves	70,623	69,686
Retained profits	10,487	9,641
Total equity	90,172	88,389
Liabilities		
Securities sold under agreements to repurchase	1,660	70
Deferred income tax liabilities	121	6
Income tax payable	40	122
Due to subsidiaries	20	104
Other liabilities	650	789
Total liabilities	2,491	1,091
Total equity and liabilities	92,663	89,480

GAO Guofu	HUO Lianhong
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	Capital reserves	Surplus Reserves	Available-for-sale investment revaluation reserves	Total	Retained Profits
At 1 January 2014	66,164	2,785	(545)	68,404	8,897
Total comprehensive income for the year	-	-	797	797	4,854
Dividend declared	-	-	-	-	(3,625)
Appropriations to surplus reserves	-	485	-	485	(485)
At 31 December 2014	66,164	3,270	252	69,686	9,641
At 1 January 2015	66,164	3,270	252	69,686	9,641
Total comprehensive income for the year	-	-	340	340	5,974
Dividend declared	-	-	-	-	(4,531)
Appropriations to surplus reserves	-	597	-	597	(597)
At 31 December 2015	66,164	3,867	592	70,623	10,487

Dividends from subsidiaries amounting to RMB 4,966 million were included in the Company's net profit for 2015 (2014: RMB4,005 million).

54. POST BALANCE SHEET EVENTS

Other than as mentioned in other notes, the 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 25 March 2016.