# 2019
# Annual Report

# 人民保险
# 服务人民

中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

Stock Code : 2328

# Company Profile

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

## PRINCIPAL ACTIVITIES

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

## MISSION

People's insurance serves the people

## CORE VALUE

To adhere to new growth model  Thrive on specialties
Prosper by innovation  Govern with uprightness

## VISION

To make PICC a reliable and excellent brand

PICC Publicity Film

# Contents



* In case of any discrepancy between the Chinese version and the English version of this annual report, the Chinese version shall prevail.

# Financial Summary

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | *RMB million* | *RMB million* | *RMB million (Restated)* | *RMB million* | *RMB million* |
| Gross written premiums | **433,175** | 388,769 | 350,314 | 311,160 | 281,698 |
| Underwriting profit | **3,177** | 5,304 | 8,705 | 5,024 | 8,604 |
| Investment income | **16,986** | 16,635 | 15,382 | 15,073 | 14,268 |
| Net realised and unrealised gains/(losses) on investments | **733** | (1,226) | 1,136 | 922 | 6,562 |
| Share of profits or losses of associates and joint venture | **4,250** | 4,482 | 4,575 | 2,945 | 473 |
| Profit before tax | **23,783** | 23,428 | 27,161 | 22,451 | 28,203 |
| Income tax credit/(expense) | **496** | (7,942) | (7,353) | (4,430) | (6,356) |
| Profit for the year | **24,279** | 15,486 | 19,808 | 18,021 | 21,847 |

In 2018, the Company and its subsidiaries amended its compositions of underwriting profit based on industry practice. The Company and its subsidiaries reclassified certain other income and other expenses which will no longer be eligible for inclusion in underwriting profit. Prior year comparative figures have been revised accordingly, resulting in a reduction in underwriting profit of RMB590 million for the year ended 31 December 2017. Figures of 2015 and 2016 have not been restated.

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| Total assets | **596,081** | 550,619 | 524,566 | 475,949 | 420,420 |
| Total liabilities | **426,127** | 409,116 | 391,452 | 356,637 | 311,469 |
| Total equity | **169,954** | 141,503 | 133,114 | 119,312 | 108,951 |

Gross written premiums
**433,175**
*RMB million*

Market share
**33.2%**

Underwriting profit
**3,177**
*RMB million*

Combined ratio
**99.2%**

Total investment income
**21,969**
*RMB million*

Total investment yield
**4.9%**

Return on equity
**15.6%**

Basic earnings per share attributable to owners of the Company
**1.092**
*RMB Yuan*

Dividend per share
(subject to the approval of the Company's shareholders at the annual general meeting)
**0.461**
*RMB Yuan*

Net cash flows from operating activities
**25,845**
*RMB million*

Comprehensive solvency margin ratio
**282%**

Profit for the Year
**24,279**
*RMB million*

# Chairman's Statement


**Mr Miao Jianmin**
*Chairman*

## Dear Shareholders,

The Year 2019 marks the 70th anniversary of the founding of the People's Republic of China and the 70th anniversary of the founding of PICC. In 2019, the pattern of the world's profound changes accelerated, the global economic growth continued to slow down, the "three-stage overlapping" impact continued to deepen and the downward pressure on China's economy increased. At the same time, the mixture of deepening deregulation of premium rate of commercial motor vehicle insurance in insurance industry and the strict supervision over "consistency between the reported commission rates of insurance companies and their actual commission rates" by the regulator brought significant opportunities and challenges to the insurance industry in China in its course of profound transformation. By adhering to its mission of "People's Insurance Serves the People", the Company strengthened Party leadership in an all-round way and carried out the campaign of "remaining true to the original aspiration and keeping the mission firmly in mind". We thoroughly implemented the "3411 Project" of PICC Group in a manner of making progress while maintaining stability and by consolidating our strengths as well as boosting areas of weakness. We upgraded the insurance supply, made efforts to establish the new business model of "insurance + technology + service", enhanced the value creation capability and continued to add new chapters to the glorious 70 years' history of PICC Group. The Company fully implemented the business model reform, took solid steps in implementing its transformation to high-quality development and showed a development trend featuring progress and sound performance on the basis of stability.

In 2019, the direct written premiums of the Company reached RMB431.7 billion, breaking the mark of RMB400 billion. The growth rate of the Company's direct written premiums to that of the market was 1.05. The market share was 33.2%, representing a year-on-year increase of 0.2 percentage points. The Company maintained its market share at one third of the property and casualty insurance industry in the PRC, and ranked, by its business scale, the first place in Asian property and casualty insurance industry and the second place globally. The number of corporate customers and individual customers of the Company reached 3.275 million and 95.734 million respectively, representing an increase of 9.1% and 15.6% respectively over that of the beginning of 2019. The profit for the Year reached a new record high of RMB24,279 million, representing a year-on-year increase of 56.8% and return on equity was 15.6%, ranking among the top players in the global property and casualty insurance industry. While the profit for the Year reaching a new record high, there was a remarkable improvement in the cashflow from operating activities with a net cash inflow of RMB25,845 million, representing an increase of RMB15,966 million and reflecting a more solid financial foundation of the Company.

**Two integrations boosting value creation.** We deepened the integration of policy-oriented businesses and commercial businesses with the professional strength gained from long-term operation of policy-oriented businesses and realised the new leap of the Company's commercial insurance businesses while serving rural rejuvenation, poverty alleviation and the "Healthy China" strategy. In 2019, the non-motor vehicle insurance business achieved a gross written premium of RMB170,248 million, representing a year-on-year increase of 31.1% and constituting 39.3% of the total, representing a year-on-year increase of 5.9 percentage points. The premium income of commercial insurance business gained through the rural network was RMB46.8 billion, representing a year-on-year increase of 20.4%. Among which, the premium income of motor vehicle insurance business gained through the rural network was RMB34.3 billion, representing a year-on-year increase of 14.3%, higher than the national average growth rate of the motor vehicle insurance. The premium income achieved from integration of policy-oriented businesses and commercial businesses was RMB12.8 billion, representing a year-on-year increase of 45%. We promoted the integration of technological reform and business model reform, speeded up the construction of direct marketing and directly controlled channels and achieved a remarkable result in respect of reducing dependency on intermediaries and lowering sales cost. With respect to the motor vehicle insurance, the percentage of premium income generated from the direct sales channels and directly controlled channels reached 69.3%, representing a year-on-year increase of 5.1 percentage points. The staff of renewal business service team increased by 8,066 compared to that of the beginning of 2019 and the premium income recorded by the renewal business service team achieved a year-on-year increase of 26.3%. The number of "PICC V League" members reached 2.13 million and the premium income generated from this channel achieved a year-on-year increase of 19.3%. We set up 1,214 comprehensive business development teams, the premium income delegated by the Company for PICC Life and PICC Health reached RMB4.0 billion, representing a year-on-year increase of 49%, and the premium income delegated by PICC Life and PICC Health for the Company reached RMB3.5 billion, representing a year-on-year increase of 29%.

**Business model reform creating value.** We adhered to the original aspiration of insurance for protection, promoted the supply-side structural reform of insurance business, made an overall change in business models and innovated customer value by taking underwriting as the starting point and providing services as the ultimate objective. We upgraded the "Insurance +" service model, made great efforts to develop the governance-oriented liability insurance, created a new business model of "Insurance + Risk Control + Technology + Service" featuring risk reduction management. Based on the above, the Company was the only insurance company nationwide which was selected as "Supply Chain Innovation and Application Pilot Enterprise". In 2019, the gross written premiums of liability insurance was RMB27,223 million, representing a year-on-year increase of 25.4%. We adhered to "customer-centric" principle, actively and steadily carried out organisational reform from headquarters to branches,

On 26 May 2019, as the only insurance partner of 2019 Xi'an Qujiang International Half Marathon, the Company's Xi'an branch not only provided all-round insurance for the event but also escorted the whole process along the route. Our high-quality services were praised by customers and the government.

and changed the organisational structure to optimise the front-end business departments, strengthen the middle-end business supporting departments and solidify the back-end comprehensive service departments. We set up an individual business department to promote and achieve "one account for one customer, covering multiple insurance lines and providing comprehensive services". We expanded the "Traffic Police and Insurer Joint Work" nationwide, connected our system with the 12123 system of the traffic police agency to form an innovative service pattern of cooperative joint-governance by the insurance company and traffic police agencies. All these measures extended the value chain of insurance services for motor vehicle insurance customers, created new service value and made the Company a high-quality insurance service provider. The "Traffic Police and Insurer Joint Work" had covered over 330 cities nationwide and about 6,200 service stations were established in rural areas, assisting work of traffic police and improving road safety. We also had over 2,000 business outlets providing "vehicle + driver's licence business". All these features have become the Company's unique service brand and competitive barrier.

**Technology empowerment releasing value.** We further promoted the digitalisation strategy, and initiated the digitalising process to provide the online customer service in all aspects. We improved the business structure, optimised the underlying framework, enhanced the practical application ability to bring the operation management and customer service to a new level. We promoted online migration of customers, the online migration rate of household motor vehicle insurance reached 59.5%, representing an increase of 43.6 percentage points compared to the beginning of the Year; the average e-policy issuance rate of motor vehicle insurance for household motor vehicles was 50.5%, with an online service coverage rate of 40.7%; the online claim service usage rate of motor vehicle insurance reached 66.7%, representing an increase of 58.3 percentage points compared to the beginning of the Year. We deepened the application of technologies such as big data, digital maps and artificial intelligence, etc., established a digital underwriting model and underwriting risk control platform, and realised an intelligent and paperless issuance of motor vehicle insurance policy. We made progress in the "PICC" APP construction, accelerated the use of 95518 intelligent customer service platform, implemented the intelligent applications such as intelligent voice navigation with an accurate navigation rate of 92%, intelligent follow-up and intelligent quality inspection. We published the market-leading PICC cloud and independently developed the unified standard technical system of PICC Group and online distribution core system v1.0, thereby facilitating digital transformation. The Company was the only insurance company whose network was not breached in the drill for cyber-attack and defend organised by the Ministry of Public Security, and the only insurance company which was praised.


The Company's employees introduced our WeChat official account to a customer.

**Cost reduction and efficiency improvement adding value.** We strengthened cost management and control. In 2019, the expense ratio of the Company was 33.0%, representing a year-on-year decrease of 3.5 percentage points, and the commission expense ratio was 12.7%, representing a year-on-year decrease of 6.4 percentage points. We firmly addressed problems identified in claim settlement and implemented special actions designated for cutting unreasonable claim costs and reducing loss, by resorting to, in specific, in-depth application of technologies, establishment of loss assessment platform, promotion of the Jiaanpei auto parts direct supply platform, a team of experts in claim settlement and improvement of emergency management for catastrophes. All these measures were aimed at preventing loss of profit. Claim settlement of motor vehicle insurance by technology, Jiaanpei platform and tax offset for claim payment contributed, in aggregate, a loss reduction of RMB8.15 billion, representing a year-on-year increase of 87.3%. We strengthened the refined management of key points in the process of personal injury-involved claim settlement, which brought down the average claim payment for personal injury-involved claim cases of motor vehicle insurance by 4.7%.


In April 2019, the claim specialist from the agriculture insurance department of the Company's Sanming branch in Fujian province used a drone to investigate the disaster situation of tobacco leaves.

The Company's salesman delivered the supplementary medical insurance policy for critical illness insurance to a low-income family.

**Rewarding the society and demonstrating value.** Over the past seventy years, in whatever hardships it may be, we always persisted in sincerely contributing to and rewarding the society, and our seventy years of development was made possible by the trust and support from our customers and the society. We actively participated in public welfare activities and shouldered the social responsibility as a key State-owned insurance enterprise. In our active exploration of poverty alleviation by supporting business development and improving health and education situations in poverty-stricken areas, we created the "insurance +" poverty alleviation mode, put forward "poverty alleviation insurance for areas of extreme poverty" which involves joint efforts of the government and enterprises directly under the central government and conducted poverty alleviation in designated areas for many consecutive years. In 2019, the Company provided insurance protection to 39.86 million registered poor people across the nation with the insured amount reaching RMB7.47 trillion, and lifted the designated poverty-stricken area bonded with the Company out of poverty, once and for all. By doing so, the Company became the only State-owned insurance enterprise that was selected for the blue book on poverty alleviation of the State Council, the only State-owned insurance enterprise selected as a model case of targeted poverty alleviation by enterprises and the only State-owned insurance enterprise sharing poverty alleviation experience to financial entities directly under the central government. The Company paid attention to poverty, orphans and disabled children and carried out a series of charity activities such as the student assistance scheme "Hand in Hand", "PICC P&C Charity Tour" and "the Same Blue Sky". In addition, we sponsored establishment of "PICC P&C Youth Volunteers Association" and more than 10,000 employees of the Company made use of their off-time carrying out charity and volunteering activities. In particular, the Company donated a sum of RMB10 million to Wuhan Red Cross Society immediately upon the Novel Coronavirus Pneumonia outbreak in early 2020 and provided insurance protection amount of RMB5.8 billion in aggregate for the nationwide medical staff fighting in the front line, their families and etc.

2020 is the year for China to reach a moderately prosperous society in all respects and the last year covered by the Thirteenth Five-year Plan, and is also a key year for the Company to deepen its business model reform and speed up its transformation to high-quality development. We will persist in carrying out the full and rigorous governance over the Party, act in conformity with our corporate mission of "People's Insurance Serves the People" and implement the core values of "adhering to new growth model, thriving on specialties, prospering by innovation, and governing with uprightness". We will adhere to the new development vision, persist in promoting the insurance supply-side structural reform, further implement the "3411 Project" of PICC Group and promote "Ten Key Initiatives" of the Company. We will innovate technology empowerment, facilitate the business model reform and make efforts to establish the new business model featuring "insurance + technology + service" to enable the Company to constantly glow with new vitality and dynamism, create through its high-quality development a broader and magnificent future for the Company and make new and greater contributions to the realisation of the Chinese Dream of national rejuvenation.

**Miao Jianmin**
*Chairman*

Beijing, the PRC
27 March 2020


On 15 March 2020, four members of the "Red Gloves" youth volunteer service team from the Company's Jiangsu branch bravely headed "upstream" and assisted the staff at Nanjing South Railway Station to carry out epidemic investigation, registration and guidance for passengers.

# Discussion and Analysis of Operating Results and Financial Conditions

## I. PERFORMANCE HIGHLIGHTS

In 2019, facing the complex situation of increasing risks and challenges domestically and internationally, China persisted with the general working principle of pursuing progress while ensuring stability, continued to take the supply-side structural reform as the main task, enhanced the counter-cyclical adjustments to its macro policy, promoted the high-quality development, and firmly implemented the work in relation to keeping employment, the financial sector, foreign trade, foreign and domestic investments, and expectations stable to maintain the sustainable and healthy development of economy and society. The Chinese insurance industry made key progress in the battle of guarding against and defusing financial risks, the quality and efficiency of its service to the real economy continuously improved, the reforms relating to key institutions and areas have further progressed, the corporate governance mechanism was further improved, the regulatory efforts were continuously upgraded, and implementation of the opening up policy was accelerated, resulting in acceleration of the transformation toward high quality development of the insurance industry.

The Company took the insurance supply-side structural reform as the main task, diligently carried out the strategic plans of PICC Group, further implemented the "3411 Project" of PICC Group, and took solid steps to promote "Ten Key Initiatives". To be specific, the Company optimised its organisational structure, deepened the two integrations, improved its channel network, upgraded its insurance supply, improved its claim settlement quality, strictly upheld the bottom line of no systematic risk, promoted transformation through innovation, and strived for quality improvement, cost reduction and risk prevention. The Company achieved excellence in both of development and profitability, and made progress in business model reform, bringing the Company to the phase of commencement of transformation toward high quality development.

### *BUSINESS SCALE MAINTAINING STEADY GROWTH, MARKET SHARE REMAINING STABLE AND SEEING A MODERATE INCREASE*

In 2019, the Company and its subsidiaries achieved gross written premiums of RMB433,175 million, representing a year-on-year increase of 11.4%. Of which, gross written premiums of the motor vehicle insurance business amounted to RMB262,927 million, representing a year-on-year increase of 1.6%; the non-motor vehicle insurance business achieved gross written premiums of RMB170,248 million, representing a year-on-year increase of 31.1%. The non-motor vehicle insurance accounted for 39.3% of the total, representing a year-on-year increase of 5.9 percentage points. The business structure was more balanced. As at the end of 2019, the total assets reached RMB596,081 million, representing an increase of 8.3% over that of the beginning of 2019. The total equity was RMB169,954 million, representing an increase of 20.1% over that of the beginning of 2019. The Company's market share was 33.2% *(Note)* in the property and casualty insurance market of the PRC, representing a year-on-year increase of 0.2 percentage points.

*Note:* Calculated based on the PRC insurance industry data for 2019 published on the website of the CBIRC.

Gross written premiums

**433,175** *RMB million*

Market Share

**33.2%**

## *OPERATING RESULTS ACHIEVING A NEW RECORD HIGH AND COMPREHENSIVE STRENGTHS BEING CONTINUOUSLY ENHANCED*

In 2019, the profit for the Year of the Company and its subsidiaries was RMB24,279 million, representing a year-on-year increase of 56.8%; return on equity was 15.6%, representing a year-on-year increase of 4.3 percentage points; the Company recorded good operating results. Of which, the insurance business achieved underwriting profit of RMB3,177 million and the combined ratio of the Company and its subsidiaries was 99.2%; investment gains from insurance fund utilisation was RMB21,969 million, representing a year-on-year increase of 14.7%, with a total investment yield of 4.9%, representing a year-on-year increase of 0.4 percentage points. The net cash flows from operating activities was RMB25,845 million, representing a year-on-year increase of RMB15,966 million; the net cash flows from each premium of RMB100 was RMB5.99, showing a significant improvement in liquidity. The core solvency margin ratio was 252%, and the comprehensive solvency margin ratio was 282%, showing a steady improvement of comprehensive strength. Due to the Company's outstanding industry position and continuously increasing comprehensive strengths, Moody's Investors Service maintained the A1 rating granted to the Company in terms of insurance financial strength, which is the highest rating in China Mainland.

Profit for the Year

**24,279** *RMB million*

Core solvency margin ratio

**252%**

Comprehensive solvency margin ratio

**282%**

## *BRAND IMAGE ENHANCED AND LEADING SERVICE RATING IN THE INDUSTRY*

In 2019, the Company and its subsidiaries took the initiative to serve the national agenda and people's livelihood, actively took part in the insurance program for key projects, successfully completed the insurance service in relation to the Military World Games, solely underwrote the insurance for the successfully launched Long March-5 rocket, and properly responded to major disasters and accidents including the forest fire in Liangshan, Sichuan province, the "Explosive Accident on 21 March" in Xiangshui, Jiangsu province, the typhoon Lekima and the swine fever, through which the corporate responsibility was demonstrated. The Company further promoted the "Traffic Police and Insurer Joint Work" throughout the country, extensively set up service stations in rural areas assisting work of traffic police and improving road safety and "vehicle + driver's licence business" service outlets, and increasingly optimised and renovated its service model, maintaining the CBIRC's highest rating for service evaluation of insurance companies for three consecutive years. The Company also won several awards such as "Best Property Insurance Company of the Year 2019 in Asia", "Ark Award of Gold Medal Insurance Service 2019" and "2019 Top 100 Financial Service Providers", further enhancing its social influence and brand image.

# II. PRINCIPAL ACTIVITIES AND OPERATION ANALYSIS

## *(I) INSURANCE BUSINESS*

### *1. Business overview*

***Underwriting results***

The following table sets forth the selected financial indicators of the insurance business of the Company and its subsidiaries and their percentages to net earned premiums for the relevant periods:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | *RMB million* | % | *RMB million* | % |
| Net earned premiums | **380,683** | **100.0** | 344,124 | 100.0 |
| Net claims incurred | **(251,822)** | **(66.2)** | (213,303) | (62.0) |
| Total expenses | **(125,684)** | **(33.0)** | (125,517) | (36.5) |
| Underwriting profit | **3,177** | **0.8** | 5,304 | 1.5 |

***Distribution channels***

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage | Amount | Percentage |
| | *RMB million* | % | *RMB million* | % |
| Insurance agents | **297,891** | **69.0** | 277,240 | 71.5 |
| Among which: | | | | |
| Individual insurance agents | **139,254** | **32.3** | 130,214 | 33.6 |
| Ancillary insurance agents | **50,037** | **11.5** | 53,958 | 13.9 |
| Professional insurance agents | **108,600** | **25.2** | 93,068 | 24.0 |
| Direct sales | **98,579** | **22.8** | 80,080 | 20.6 |
| Insurance brokers | **35,254** | **8.2** | 30,700 | 7.9 |
| Total | **431,724** | **100.0** | 388,020 | 100.0 |

***Geographical segments***

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

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Guangdong Province | **50,181** | 37,993 |
| Jiangsu Province | **40,156** | 36,859 |
| Zhejiang Province | **31,201** | 30,300 |
| Shandong Province | **24,349** | 22,351 |
| Hebei Province | **23,849** | 21,762 |
| Sichuan Province | **20,313** | 17,678 |
| Hubei Province | **18,646** | 16,024 |
| Anhui Province | **16,845** | 15,179 |
| Fujian Province | **16,748** | 14,655 |
| Beijing | **16,583** | 15,608 |
| Other regions | **172,853** | 159,611 |
| Total | **431,724** | 388,020 |

***2. Insurance segment operating results***

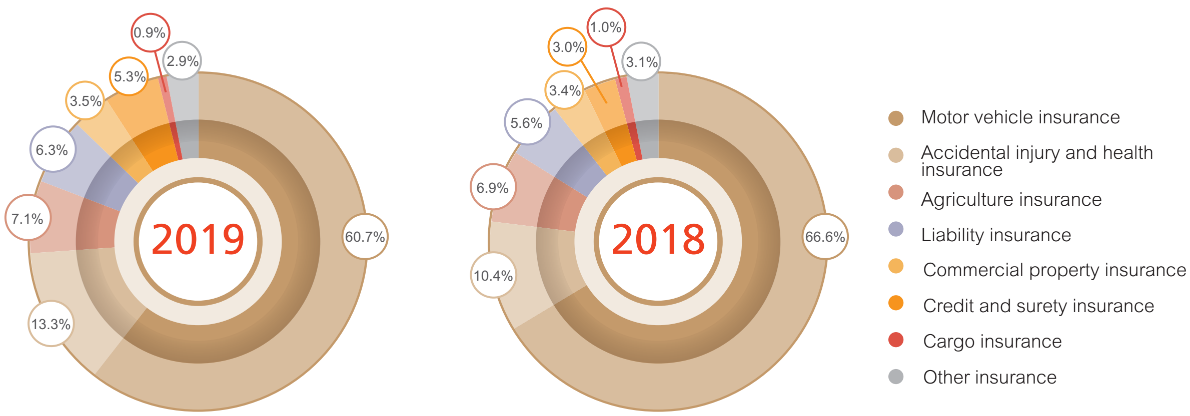
***Gross written premiums***

Gross written premiums of the Company and its subsidiaries were RMB433,175 million in 2019, representing an increase of RMB44,406 million (or 11.4%) from RMB388,769 million in 2018. The business growth was largely driven by the development of the accidental injury and health insurance, credit and surety insurance, liability insurance, agriculture insurance, motor vehicle insurance and commercial property insurance business.

The following table sets forth the gross written premiums of the Company and its subsidiaries by insurance segments for the relevant periods:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | Percentage | 2018 | Percentage |
| | *RMB million* | *%* | *RMB million* | *%* |
| Motor vehicle insurance | **262,927** | **60.7** | 258,904 | 66.6 |
| Accidental injury and health insurance | **57,633** | **13.3** | 40,444 | 10.4 |
| Agriculture insurance | **30,772** | **7.1** | 26,718 | 6.9 |
| Liability insurance | **27,223** | **6.3** | 21,706 | 5.6 |
| Commercial property insurance | **15,167** | **3.5** | 13,413 | 3.4 |
| Credit and surety insurance | **22,767** | **5.3** | 11,575 | 3.0 |
| Cargo insurance | **3,972** | **0.9** | 3,864 | 1.0 |
| Other insurance | **12,714** | **2.9** | 12,145 | 3.1 |
| Total | **433,175** | **100.0** | 388,769 | 100.0 |

Composition of gross written premiums



In terms of the motor vehicle insurance segment, facing the challenges to the new motor vehicle insurance business caused by continuous decline of automobile production and sales, the Company and its subsidiaries focused on strengthening the construction of direct sales channels and channels controlled by the Company, further promoted the customer-centric transformation of channels, and continuously improved its resources integration and control capability. The Company continuously promoted refined and standardised management on the renewal teams, speeded up technology empowerment, and improved insurance renewal efficiency, thereby achieving steady growth of the existing business. Gross written premiums of the motor vehicle insurance business achieved a year-on-year increase of RMB4,023 million (or 1.6%).

Gross written premiums of the accidental injury and health insurance business achieved a year-on-year increase of RMB17,189 million (or 42.5%), mainly driven by a rapid development of the social medical insurance, accidental insurance and commercial health insurance businesses. On one hand, the Company and its subsidiaries grasped the opportunity of new policy relating to critical illness insurance, aligned with the national poverty alleviation and "Healthy China" strategy, actively participated in the pilot long-term nursing insurance implemented in various places, and promoted the significant growth of social medical insurance business such as critical illness insurance, basic medical insurance, poverty alleviation and medical aid insurance and long-term nursing insurance. On the other hand, the Company actively explored the "insurance + service" model, developed exclusive products for segment customers, improved product system, increased effective supply, and strengthened integrated sales and refined management, maintaining a rapid growth of businesses such as group accidental insurance, driver accidental insurance and individual commercial health insurance.

In terms of the agriculture insurance segment, the Company and its subsidiaries grasped the opportunity presented in the central government's continuous support of the agriculture insurance. Based on the *Guiding Opinions on Accelerating the High Quality Development of Agriculture Insurance* jointly issued by four ministries and commissions, the Company advanced full implementation of the total cost and income insurance for three main grain crops in pilot areas and made adjustments to the agriculture insurance underwriting model in some areas. Meanwhile, the Company and its subsidiaries intensified their efforts to tap customer resources such as group enterprises and new agricultural entities, consolidated the existing business and explored incremental business, resulting in a significant increase of the regained and incremental business and maintaining a steady business growth for the Year. The gross written premiums of the agriculture insurance achieved a year-on-year increase of RMB4,054 million (or 15.2%).

In terms of the liability insurance segment, the Company and its subsidiaries focused on serving the national key strategies, serving development of the real economy, serving modernisation of the social governance system and serving upgrading of personal insurance consumption. The Company enhanced innovation and development, took the initiative to ensure product compliance management, and made great progress in poverty prevention and assistance insurance, green building performance liability insurance, safety production liability insurance and etc. By relying on the advantages of their network of outlets, the Company and its subsidiaries continued to promote the "insurance + technology + service" business model, achieving rapid development in employer liability insurance, motor vehicle extended warranty insurance, public liability insurance and Internet insurance businesses. In 2019, gross written premiums of the liability insurance business achieved a year-on-year increase of RMB5,517 million (or 25.4%).

In terms of the commercial property insurance segment, having been stimulated by national strategic development plans such as the supply-side structural reform, the "belt and road construction" and others, the commercial property insurance market in the PRC continuously expanded. At the same time, market players also actively grasped market opportunities and increasingly enhanced the efforts in developing commercial property insurance business, which further intensified market competition. Facing the opportunities and challenges, the Company and its subsidiaries followed the trend of market demand, strengthened product development, and facilitated development of emerging businesses such as property loss insurance, photovoltaic power plant operation phase insurance and cultural relics insurance. Gross written premiums of the commercial property insurance business achieved a year-on-year increase of RMB1,754 million (or 13.1%).

In terms of the credit and surety insurance segment, the Company and its subsidiaries have committed more resources into this field and innovated their business models, with traditionally strong insurance businesses such as export credit insurance, project performance guarantee insurance and tariff guarantee insurance achieving a rapid development. At the same time, the Company has proactively served the demand of the financing insurance market, further consolidated the foundation of risk control, and continuously improved the specialised and refined management of the businesses. Under the joint boost of traditional and new businesses, the credit and surety insurance recorded a remarkable growth, with the gross written premiums increasing by RMB11,192 million (or 96.7%) on a year-on-year basis.

In terms of the cargo insurance segment, with the aim of achieving high quality and profitable development, the Company and its subsidiaries adjusted the business structure in a timely manner and increased the expansion of individual businesses such as the online business and the luggage on board business. The overall scale of cargo insurance has remained stable, with the gross written premiums increasing by RMB108 million (or 2.8%) on a year-on-year basis.

In terms of the other insurance segment, the Company and its subsidiaries implemented the "3411 Project" of PICC Group, promoted the integrated development of the policy-oriented business and the commercial business, continuously improved the capability of innovation and competitiveness, and improved customer service level, leading to a steady growth in household property insurance business and the special insurance business. The gross written premiums of the other insurance segment increased by RMB569 million (or 4.7%) on a year-on-year basis.

***Net earned premiums***

Net earned premiums of the Company and its subsidiaries were RMB380,683 million in 2019, representing an increase of RMB36,559 million (or 10.6%) from RMB344,124 million in 2018.

The following table sets forth the net earned premiums of the Company and its subsidiaries for the relevant periods:

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Motor vehicle insurance | **251,653** | 249,111 |
| Accidental injury and health insurance | **53,806** | 34,038 |
| Agriculture insurance | **24,632** | 22,655 |
| Liability insurance | **18,926** | 15,086 |
| Commercial property insurance | **8,679** | 7,957 |
| Credit and surety insurance | **13,271** | 5,969 |
| Cargo insurance | **2,782** | 2,801 |
| Other insurance | **6,934** | 6,507 |
| Total | **380,683** | 344,124 |

***Net claims incurred***

Net claims incurred of the Company and its subsidiaries in 2019 were RMB251,822 million, representing an increase of RMB38,519 million (or 18.1%) from RMB213,303 million in 2018. The loss ratio increased by 4.2 percentage points from 62.0% in 2018 to 66.2% in 2019. The increase in net claims incurred were primarily derived from accidental injury and health insurance, motor vehicle insurance, credit and surety insurance, agriculture insurance and liability insurance businesses.

The following table sets forth the net claims incurred of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the "loss ratio") for the relevant periods:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Net claims incurred *RMB million* | Loss ratio *%* | Net claims incurred *RMB million* | Loss ratio *%* |
| Motor vehicle insurance | **(150,560)** | **(59.8)** | (142,476) | (57.2) |
| Accidental injury and health insurance | **(47,635)** | **(88.5)** | (30,348) | (89.2) |
| Agriculture insurance | **(19,984)** | **(81.1)** | (16,534) | (73.0) |
| Liability insurance | **(11,420)** | **(60.3)** | (8,829) | (58.5) |
| Commercial property insurance | **(5,727)** | **(66.0)** | (5,475) | (68.8) |
| Credit and surety insurance | **(10,364)** | **(78.1)** | (3,591) | (60.2) |
| Cargo insurance | **(1,339)** | **(48.1)** | (1,503) | (53.7) |
| Other insurance | **(4,793)** | **(69.1)** | (4,547) | (69.9) |
| Total | **(251,822)** | **(66.2)** | (213,303) | (62.0) |

In terms of the motor vehicle insurance segment, the Company and its subsidiaries strengthened underwriting risk control. By applying differentiated expense allocation and marketing strategies and improving the business structure, the Company and its subsidiaries improved business quality from the source and reduced the claim frequency. With regard to claim settlement quality management and control, the Company continuously increased handling efficiency of claim cases and improved the quality of claim settlement service through the use of technology and provision of services like prompt processing and settlement attributable to "Traffic Police and Insurer Joint Work". The Company enlarged the scope of implementation of the "Yuhang Model", strengthened the full-process management and control of cases, continuously deepened the lean management of claim settlement in terms of property damage, personal injury cost, audit and recovery, etc., and continuously promoted the reduction of claim settlement cost and the improvement of claim settlement efficiency. However, due to the decrease in premium adequacy and the rigid increase in vehicle repair cost, personal injury compensation standards and medical expenses, the loss ratio of motor vehicle insurance segment recorded a year-on-year increase of 2.6 percentage points.

In 2019, the Company and its subsidiaries continued to align with the "Healthy China" strategy and actively supported the reform of the national public health system. While the business scale expanded, with the continuous increase of government efforts in providing medical security, the loss ratio of such social medical insurance businesses as critical illness insurance and basic medical insurance also increased. In terms of the accidental injury insurance segment, the Company continued to optimise the business structure and dynamically adjusted the underwriting policy. As a result, business quality showed a trend of improvement, the loss ratio decreased significantly and the loss ratio of the accidental injury and health insurance segment as a whole improved.

In 2019, the Company and its subsidiaries recorded a year-on-year increase in the total loss of the agriculture insurance segment due to the impact of the swine flu epidemic and severe natural disasters such as wind and hail, heavy rain, drought and typhoon, with the loss ratio increasing by 8.1 percentage points on a year-on-year basis.

In terms of the liability insurance segment, due to the continuous increase in the scale of insurance businesses relating to people's livelihood, such as poverty alleviation and medical aid insurance, which carry relatively high insurance liability and imply large claim costs, the loss ratio of the liability insurance segment increased by 1.8 percentage points on a year-on-year basis.

In terms of the commercial property insurance segment, on one hand, the Company and its subsidiaries strengthened the management and control of the underwriting and claim verifying processes, achieving preliminary success in the management and control of claim settlement costs; on the other hand, the Company and its subsidiaries proactively managed risks and increased efforts in preventing disasters and losses, which led to a year-on-year decrease in the loss ratio of high-risk insurance policies and a year-on-year decrease in losses from catastrophes. The loss ratio of the commercial property insurance segment decreased by 2.8 percentage points on a year-on-year basis.

In 2019, due to the effect of the macro economic conditions and changes in business structure, the loss ratio of the credit and surety insurance segment increased by 17.9 percentage points on a year-on-year basis. The Company and its subsidiaries actively served the demand of real economy and consumption upgrade of the society, facilitating a rapid growth of financing credit and surety insurance for online consumer finance, with such insurance accounting for a significantly larger percentage in the total business volume than before. The increase in the social credit risks level contributed to a corresponding increase in the loss ratio of the credit and surety insurance segment. Moreover, the complex domestic and foreign political and economic situation also led to an increase in the risks involved in the export trade and operations of Chinese enterprises, which in turn led to an increase in the loss ratio of the domestic trade and export insurance segment.

In 2019, the Company and its subsidiaries improved the capability of underwriting risk identification for cargo insurance through analysis and application of big data in claim settlement and continued to strengthen risk management and control for internet-based high-risk business. The loss ratio of the cargo insurance segment decreased by 5.6 percentage points on a year-on-year basis.

The loss ratio of the other insurance segment decreased by 0.8 percentage points on a year-on-year basis, primarily due to the optimisation of business structure and the improvement in claim settlement management standard. The Company and its subsidiaries deepened the interaction between underwriting and claim settlement, identified high quality businesses through claim settlement analysis and risk analysis, and promoted the restructuring of the underwriting business. At the same time, in terms of claim settlement, the Company and its subsidiaries strengthened the management of catastrophes and big cases and fully drew on the professional expertise in claim settlement, thus leading to an improvement in the loss ratio indicators.

***Total expenses***

Total expenses of the Company and its subsidiaries were RMB125,684 million in 2019, increased by RMB167 million (or 0.1%) from RMB125,517 million in 2018, with the expense ratio decreasing by 3.5 percentage points from 36.5% in 2018 to 33.0% in 2019.

The following table sets forth the total expenses of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the "expense ratio") for the relevant periods:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Total expenses | Expense ratio | Total expenses | Expense ratio |
| | *RMB million* | % | *RMB million* | % |
| Motor vehicle insurance | **(92,893)** | **(36.9)** | (102,741) | (41.2) |
| Accidental injury and health insurance | **(7,153)** | **(13.3)** | (3,506) | (10.3) |
| Agriculture insurance | **(5,060)** | **(20.6)** | (5,167) | (22.8) |
| Liability insurance | **(7,446)** | **(39.4)** | (5,345) | (35.4) |
| Commercial property insurance | **(3,454)** | **(39.8)** | (3,246) | (40.8) |
| Credit and surety insurance | **(5,791)** | **(43.6)** | (2,193) | (36.7) |
| Cargo insurance | **(1,095)** | **(39.4)** | (1,036) | (37.0) |
| Other insurance | **(2,792)** | **(40.3)** | (2,283) | (35.1) |
| Total | **(125,684)** | **(33.0)** | (125,517) | (36.5) |

In 2019, the Company and its subsidiaries seized the opportunities presented by the policies, served the national strategies, optimised the layout of channels, deepened the integrated development of policy-oriented business and commercial business, continued to optimise business structure; actively promoted the implementation of the policy of ensuring "consistency between the reported commission rates of insurance companies and their actual commission rates", optimised sales expenses allocation and increased the resources utilisation efficiency. While maintaining a steady growth in business, total underwriting expenses decreased by RMB985 million from 2018, with the underwriting expense ratio decreasing by 3.5 percentage points from 34.1% in 2018 to 30.6% in 2019. At the same time, the Company and its subsidiaries maintained a stable management expense ratio by vigorously implementing comprehensive budget management and control, adopting the cost leadership strategy and controlling management expenses.

***Underwriting profit***

The Company and its subsidiaries recorded an underwriting profit of RMB3,177 million in 2019, representing a decrease of RMB2,127 million (or -40.1%) from RMB5,304 million in 2018; the underwriting profit ratio was 0.8%, representing a decrease of 0.7 percentage points as compared with 2018.

The following table sets forth the underwriting profit/(loss) of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the "underwriting profit/(loss) ratio") for the relevant periods:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Underwriting profit/(loss) *RMB million* | Underwriting profit/(loss) ratio % | Underwriting profit/(loss) *RMB million* | Underwriting profit/(loss) ratio % |
| Motor vehicle insurance | **8,200** | **3.3** | 3,894 | 1.6 |
| Accidental injury and health insurance | **(982)** | **(1.8)** | 184 | 0.5 |
| Agriculture insurance | **(412)** | **(1.7)** | 954 | 4.2 |
| Liability insurance | **60** | **0.3** | 912 | 6.1 |
| Commercial property insurance | **(502)** | **(5.8)** | (764) | (9.6) |
| Credit and surety insurance | **(2,884)** | **(21.7)** | 185 | 3.1 |
| Cargo insurance | **348** | **12.5** | 262 | 9.3 |
| Other insurance | **(651)** | **(9.4)** | (323) | (5.0) |
| Total | **3,177** | **0.8** | 5,304 | 1.5 |

## *(II) INSURANCE FUNDS INVESTMENT BUSINESS*

### *1. Investment results*

| | Year ended 31 December | |
|---|---|---|
| | 2019 *RMB million* | 2018 *RMB million* |
| Net investment income | **16,986** | 16,635 |
| Total investment income | **21,969** | 19,154 |
| Total investment yield | **4.9%** | 4.5% |
| Total investment assets *(Note)* | **464,751** | 434,222 |

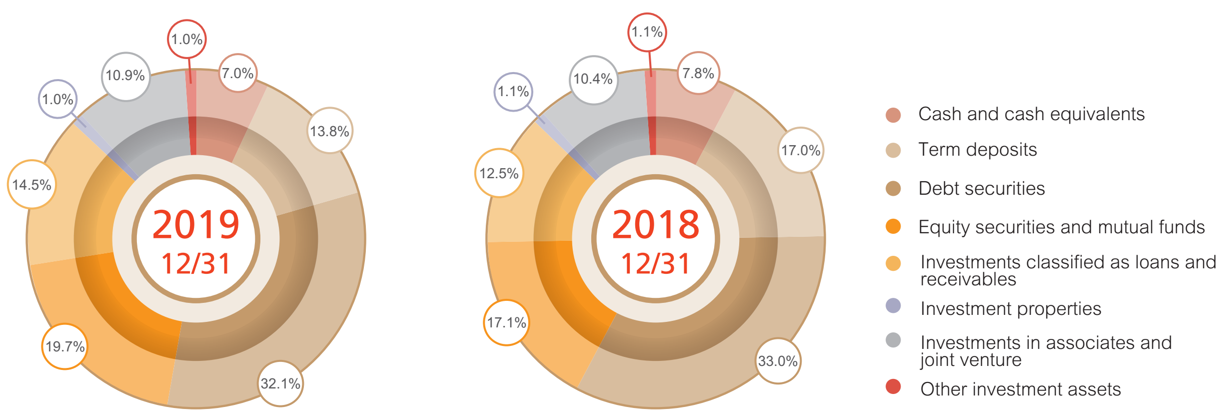
*Note:* Based on the data as at 31 December 2019 and 31 December 2018.

### 2. *Composition of investment assets*

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Balance | Percentage | Balance | Percentage |
| | *RMB million* | % | *RMB million* | % |
| By category: | | | | |
| Cash and cash equivalents | 32,520 | 7.0 | 33,797 | 7.8 |
| Term deposits | 64,398 | 13.8 | 73,963 | 17.0 |
| Debt securities | 149,072 | 32.1 | 143,499 | 33.0 |
| Equity securities and mutual funds | 91,728 | 19.7 | 74,102 | 17.1 |
| Investments classified as loans and receivables | 67,391 | 14.5 | 54,097 | 12.5 |
| Investment properties | 4,598 | 1.0 | 4,881 | 1.1 |
| Investments in associates and joint venture | 50,477 | 10.9 | 45,301 | 10.4 |
| Other investment assets *(Note)* | 4,567 | 1.0 | 4,582 | 1.1 |
| Total investment assets | 464,751 | 100.0 | 434,222 | 100.0 |

*Note:* Other investment assets mainly included derivative financial assets and capital security fund.

Composition of investment assets



As at the end of 2019, the investment assets of the Company and its subsidiaries were RMB464,751 million, representing a year-on-year increase of RMB30,529 million (or 7.0%). The improvement of the cash flows from operating activities has not only reduced the risk of liquidity of the Company but also provided sufficient working capital, pushing forward the steady growth of the size of the investment assets. Meanwhile, the Company adhered to a long-term prudent investment philosophy at all time, took the initiative to carry out risk management and control, timely adjusted its investment assets mix, improved the quality of its investment portfolio and achieved a balance between investment yield and risk based on the conditions of the money market and capital market.

### *3. Investments in associates and joint venture*

As at the end of 2019, the investments in associates and joint venture of the Company and its subsidiaries was RMB50,477 million, representing an increase of RMB5,176 million (or 11.4%) compared to the beginning of 2019. Detailed information is set out in note 24 to the consolidated financial statements.

### *4. Investment income*

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Operating lease income from investment properties | **275** | 247 |
| Interest income | **14,027** | 14,028 |
| Dividend income | **2,684** | 2,360 |
| Total of investment income | **16,986** | 16,635 |

Investment income of the Company and its subsidiaries was RMB16,986 million in 2019, representing an increase of RMB351 million (or 2.1%) from RMB16,635 million in 2018, primarily due to the Company timely increased the investment in equity assets with dividend distribution and fixed income assets which led to an increase in the dividend income of RMB324 million (or 13.7%) on a year-on-year basis.

### 5. *Net realised and unrealised gains/(losses) on investments*

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Realised gains/(losses) on investments | **1,403** | (760) |
| Unrealised gains on investments | **112** | 65 |
| Impairment losses | **(706)** | (636) |
| Fair value (losses)/gains on investment properties | **(76)** | 105 |
| Total of net realised and unrealised gains/(losses) on investments | **733** | (1,226) |

In 2019, the Company and its subsidiaries seized market opportunities and adjusted their positions in equity assets, with the realised investment income increasing by RMB2,163 million to RMB1,403 million in 2019 from a net loss of RMB760 million in 2018; at the same time, due to fluctuations in the capital market, the impairment loss for available-for-sale financial assets was RMB706 million, marking an increase of RMB70 million over the same period last year.

### 6. *Share of profits or losses of associates and joint venture and loss on deemed disposal of an associate*

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Share of profits or losses of associates and joint venture | **4,250** | 4,482 |
| Loss on deemed disposal of an associate | **–** | (737) |

### 7. *Asset mortgage*

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

### *(III) OVERALL RESULTS*

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

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Profit before tax | **23,783** | 23,428 |
| Income tax credit/(expense) | **496** | (7,942) |
| Profit for the year | **24,279** | 15,486 |
| Total assets *(Note)* | **596,081** | 550,619 |

*Note:* Based on the data as at 31 December 2019 and 31 December 2018.

***Profit before tax***

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB23,783 million in 2019, representing an increase of RMB355 million (or 1.5%) from RMB23,428 million in 2018.

***Income tax credit/(expense)***

In 2019, the Company and its subsidiaries had an income tax credit of RMB496 million, and the income tax expense of the Company and its subsidiaries in 2018 was RMB7,942 million. In May 2019, the Ministry of Finance and the State Taxation Administration issued the *Announcement on the Policy of Pre-tax Deduction for Commission Expenses of Insurance Enterprises* (Announcement of the Ministry of Finance and the State Taxation Administration [2019] No.72), which provides that, with effect from 2019, the pre-income tax deduction ratio of the service charge and commission expenditures shall be increased from 15% to 18%, and the part that exceeds this proportion shall be allowed to be carried forward for deduction in the future years, and this policy shall be applicable to the final settlement and payment of the income tax for the year 2018. According to the provisions of the accounting standards, the Company has recognised the impact of this policy on the income tax expenses in 2018 of RMB4,230 million in 2019.

***Profit for the year***

As a result of the foregoing, the profit for the Year was RMB24,279 million in 2019, representing an increase of RMB8,793 million (or 56.8%) from RMB15,486 million in 2018. Basic earnings per share attributable to owners of the Company in 2019 was RMB1.092.

## III. ANALYSIS OF LIQUIDITY AND CAPITAL ADEQUACY

### *CASH FLOW ANALYSIS*

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

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | *RMB million* | *RMB million* |
| Net cash flows from operating activities | **25,845** | 9,879 |
| Net cash flows from/(used in) investing activities | **941** | (8,732) |
| Net cash flows used in financing activities | **(28,063)** | (2,038) |
| Net decrease in cash and cash equivalents | **(1,277)** | (891) |

In 2019, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB25,845 million, representing a year-on-year increase of RMB15,966 million. In 2019, while there was a steady growth in business, the Company and its subsidiaries strengthened management of credit on premium receivable and process control and increased collection and assessment efforts, leading to a steady increase in premiums received. At the same time, the cash expenses of tax and fee decreased on a year-on-year basis due to the increase in the pre-tax deduction ratio of service charge and other factors.

In 2019, the net cash flows from investing activities of the Company and its subsidiaries amounted to RMB941 million, the net cash flows used in investing activities amounting to RMB8,732 million in 2018, which was mainly due to the maturity of the term deposits.

In 2019, the net cash flows used in financing activities of the Company and its subsidiaries were RMB28,063 million, representing an increase of RMB26,025 million from 2018. In 2019, the net cash flows of the Company and its subsidiaries from the securities sold under agreements to repurchase decreased by RMB11,240 million, compared to an increase of RMB4,878 million in 2018; in addition, RMB8,000 million was paid for redemption of subordinated debts in 2019.

As at 31 December 2019, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB32,520 million.

### *GEARING RATIO*

As at 31 December 2019, the gearing ratio *(Note)* of the Company and its subsidiaries was 68.9%, representing a decrease of 1.1 percentage points from 70.0% as at 31 December 2018.

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

### *SOURCE OF WORKING CAPITAL*

The cash flows of the Company and its subsidiaries are primarily derived from cash generated from operating activities, which are principally insurance premiums received. Additional liquidity sources include interest and dividend incomes, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and performance of other obligations under outstanding insurance policies, capital expenditure, operating expenses, tax payments, dividend payments and investment needs.

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

Save for the capital supplementary bonds mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can meet their working capital needs in the future with cash generated from operating activities. The Company and its subsidiaries have sufficient working capital.

### *CAPITAL EXPENDITURE*

The capital expenditure of the Company and its subsidiaries primarily includes expenditure for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditure of the Company and its subsidiaries was RMB3,813 million in 2019.

### *SOLVENCY MARGIN REQUIREMENT*

As at 31 December 2019, the actual capital of the Company and its subsidiaries was RMB181,721 million, the core capital was RMB162,136 million, the minimum capital was RMB64,414 million, the comprehensive solvency margin ratio was 282%, and the core solvency margin ratio was 252%.

## IV. RISK MANAGEMENT

### *CREDIT RISK*

Credit risk is the risk of economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payments when due. The assets of the Company and its subsidiaries which are subject to credit risk are principally concentrated on insurance receivables, reinsurance assets, debt securities and deposits with commercial banks.

The Company and its subsidiaries are only committed to credit sales to corporate customers or individual customers who purchase certain insurance policies through insurance intermediaries. The ability to collect premiums in a timely manner remains one of the key performance indicators of the Company. The Company's premiums receivable involves a large number of diversified customers, therefore there are no major credit concentration risks in insurance receivables.

Other than from state-owned reinsurance companies, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A- rating or above by Standard & Poor's (or equivalent ratings given by other international rating agencies such as A.M. Best, Fitch and Moody's). The management of the Company and its subsidiaries regularly review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies and determine reasonable impairment provision on reinsurance assets of the Company and its subsidiaries.

The Company and its subsidiaries diligently manage credit risk in debt securities mainly by analysing the creditworthiness of investee companies prior to making investments and by strictly conforming to the relevant regulations issued by the CBIRC on the investment ratings of corporate bonds. The majority of the bonds held by the Company and its subsidiaries have credit ratings of AA or above.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned banks or state-controlled commercial banks.

#### *EXCHANGE RATE RISK*

The Company and its subsidiaries conduct their business primarily in RMB, which is also their functional and financial reporting currency. Parts of the business of the Company and its subsidiaries (including parts of commercial property insurance, international cargo insurance and aviation insurance business) are conducted in foreign currencies, primarily in US dollars. The Company and its subsidiaries are also exposed to exchange rate risks for assets which are valued based on foreign currencies such as parts of their bank deposits and debt securities and certain insurance business liabilities which are denominated in foreign currencies, primarily in US dollars.

Foreign exchange transactions under the capital accounts of the Company and its subsidiaries are subject to foreign exchange control and the approval of the administration authority for foreign exchange. Exchange rate fluctuations may arise as a result of the foreign exchange policies of the PRC government.

#### *INTEREST RATE RISK*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Company and its subsidiaries' interest rate risk policy requires the Company and its subsidiaries to manage interest rate risk by maintaining an appropriate match of fixed and floating interest rate instruments. The policy also requires the Company and its subsidiaries to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage floating interest rate risk through interest rate swap and other instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

#### *INTEREST RATE SWAPS*

The Company's financial assets which bear interest at different rates would generate uncertain cash flows. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties.

## V. OTHER SPECIAL ANALYSES

#### *CONTINGENT EVENT*

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration proceedings. Most of such legal proceedings involve claims on the insurance policies of the Company and its subsidiaries, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Company and its subsidiaries believe that any liabilities resulted therefrom will not have a material adverse effect on the financial position or operating results of the Company and its subsidiaries.

As of 31 December 2019, there were certain pending legal proceedings for the Company and its subsidiaries. After taking into account professional opinions, the management of the Company believes that such legal proceedings will not cause significant losses to the Company and its subsidiaries.

## EVENTS AFTER THE REPORTING PERIOD

### 1. Profit distribution

On 27 March 2020, the Board of Directors of the Company proposed a final dividend of RMB0.461 per ordinary share for the year ended 31 December 2019 totaling RMB10,254 million. The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

### 2. Issue of capital supplementary bonds

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

### 3. The Assessment of the impact of the Coronavirus Disease 2019

With the strict prevention measures of Coronavirus disease ("COVID-19") being taken throughout the country, the epidemic has gradually been under control.

The outbreak of COVID-19 has had impact on the operation of the customers, associates, joint venture and investees of the Company and its subsidiaries, which might in return negatively affect the insurance risk and investment quality and yield of the Company and its subsidiaries. The Company and its subsidiaries monitor the claim quantity and amounts regularly to assess the impact that would have on the financial position and results of the Company and its subsidiaries.

As there were only a few reported cases of COVID-19 as at 31 December 2019, the management is of the view that the impact is not material to the financial position of the Company and its subsidiaries as at 31 December 2019. As the situation remains fluid as at the date of this announcement, the Directors of the Company consider that the 2020 impact assessment is still in progress. Nevertheless, the management has been and will continue to take mitigating measures actively to reduce the impact that may arise in 2020.

## DEVELOPMENT OF NEW PRODUCTS

In 2019, the Company focused on the hot spots of the market and the needs of customers and developed a total of 1,649 new insurance provisions, including 316 national provisions, 1,333 regional provisions, 1,289 main insurance provisions and 360 rider provisions. Among these new provisions, the Company registered 492 insurance provisions on the self-help registration platform of the Insurance Association of China and 38 insurance provisions on the platform of Shanghai Institute of Marine Insurance, filed 1,107 agriculture insurance provisions and agriculture-related provisions with the CBIRC's Insurance Provisions Electronic Filing System and submitted 12 provisions to the CBIRC for approval.

### *EMPLOYEES*

As at the end of 2019, the Company had 186,787 employees. In 2019, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB33,875 million, mainly including basic salaries, performance-related bonus, and various insurance and welfare contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening employee training, implementing performance appraisal and other measures. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

## VI. LOOKING FORWARD

2020 is the year for China to reach a moderately prosperous society in all respects and the last year covered by the Thirteenth Five-year Plan and is also a key year for the Company to facilitate its transformation to high-quality development. The Company will focus on China's economic and social development trends in the new era, adhere to the new development concept and the principle of pursuing progress while ensuring stability, follow the direction of the insurance supply-side structural reform, work on capability building, further implement "3411 Project" of PICC Group, accelerate the process of the "Ten Key Initiatives" and the construction of the new business model of "insurance + technology + service", build up a modern technology-oriented risk management company and promote its transformation to high-quality development to facilitate the aspirations of the people to live a better life and achieve an excellent outcome of the Thirteenth Five-Year Plan.

### *(I) TO DEEPEN TWO INTEGRATIONS AND UPGRADE INSURANCE SUPPLY CAPACITY*

In terms of motor vehicle insurance segment, the Company will accelerate the integration of reforms in technology and business model, actively participate in the development of strict industrial regulation, take the initiative to embrace the industrial reform by leveraging its leading position in actuarial pricing and market pricing of motor vehicle insurance and improve its operating capability in motor vehicle insurance under new conditions. In terms of non-motor vehicle insurance segment, the Company will accelerate the process of deepening the integration of policy-oriented business and commercial business, strengthen technology empowerment, rigorously develop commercial business by leveraging its strength in policy-oriented business, conduct risk reduction management and upgrade the "insurance + service" model to comprehensively promote its operating capability in non-motor vehicle insurance segment.

### *(II) TO DEEPEN DIGITALISATION STRATEGY AND PROMOTE OPERATION AND MANAGEMENT CAPABILITY*

Efforts will be made to build an integral online and offline sales and service system to carry out precise marketing and continuously promote sales capability; further push forward online migration of customers, establish an integral insurance and financial service platform, optimise service efficiency, upgrade service quality, continuously promote service capability and increase customer stickiness on the basis of excellent insurance service; optimise business process, establish a digital operational model and continuously improve operating efficiency; accelerate IT development, push forward the reconstruction of its core system, bring its research, development, operation and maintenance to a new level and promote technological level to support its digital transformation.

### *(III) TO IMPROVE QUALITY, REDUCE COST, PROMOTE EFFICIENCY AND INCREASE PROFITABILITY*

Efforts will be made to enhance its control over underwriting business and improve the interconnected mechanism for direct underwriting, reinsurance and claim settlement to promote service quality; improve the claim management mechanism, rely on technology empowerment to improve quality, reduce claims and promote efficiency, and enhance claim settlement team building and management to promote claim settlement quality; optimise financial resources allocation, stick to the cost leadership strategy, allocate resources in a differentiated way, promote efficiency in resources utilisation, improve management of premium receivable and strengthen cash flow control; promote capital utilisation capability, uphold the principle of prudent investment, increase the long-term, stable earnings on fixed-income asset investment, control equity asset exposure, tighten the control over credit risk and seize the opportunities in the market trends to improve returns on investment.

### *(IV) TO DEEPEN REGIONAL STRATEGY AND PROMOTE REGIONAL OPERATING CAPABILITY*

Efforts will be made to closely follow the changes in demand for insurance products in central cities, focus on the integration of the reforms of technology and business model, enhance technology empowerment and innovation-driven development and promote the operating capabilities in central cities; closely follow the changes in demand for insurance products in county-level market, focus on the integration of policy-oriented insurance and commercial insurance and improve operating model and capability in county-level market; seize the opportunities for outbound investment by Chinese enterprises, observe international rules, reform development pattern, expand our global business at low costs and accelerate oversea market development.

### *(V) TO UPHOLD THE BOTTOM LINE OF COMPLIANCE AND IMPROVE RISK CONTROL CAPABILITIES*

Efforts will be made to improve corporate governance and risk control system, establish a sound risk control platform, conduct rigorous risk control over business process and key risk stages, improve the compliance mechanism consisting of "three lines of defence"; strengthen the exposure control over financing surety insurance, reinforce risk control capability building from the underwriting end, improve the capacity to identify underwriting risks and strengthen the set-up of the post-underwriting risk control system to enhance risk identification, fortify risk countermeasures and uphold the bottom line of no systematic risks.

## VII. EFFECT OF AND RESPONSE TO THE NOVEL CORONAVIRUS PNEUMONIA

The Novel Coronavirus Pneumonia epidemic brought a short-term impact on China's economy. The business development of the Company was also affected to some extent. With the situation of the nationwide epidemic prevention and control showing a continuous improvement, the recovery of the production and living orders has been accelerated and the operation order of the Company is gradually restoring as well. In particular, as the central government has increased its macro-policy counter-cyclical adjustment efforts and implemented a more proactive and promising fiscal policy, the great potentials and strong momentum of China's development will be fully released, thereby creating favorable conditions for the Company's development. At the same time, the epidemic will bring far-reaching impacts on the production and life styles and the construction of modernisation of national governance, which will lead to constant emergence of new insurance demands, thus providing a broader space for insurance development.

During the period of epidemic, the Company, starting from the overall situation of serving the economic development and epidemic prevention and control, has devoted every effort to help winning the war of epidemic prevention and control. While properly conducting epidemic prevention and control within the Company, we have innovated the product supply, expanded the insurance liability, extended the term of protection, lowered the premium rates, upgraded the online services and opened the green claims settlement channel to fully safeguard the people's livelihood and health and serve the national epidemic prevention and control; we have also innovated and developed the business interruption insurance for small and medium-sized enterprises, conducted the safety production and epidemic prevention risk control management services on a free-of-charge basis and devoted all efforts to ensuring the recovery of enterprises' operation and production; we have focused on deep poverty-stricken areas through developing and promoting the comprehensive insurance regarding resumption of work for low-income workers. We increased the efforts on expanding business scope, raising protection standards and increasing product types of agriculture insurance and provided finance and credit support for poverty alleviation projects, with all of these efforts serving the poverty alleviation campaign; we have also taken the initiative to contact the health and epidemic prevention authorities and the emergency management authorities so as to develop exclusive products for clients in sectors such as health, epidemic prevention, pharmaceutical product manufacturing and storage and transportation, actively facilitated the government building an emergency public health catastrophe insurance mechanism and jointly built a national prevention and control system. In addition, we have deeply followed the corporate mission of "People's Insurance Serves the People", actively fulfilled our social responsibilities, conducted charity donation activities in no time, provided comprehensive insurance protection for anti-epidemic medical personnel free of charge, and served the overall situation and repaid society with our selfless dedication and professionalism.

Looking forward to the future, the Company will accurately grasp the far-reaching impacts on insurance caused by the economic and social development and the changes to production and life styles during the post-epidemic period, focus on our mission and responsibility, capitalise on the opportunity of capability building, devote more efforts to improving the capacity of emergency management over disasters, the supply capacity of innovative products and digitalised operation capacity, and accelerate the construction of the new business model of "insurance + technology + service", so as to better serve the government's emergency disaster management, serve the economic and social development needs and serve requirements arising from changes to customers' production, living style and business mode, thereby pushing forward the Company's transformation to high-quality development.

In the fight against COVID-19, Hubei Branch of the Company has bravely shouldered heavy burdens on the front line, actively undertaken the front line insurance services and participated in the epidemic prevention and control in a scientific way, strived to fulfil the glorious mission of "People's Insurance Serves the People".

# Key Work Review

In 2019, faced with the complex situation of increasing downward pressure on the macro economy and the continuous deepening of the impact of the "three-stage overlapping", the Company thoroughly implemented the "3411 Project" of PICC Group and fully promoted the "Ten Key Initiatives" of the Company, making new breakthroughs in the business model reform of the Company.

**Firstly, the Company promoted the integration of technological reform and business model reform, implemented the "Ten Key Initiatives" in detail and fully rolled out the business model reform.** The Company centered its work on the "3411 Project" of PICC Group and the "Ten Key Initiatives" of the Company, and highlighted customer value creation and profitability improvement. The Company formulated the roadmap for its business model reform and set a new target of "building up a modern technology-driven risk management company" to lead the Company's transformation towards high quality development. We formulated the "Ten Key Initiatives" implementation plan with 64 key projects after consolidation, and established the indicator system for high-quality development to quantify the "Ten Key Initiatives". The Company introduced the "Ten Key Initiatives" promotion and management measures to fit the "Ten Key Initiatives" in daily business operation. The "Ten Key Initiatives" serve as the blueprint to guide the Company's reform and development throughout the Year and beyond and covering the entire process of the operation and management of the Company. We developed the blueprint into detailed working plan in the form of business plans and action plans to ensure a full achievement of the annual operation objectives of the Company.

"Ten Key Initiatives" refer to the integration of technological reform and business model reform, the implementation of digitalisation strategy, the integration of policy-oriented businesses and commercial businesses, the development of internet insurance business, online sales and telemarketing, strengthening the construction and management of direct sales teams and the cultivation of direct sales culture, enhancing quality and efficiency of claim settlement, effective response to market competition, winning the battles for a market leading position in central cities and defending our competitive advantages in county-level markets, enhancing differentiated guidance for branches and strengthening risk control in key areas.

Employees of the local branch of the Company were providing service to rural customers.

**Secondly, the Company promoted the integration of policy-oriented businesses and commercial businesses, upgraded the insurance supply, enhanced service capabilities and further reinforced our leading position in the market. The Company dedicated its efforts to the agriculture insurance and** fully implemented "the Guiding Opinions on Accelerating the High-quality Development of Agriculture Insurance" by expanding the business scope, raising the protection standards and increasing product types, carrying out pilot programs in respect of catastrophe insurance, total cost and income insurance and agriculture product insurance with local features, and developing the "insurance + futures" model. The Company leveraged its agriculture insurance business channels to develop rural commercial insurance and deepen the integration of customers, products, teams, technologies and business outlets. **The Company expanded its social security insurance business,** vigorously developed policy-oriented businesses such as the critical illness insurance, complementary medical care, long-term care and the agency of basic medical insurance, developed relevant commercial health insurance through integration, and promoted the Zhejiang Jinhua model. **The Company served the modernisation of national governance,** sped up the development of governance-oriented insurance such as safety production insurance and elevator insurance, further developed insurance for the first set of major technical equipment and new material insurance, promoted the "insurance + risk control + technology + service" mode and became the only insurance company nationwide which was selected as "Supply Chain Innovation and Application Pilot Enterprise". **The Company explored the emerging business of commercial non-motor vehicle insurance** and the business of online non-motor vehicle insurance developed rapidly.

**Thirdly, the Company optimised the layout of distribution channels, strengthened the building up of the Company's own sales force and made continuous progress in reducing dependency on intermediaries and lowering sales cost.** The Company strengthened the building up of its own sales force, including the construction of the renewal business team in the head office and the branches, the PICC V League and the direct sales team. The Company optimised the collaboration model with auto dealers, promoted successful practices of the basic level and further strengthened its control over the channels. The Company promoted the "AI + Marketing" model, set up professional online sales and telemarketing team, enhanced the coordination of AI calls and telemarketing, continuously increasing the online customer conversion rate. The Company strengthened the construction of the direct sales team, promoted the integration of the comprehensive business development team and cultivated direct sales culture. As a result, the premium income generated from direct sales channels achieved a year-on-year increase.

**Fourthly, the Company enhanced differentiated guidance and stepped up efforts in the battles for a market leading position in central cities and defending our competitive advantages in county-level markets, with increasing competitiveness in central cities and the county-level markets. To tackle the challenges encountered in the battles for a market leading position in central cities,** the Company developed implementation plans, enhanced "one-on-one" assistance and supervision, held seminars to discuss the Company's development in Beijing, Shanghai, Guangzhou and Shenzhen and took multiple measures to optimise the layout of channels. As a result, the growth rate of premium income in central cities was 3.5 percentage points higher than the average growth rate of the Company. **In terms of defending competitive advantages in county-level markets,** the Company formulated implementation plans, promoted the local models such as the "Rural Network Telesales" in Yuyao and the "PICC V League + Rural Network" in Yongkang, facilitated the program of "Auto Sales through Rural Network", carried out the activities to visit "Thousands of Towns and Villages" and strengthened the establishment of "Home of Insurance Coordinators". The growth rate of conventional business in county-level markets was 0.9 percentage points higher than that of the Company, among which, the growth rate of motor vehicle insurance business in county-level markets was 1.7 percentage points higher than that of the Company.


The Company continuously strengthened the deployment of local service vehicles for "agriculture, rural areas, farmers" to provide customers with efficient and convenient services.

**Fifthly, the Company continuously improved the quality and efficiency of claim settlement by reducing claim costs through special actions against problems in claims. The Company implemented special actions designated for cutting claim costs and reducing loss,** in specific, in-depth application of technologies, establishment of loss assessment platform, promotion of the Jiaanpei platform, strengthening of the entire process management of major claims, a team of experts in claim settlement and improvement of emergency management for catastrophes. All these measures were aimed at retaining profit. **The Company disciplined the claim settlement team**, reinforced the "Thunderbolt Action" for risk prevention in claim settlement, issued "Six Prohibitions on the Motor Vehicle Insurance Claim Settlement", cracked down on motor vehicle repair shops involving fraud cases, and held the relevant personnel accountable for any malpractice. **The Company upgraded the claim settlement service** and continued to build up the "serving customers with heart" brand by promoting fast claim settlement of bilateral motor vehicle accidents and subrogations, innovating the mode of claim settlement of the non-motor vehicle insurance, and facilitating claim settlement with online assistant tools. Through promotion of "Yuhang Model", the Company mediated 31,000 cases and reduced the loss by RMB315 million.


The Company's Jiangsu branch launched "Jiangsu Digital Operation Monitoring Platform" in 2019, which can monitor and display the online index data from three aspects of "underwriting, claim settlement and customer service" in real time.

**Sixthly, the Company implemented digitalisation strategy to strengthen technology empowerment, bringing the operation management and customer service to a new level**. **In terms of underwriting**, the Company deepened the application of technologies such as big data, digital maps and artificial intelligence, etc., established a digital underwriting model and underwriting risk control platform, improved the customer profiling and customer accident mapping, and realised an intelligent and paperless issuance of motor vehicle insurance policy, thereby constantly enhancing our risk management and control capabilities and efficiency in underwriting. **In terms of claim settlement**, the Company promoted online claim settlement services, developed mobile tools for claim settlement and achieved data connectivity on the claim operation and management platform. We also achieved the integration of the closed file claim review (CFR) and open file claim review (OFR) on the anti-fraud platform for claim settlement. **In terms of sales and service**, the Company optimised sales management platform, implemented customer identity authentication, procured completion of customers' information, provided anti-fraud and other services, and restored the lost connection with customers. The Company deepened the integration of PICC Group, made progress in the "PICC" APP construction, accelerated the use of 95518 intelligent customer service platform, and implemented the applications such as intelligent voice navigation, intelligent follow-up and intelligent quality inspection. **In terms of IT operation**, the Company accelerated the implementation of the new structure, reinforced the underlying framework and launched the market-leading PICC cloud. The Company promoted the construction of the technological framework and developed the unified standard technical system of PICC Group. The Company upgraded the application framework capabilities, launched the online distribution core system v1.0, and built up a core platform of "one account for one customer, covering multiple insurance lines and providing comprehensive services", thereby facilitating a faster pace in digital transformation of the Company.

**Seventhly, the Company enhanced the risk management and control capabilities, strengthened the compliance management and upheld the baseline of no systemic risk**. The Company improved its risk management system and the organisational structure of the risk compliance committee at the head-office and provincial levels, established comprehensive and sound rules of procedures, and strengthened the research and handling of major risk compliance events. The Company strengthened the construction of the risk management and control system through technology empowerment to improve the risk management and control capacities in key areas.

# Company Honours

## 2019 GOLD MEDAL INSURANCE SERVICE ARK AWARD

In July 2019, the Company was awarded the "2019 Gold Medal Insurance Service Ark Award" in the 2019 China Insurance Industry Assets and Liabilities Management Annual Conference and the "2019 China Insurance Ark Award" event organised by *Securities Times*.

## EXCELLENT PROPERTY INSURANCE COMPANY OF THE YEAR

In November 2019, the Company was awarded the "Excellent Property Insurance Company of the Year" Award at the 2019 China Finance Development Forum and the "2019 China Golden Tripod Awards" organised by *National Business Daily*.

## 2018-2019 EXEMPLARY CASE OF INSURANCE PRODUCT PROMOTION

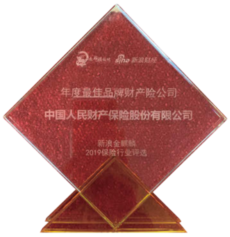
In September 2019, at the 2019 China Insurance Brand Influence Forum organised by the *China Insurance News*, the Company was awarded the "2018-2019 Exemplary Case of Insurance Product Promotion" for the "Traffic Police and Insurer Joint Work" and its new mode of "prompt processing and settlement".

## TOP 100 FINANCIAL SERVICES IN 2019

In November 2019, the Company was awarded the title of "Top 100 Financial Services in 2019" at the 2019 China Financial Services and Innovation Forum organised by www.ce.cn.

## BEST PROPERTY INSURANCE COMPANY OF THE YEAR 2019 IN ASIA

In November 2019, in the "Competitiveness Rankings of Asian Financial Companies" jointly organised by 21st Century Business Herald and 21st Century Finance Research Institute, the Company was awarded the "Best Property Insurance Company of the Year 2019 in Asia", winning the award for the eleventh consecutive year.



## BEST PROPERTY INSURANCE COMPANY BRAND OF THE YEAR

In December 2019, the Company was awarded the "Best Property Insurance Company Brand of the Year" in the "Sina Golden Kirin • Insurance Industry Awards 2019" event organised by Sina Finance.

## OUTSTANDING PROPERTY INSURANCE COMPANY

In December 2019, the Company was awarded the "Outstanding Property Insurance Company" in the "2019 Piloting China Awards" event organised by JRJ.com.

## EXCELLENT INSURANCE PROTECTION BRAND

In November 2019, the Company was awarded the "Excellent Insurance Protection Brand" in the 2019 China Wealth Management Summit and the tenth "Golden Wealth Management" award ceremony organised by *Shanghai Securities News*.

## PROPERTY INSURANCE COMPANY OF THE YEAR 2019

In December 2019, the Company was awarded the "Property Insurance Company of the Year 2019" at the Huaxia Institutional Investors Annual Conference and the award ceremony of the thirteenth "Golden Cicada Award" jointly organised by *China Times*, Sina Finance V Channel, etc.

# Biographical Details of Directors, Supervisors and Other Senior Management

## DIRECTORS

**Miao Jianmin**, aged 54, an alternate member of the 19th Central Committee of the Communist Party of China, the Chairman of the Board of Directors and an Executive Director of the Company, and a senior economist. Mr Miao is currently the Chairman of the Board of Directors and an Executive Director of The People's Insurance Company (Group) of China Limited*. From July 1995 to December 2005, Mr Miao had served as Deputy General Manager of China Reinsurance (Hong Kong) Limited, Deputy General Manager of the Investment Department and Assistant General Manager of China Insurance H.K. (Holdings) Company Limited, an Executive Director, Assistant to General Manager and Deputy General Manager of China Insurance Co. Ltd. (China Insurance H.K. (Holdings) Company Limited). Mr Miao served as the President of China Insurance International Holdings Company Limited (now known as "China Taiping Insurance Holdings Company Limited"**) from August 2000 to December 2005, and he was concurrently an Executive Director and Vice Chairman from November 2004 to December 2005 and Chairman of The Tai Ping Insurance Company Limited from November 2004 to December 2005. He served as Vice President of China Life Insurance (Group) Company from December 2005 to October 2013 and as Vice Chairman and the President of China Life Insurance (Group) Company from October 2013 to April 2017. During which time, he concurrently served as a Director of China Life Asset Management Company Limited from December 2005 to April 2017, Chairman from December 2005 to December 2013, a Non-executive Director of China Life Insurance Company Limited*** from October 2008 to April 2017, Chairman of China Insurance Plaza Company Limited from March 2013 to April 2015, a Director of China Shimao Investment Company Limited and a Director of China World Trade Center Company Limited from April 2014 to April 2017, and Chairman of China Life Pension Company Limited from March 2017 to April 2017. Mr Miao was appointed as an Executive Director, Vice Chairman and the President of The People's Insurance Company (Group) of China Limited* in April 2017, and has served as Chairman (ceasing to serve as Vice-chairman and the President) since January 2018. Mr Miao was appointed as Chairman of PICC Assets Management Company Limited and PICC Health Insurance Company Limited in March 2018 and was Chairman of PICC Life Insurance Company Limited from March 2018 to September 2019. Mr Miao was appointed as Chairman of The People's Insurance Company of China (Hong Kong), Ltd. in May 2019, PICC Capital Investment Management Company Limited in January 2020 and PICC Pension Company Limited in March 2020 respectively. Mr Miao is currently the doctoral tutor of the Chinese Academy of Social Sciences and the master tutor of Tsinghua University PBC School of Finance, Peking University, Central University of Finance and Economics and other universities. He was an Executive Director of China Finance 40 Forum from July 2011 to May 2017, an Executive Director of the council of China Chamber of International Commerce from December 2015 to September 2017 and the Honorary Chairman of the Insurance Association of China since May 2018 and a Director of International Association for the Study of Insurance Economics (The Geneva Association) since June 2019. He was awarded special allowance by the State Council in February 2009. Mr Miao graduated from Central Institute of Finance and Economics (now known as "Central University of Finance and Economics") in August 1986 with a bachelor's degree in economics, graduated from the Graduate School of the Financial Research Institute of the People's Bank of China in February 1989 with a master's degree in economics, and graduated from Central University of Finance and Economics in July 2013 with a doctoral degree in economics.

* This company is listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

** This company is listed on the Hong Kong Stock Exchange.

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

**Xie Yiqun**, aged 58, a senior economist, the Deputy Chairman, an Executive Director and the President of the Company. Mr Xie joined the People's Insurance Company of China (the "PICC") in April 1980 and was the Deputy General Manager of Wenzhou Branch, the General Manager of the International Business Department of Zhejiang Provincial Branch and the Manager of Insurance Claim Settlement Agency in Marseille, France until January 1995. From January 1995 to December 2001, he was the General Manager of China Insurance Company S.A. Luxembourg, the General Manager of China Insurance Company (UK) Limited, the General Manager of China Insurance Singapore Branch and China Taiping Insurance Group Singapore Branch and the Director of the Singaporean Institutional Reorganisation Preparatory Committee. Mr Xie was the Chairman of Taiping Life Insurance Co., Ltd. from December 2001 to November 2004. From August 2004 to May 2009, Mr Xie was the Managing Director and Deputy General Manager of China Insurance (Holdings) Company Limited and China Insurance H.K. (Holdings) Company Limited. From May 2009 to March 2015, Mr Xie was Deputy General Manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he was the Managing Director from May 2009 to March 2012 and an Executive Director from June 2013 to March 2015. Meanwhile, he was also an Executive Director and Deputy General Manager of China Taiping Insurance Holdings Company Limited*, Chairman of Taiping Assets Management (HK) Company Limited, Chairman of CIC Holdings (Europe) Limited, Chairman of Taiping Pension Co., Ltd., Chairman of Taiping Asset Management Company Limited, Chairman of Taiping Securities (HK) Company Limited, an Executive Director and the General Manager of Taiping Senior Living Investments Company Limited, Chairman of Taiping Financial Holdings Company Limited, Chairman of Taiping Investment Holdings Company Limited and Chairman of Shenzhen Taiping Investment Company Limited. Mr Xie has served as the Vice President and as an Executive Director of The People's Insurance Company (Group) of China Limited** since March 2015 and October 2017 respectively and he was the Secretary of the Board of Directors from August 2018 to March 2019. He has also been a Director and the Chairman of The People's Insurance Company of China (Hong Kong), Ltd. since June 2015 (and ceased to be the Chairman since May 2019), Chairman of PICC Financial Services Company Limited from January 2017 to March 2019 and Chairman of PICC Investment Holding Company Limited from March 2018 to March 2019 and a Director of Huaxia Bank Co., Ltd. *** since May 2019. Mr Xie has been a Vice Chairman of National Internet Finance Association of China since September 2016 and Vice Chairman of the Asian Financial Cooperation Association from July 2017 to May 2019 and a Vice Chairman of the Insurance Association of China since May 2019. Mr Xie graduated from Nankai University in July 1988 and graduated from Middlesex University, United Kingdom in June 2001 and obtained a degree of Master of Arts.

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*** This company is listed on the Shanghai Stock Exchange.

**Li Tao**, aged 54, Ph.D, a senior economist, a Non-executive Director of the Company. Mr Li is currently the Deputy Secretary of the Party Committee and the Chairman of the Supervisory Committee of PICC Life Insurance Company Limited. Mr Li began his career in 1985 and previously taught at Beijing University of Aeronautics and Astronautics. He joined PICC in 1998 and was previously the Deputy General Manager of the Research and Development Center and the Planning and Statistics Department of PICC, Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company, and the General Manager of the Development and Reform Department, General Manager of the Policy Research Office, a Senior Specialist of The People's Insurance Company (Group) of China and the Secretary of the Board of Directors of The People's Insurance Company (Group) of China Limited*. Mr Li graduated from Renmin University of China with a master's degree in philosophy in 1993 and graduated from the Party School of the Central Committee of the Communist Party of China with a doctorate degree in economics in 1998. He has 35 years of substantial experience in research and management.

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**Xie Xiaoyu**, aged 58, a bachelor of medicine, a postgraduate, a Master, a researcher, an Executive Director and an Executive Vice President of the Company. Ms Xie currently is also a member of the Healthy China Initiative Promotion Committee Office, a part-time Director of National Medical Products Administration, a part-time Director of the Science & Research Center on Regulation of Traditional Chinese Medicine of China Academy of Chinese Medical Sciences and a Deputy Director of the Specialised Committee on Health Insurance of the Insurance Association of China. Ms Xie was previously the Deputy Director of the News and Publication Division and Director of the Legal Affairs and Publicity Division of the Department of Human Resources, Labor, Policies and Regulations under the State Administration of Traditional Chinese Medicine of the PRC, Director of the Division of Essential Medicine System of the Department of Medicine Policy and Essential Medicine System under the Ministry of Health of the PRC, Director of the Secretariat Division of Administrative Department and Deputy Director-General of the Department of Drug Registration under the China Drug Administration, Deputy Director-General of the Department of Drug Registration, Deputy Director-General of the Department of Food Safety Supervision, the Chief Operation Officer of Health Management and a Vice President of PICC Health Insurance Company Limited from September 2010 to July 2013, and joined the Company as an Executive Vice President since July 2013. Ms Xie has over 30 years of management experience in medical and insurance industry.

**Lin Hanchuan**, aged 71, Ph.D, a professor, a doctoral supervisor, enjoying the special government allowance awarded by the State Council, an Independent Non-executive Director of the Company. Mr Lin is the Dean of the Chinese SME Research Institute of Zhejiang University of Technology and the Chief Expert of the New and Core Professional Think Tank of Zhejiang Province for Transformation and Upgrading of SME. Mr Lin was formerly the Dean of the School of Economics of Zhongnan University of Economics and Law, the Deputy Director of the University Academic Committee and the Deputy Director of the Academic Degree Committee of the University of International Business and Economics, an Independent Director of Hubei Kaile Science and Technology Co., Ltd.* and an Independent Non-executive Director of Shengang Securities Co., Ltd. He has received over 20 awards at or above provincial and ministerial level such as the First Class Award for Outstanding Achievements in Humanities and Social Science Studies by National Institute of Higher Education. Mr Lin graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. Mr Lin has substantial experience in the areas of economic and management research.

* This company is listed on the Shanghai Stock Exchange.

**Lo Chung Hing** (Silver Bauhinia Star), aged 68, an Independent Non-executive Director of the Company. Mr Lo was a member of the Selection Committee of the 1st and the 2nd Government of Hong Kong, a member of the Election Meeting of the 9th to the 13th National People's Congress of Hong Kong, a member of the 9th National People's Congress of China and a member of the Executive Officer Election Committee of Hong Kong in 2007 and 2012. Mr Lo was previously an Independent Non-executive Director and the Vice Chairman of the Airport Authority of Hong Kong, an Independent Non-executive Director of Mass Transit Railway Corporation Limited (now known as "MTR Corporation Limited"*) and MTR Corporation Limited* (now known as "MTR Corporation Limited"*), a member of the Hospital Authority of Hong Kong, an Independent Non-executive Director of the Urban Renewal Authority of Hong Kong, a member of the Financial Services Advisory Committee of the Trade Development Council of Hong Kong, the Chairman of the Hospital Governing Committee of Hong Kong Kowloon Hospital and Eye Hospital, and an Independent Non-executive Director of China Shanshui Cement Group Limited*. Mr Lo was also a Deputy General Manager of the Hong Kong Branch of Bank of China (now known as "Bank of China (Hong Kong) Limited"**) and he worked in Bank of China (Hong Kong) Limited** as the Chief Adviser of the Operation Committee and so on. During his employment in these two banks, he was a Rotating Alternate Chairman of the Hong Kong Association of Banks. Mr Lo graduated from The University of Hong Kong with an MBA degree and has substantial experience in public management and financial industry.

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

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

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

**Ma Yusheng**, aged 59, an Independent Non-executive Director of the Company. Mr Ma is currently the Assistant President and the Chief Representative in Beijing of China Europe International Business School. Mr Ma previously worked in the National Organization Cadre Training Center of the Organization Department of the Central Committee of the Communist Party of China, and in the Secretariat of the Library and Information Committee of the National Colleges and Universities under the National Education Committee. Mr Ma was the Director of Human Resources of Philips (China) Investment Services Company Limited. Mr Ma graduated from the Department of Psychology of Peking University with a bachelor's degree in science and afterwards graduated from China Europe International Business School with an MBA degree. Mr Ma has substantial experience in public and business management.

**Chu Bende**, aged 66, a postgraduate of the Party School of the Central Committee of Communist Party of China, a senior economist, and an Independent Non-executive Director of the Company. Mr Chu is currently a Consultant of the National Internet Finance Association of China, the Chairman of the Financial Consumer Protection and Training Committee, the Deputy Director Member of the China Digital Economy Investment and Financing Alliance, an Adjunct Professor of University of International Business and Economics and an external adjunct tutor of postgraduate students majored in finance of Zhejiang University, and was previously the Deputy Director of the Office of the State Administration of Foreign Exchange ("SAFE"), Director-General of the General Affairs Department and Director-General of the Supervision and Inspection Department of SAFE, Deputy Secretary of the Party Committee and Vice President of Shenyang Branch of the People's Bank of China and concurrently Deputy President of Liaoning Branch of SAFE, and Executive Deputy Director (department or bureau level) of Staff Union Work Committee of the People's Bank of China, the Chairman and the Secretary-General of the China Foundation for Development of Financial Education, and he has published, edited and compiled 8 books, and published dozens of byline articles on newspapers and periodicals such as *People's Daily*, *Financial News* and *China Finance Journal*. Mr Chu graduated from Chinese Academy of Social Sciences and afterwards graduated from the Party School of the Central Committee of Communist Party of China, respectively majoring in currency banking and history of the Communist Party of China. Mr Chu has substantial experience in public management and financial industry.

**Qu Xiaohui**, aged 65, Ph.D, an Independent Non-executive Director of the Company. Ms Qu is a member of the Department of Social Sciences, a retired professor and Doctoral Supervisor of Xiamen University, and is currently a professor, a Doctoral Supervisor and the leader of the Accounting Discipline of Harbin Institute of Technology, Shenzhen, and an expert enjoying the special government allowance awarded by the State Council. Ms Qu is the first female Ph.D of accounting and the first female doctoral supervisor in accounting in China, the promoter of demonstration of the set-up of national master of professional accounting (MPAcc). Ms Qu was a Deputy Dean of the Graduate School of Xiamen University, Director of the Center for Accounting Development Studies of Xiamen University, Director of Financial Management and Accounting Research Institute of Xiamen University, a consultant to the Accounting Standards Committee of the Ministry of Finance of the PRC and an Independent Non-executive Director of ZTE Corporation*, Yunnan Baiyao Group Co., Ltd.**, Guangzhou Baiyun Electric Equipment Co., Ltd.*** and SDIC Essence Co., Ltd. ***. Ms Qu is currently a consultant to the China National Steering Committee of Professional Accounting Degree Education, and a member of the Social Sciences Committee of the Ministry of Education, a Vice Chairman of China Cost Research Society, the Chairman of the Accounting Education Committee of the Chinese Accounting Association and an Independent Non-executive Director of SKSHU Paint Co., Ltd.*** and Xiamen Meiya Pico Information Co., Ltd.**. Ms Qu graduated from Xiamen University with a doctorate degree in economics and has substantial experience in the areas of accounting research and financial management.

* This company is listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange.

** These companies are listed on the Shenzhen Stock Exchange.

*** These companies are listed on the Shanghai Stock Exchange.

## SUPERVISORS

**Wang Yadong**, aged 49, a Master, an economist, a Supervisor of the Company since March 2019. Mr Wang is currently the General Manager of the Audit Department of The People's Insurance Company (Group) of China Limited*. He joined PICC in 1995, and was previously the Deputy Manager of the Property Insurance Division, General Manager of the Underwriting Management Department, General Manager of the Property Insurance Business Department, the Large-scale Commercial Risk Insurance Department, the Cargo & Shipping Insurance Business Department and the Reinsurance Department of PICC Hubei Branch, and the Senior Manager of the Business Coordination Division of Business Development Department, Senior Manager of the Infrastructure Office, Deputy General Manager of the Infrastructure Office of the South Information Centre (Phase II) and General Manager of the Infrastructure Office of The People's Insurance Company (Group) of China Limited*. Mr Wang graduated from Hunan Institute of Finance with a bachelor's degree in management and afterwards graduated from Huazhong University of Science and Technology with a master's degree in business management. Mr Wang has 24 years of substantial experience in operation and management in the PRC Insurance Industry.

* This company is listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

**Lu Zhengfei**, aged 56, Ph.D, a professor, a doctoral supervisor, an Independent Supervisor of the Company since January 2011. Mr Lu is currently a Professor of Accounting and Doctoral Supervisor of Guanghua School of Management of Peking University, the Director of the Research Center for Financial Analysis and Financial Investment of Peking University, a Cheung Kong Chair Professor of the Ministry of Education of the PRC, an Executive Director and concurrently the Deputy Director of the Professional Committee for Financial Management of the Chinese Accounting Association. Mr Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sino Biopharmaceutical Limited*, Lian Life Insurance Co., Ltd., Zhejiang Tailong Commercial Bank, Beijing Turen Urban Planning and Design Co., Ltd and Shenwan Hongyuan Securities Co., Ltd and an Independent Director of China Cinda Asset Management Co., Ltd.* and CMB International Capital Corporation Limited**. Mr Lu was previously an Independent Non-executive Director of the Company, Bank of China Limited*** and China Nuclear Engineering & Construction Corporation Limited****. Mr Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005, the "Accountant Specialist Training Project" of the Ministry of Finance of the PRC in 2013, and as a Cheung Kong Chair Professor of the Ministry of Education of the PRC in 2014. Mr Lu graduated from Nanjing University with a doctorate degree in economics and completed the post-doctoral research on economics (accounting) at Renmin University of China.

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

** This company is registered in Hong Kong.

*** This company is listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

**** This company is listed on the Shanghai Stock Exchange.

**Charlie Yucheng SHI**, aged 57, a Master, is the founder and managing partner of Omaha Capital Management Limited, an Independent Supervisor of the Company since March 2019. Mr Shi is currently the member of the Alternative Investment Advisory Committee of China Life Asset Management Company Limited, and an Independent Non-executive Director of Pico Far East Holdings Limited*, Franklin Templeton Sealand Fund Management Co., Ltd. and Mobius Investment Trust PLC, and the founder of Omaha Capital Management Limited. Mr Shi was previously an Independent Non-executive Director of China Life Asset Management Company Limited and China Life Franklin Asset Management Co., Limited. Mr Shi graduated from Fudan University with a bachelor's degree in economics and afterwards graduated from California Lutheran University with a master's degree in business management. He then graduated from the Advanced Management Program of Harvard Business School. Mr Shi has almost 20 years of experience in the field of equity investment.

* This company is listed on the Hong Kong Stock Exchange.

**Gao Hong**, aged 53, a university graduate, an engineer, an Employee Representative Supervisor of the Company since February 2017. Ms Gao is currently the Deputy Director of the Staff Union Work Committee and General Manager of the Staff Union Work Department of the Company. Ms Gao joined PICC in 1996 and was previously the Deputy Manager of the Education and Training Division of the Human Resources Department of PICC, Manager of the Training Division of the Human Resources Department, Assistant General Manager, Deputy General Manager of the Education and Training Department, Deputy General Manager of the Education and Training Department and concurrently Director of the Exam Center (equivalent to departmental manager) and Deputy General Manager of the Trade Union Work Department (equivalent to departmental manager) of the Company. Ms Gao has 24 years of operation and management experience in the PRC insurance industry.

## OTHER SENIOR MANAGEMENT

**Jiang Caishi**, aged 54, Ph.D, a senior economist, an Executive Vice President of the Company. Mr Jiang currently is also the President of the Shanghai Institute of Marine Insurance and Vice President of the Second Council of China Association for Public Safety of Science and Technology. Mr Jiang joined PICC in 1988 and was seconded to New York, U.S.A. for 2 years. Mr Jiang was previously the General Manager of the International Insurance Department of PICC Tianjin Branch, Deputy General Manager of PICC Tianjin Branch, General Manager of the Property Insurance Department of PICC, General Manager of the Group Insurance Marketing and Management Department and General Manager of the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of Shenzhen Branch of the Company, General Manager of the Agriculture Insurance Department of the Company, a Senior Specialist and concurrently the General Manager of the Business Development Department of The People's Insurance Company (Group) of China, an Executive Vice President, the Chairman of the Supervisory Committee and a Supervisor of the Company. Mr Jiang once served concurrently as the first General Conference Chairman of the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool and Chairman on Duty of China Agriculture Insurance and Reinsurance Community. Mr Jiang resigned as the Chairman of the Supervsiory Committee and a Supervisor of the Company on 12 March 2020. Mr Jiang has 32 years of operation and management experience in the PRC insurance industry.

**Zhang Xiaoli**, aged 55, a postgraduate, a Master, a member of CPC Committee of the Company. Mr Zhang was a troop leader of the Chinese People's Liberation Army from 1980 to 2000. He joined PICC in 2000 and was previously the Manager of the Disciplinary and Supervisory Office of PICC, Deputy General Manager of the Monitoring Department of the Company, General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited, and Secretary of the Commission for Discipline Inspection, an Executive Vice President, Secretary of the Board of Directors, the Responsible Compliance Officer, the Responsible Auditing Officer and General Manager of the Secretariat of the Board of Directors and Office of the Supervisory Committee of the Company. Mr Zhang graduated from China Europe International Business School with an MBA degree. Mr Zhang has 20 years of management experience in the PRC insurance industry.

**Li Jun**, aged 57, an undergraduate and a Master of Business Administration, Secretary of the Commission for Discipline Inspection. Mr Li began his career in 1984. Since 1995, he served as Deputy General Manager (Legal Representative) of Anhui Dafeng International Trading Company, Deputy Director of Anhui Research Institute of International Economics and Trade, Deputy Director of Anhui international Business and Economics Computing Centre, General Manager of Anhui Dafeng International Trading Company, Deputy Secretary of the Party Committee, Acting Mayor and Mayor of Jinjiazhuang, Maanshan Municipality, Anhui Province. Mr Li joined PICC in 1999 and was previously Director of the General Division of the Cargo Insurance Department, Deputy Director of the General Office and Deputy Director of the Office of the Party Committee; Deputy Director of the General Office and Deputy Director of the Office of the Party Committee of PICC Holding Company; Executive Deputy Director of the Infrastructure Office (equivalent to departmental manager) of PICC Holding Company; Head of the Publicity Department of the Party Committee, Director of the Office of the Party Committee, Director of the General Office and Director of the Infrastructure Office of PICC Holding Company; Head of the Publicity Department of the Party Committee, Director of the Office of the Party Committee, Director of the General Office and Director of the Infrastructure Office of The People's Insurance Company (Group) of China; Deputy Head of the Preparatory Team of PICC Pension Company Limited; member of the Party Committee and Vice President of PICC Investment Holding Company Limited. Mr Li graduated from Anhui University and Beijing Institute of Technology and obtained a bachelor's degree in engineering and a master's degree in business administration respectively. Mr Li has 25 years of experience in business operation and management experience.

**Feng Xianguo**, aged 57, a Master, a senior economist, an Executive Vice President of the Company. Mr Feng began his career in 1978 and joined PICC in 1984. He was previously the Chief Economist of PICC Xianning Regional Branch, Deputy General Manager of PICC Xianning Branch, Manager of the Vehicles Insurance Division and General Manager of the Vehicles Insurance Department of PICC Hubei Provincial Branch, Deputy General Manager of Hubei Provincial Branch and concurrently General Manager of Wuhan Branch of the Company, the Chief Responsible Officer and General Manager of Tianjin Branch of the Company, and General Manager of Beijing Branch of the Company. Mr Feng graduated from Central China Normal University with a master's degree in economics. Mr Feng has 35 years of operation and management experience in the PRC insurance industry.

**Shen Dong**, aged 51, a master postgraduate, a senior accountant, an Executive Vice President, the Responsible Financial Officer and the Chief Accountant of the Company. Mr Shen joined PICC in 1992 and was previously the Assistant Manager, Deputy Manager and Manager of the Finance and Accounting Division and the Reinsurance Division of PICC Guangxi Provincial Branch, Deputy General Manager of Guangxi Provincial Branch of the Company and Deputy General Manager and General Manager of the Finance and Accounting Department of the Company. Mr Shen graduated from Xiamen University with a bachelor's degree in economics and afterwards graduated from Beijing University of Aeronautics and Astronautics with a master's degree in software engineering. Mr Shen has 28 years of operation and management experience in the PRC insurance industry.

**Wu Jianlin**, aged 57, a university graduate, a senior economist, an Executive Vice President of the Company. Mr Wu is also a member of the 11th Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference and a Model Worker of the Inner Mongolia Autonomous Region in 2010. Mr Wu began his career in 1979 and joined PICC in 1984. He was previously the Deputy Director, Deputy Manager and Director of the General Office and the Business Publicity Division of PICC Hangzhou Branch, the Chief Responsible Officer and Manager of Hangzhou Xihu Sub-branch and Manager of the General Office of Zhejiang Provincial Branch of PICC Property Insurance Company, Assistant General Manager and Deputy General Manager of PICC Zhejiang Provincial Branch, Deputy General Manager of Zhejiang Provincial Branch and concurrently General Manager of Hangzhou Branch of the Company, the Chief Responsible Officer and General Manager of Inner Mongolia Branch of the Company, the Chief Responsible Officer and General Manager of Zhejiang Provincial Branch of the Company, and an Assistant to the President of the Company. Mr Wu graduated from the Party School of the Central Committee of the Communist Party of China majoring in economics and management. Mr Wu has 35 years of operation and management experience in the PRC insurance industry.

**Shao Liduo**, aged 53, a doctoral postgraduate, a senior engineer, an Executive Vice President, the Chief Information Technology Officer of the Company. Mr Shao began his career in 1985 and joined PICC Property Insurance Company in 1998. He was previously the Deputy Manager and Manager of the Software Development Division of the Information & Technology Department of PICC, and Manager of the Software Development Division of the Information & Technology Department, Deputy General Manager of the Vehicles Insurance Department, Deputy General Manager (in charge) and General Manager of the Information & Technology Department and an Assistant to the President of the Company. Mr Shao enjoyed the special government allowance from the State Council in December 2016. Mr Shao graduated from the PLA Information Engineering College (now known as "PLA Information Engineering University") with a bachelor's degree in science, Beijing Institute of Technology with an MBA degree and Beijing Normal University with a doctorate degree in science. Mr Shao has 30 years of operation and management experience in the PRC insurance industry and the information and technology sector.

**Zou Zhihong**, aged 49, a full-time doctoral postgraduate, a senior economist, Secretary of the Board of Directors, General Manager of the Legal Department of the Company. Mr Zou joined PICC Property Insurance Company in 1998. He was previously Manager of the Litigation Recovery Management Division of the Legal Department and Assistant General Manager of the Legal Department of PICC Property Insurance Company, and Deputy General Manager and General Manager of the Legal Department of the Company. Mr Zou graduated from Wuhan University with a doctorate degree in law. Mr Zou has 22 years of substantial experience in the field of legal compliance.

# Report of the Board of Directors

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

## BUSINESS REVIEW

### *PRINCIPAL ACTIVITIES*

The Company is engaged in motor vehicle insurance, commercial property insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, agriculture insurance, credit insurance, surety insurance, homeowners insurance, marine hull insurance and other insurance businesses in Mainland China, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds application business permitted under the relevant laws and regulations of the PRC. The Company's subsidiaries are mainly engaged in providing insurance agency services, training services, IT services, etc.

### *OPERATING RESULTS AND FINANCIAL POSITION*

Discussion and analysis of operating results and financial conditions using key financial performance indicators by the Company are set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

### *FINANCIAL SUMMARY*

A summary of the results and the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out in the "Financial Summary" section of this annual report.

### *PRINCIPAL RISKS AND UNCERTAINTIES*

The Company has adopted a prudent risk management strategy, the risk management service is guided by the overall business strategy of the Company. The Company has maintained the underwriting ability and solvency compatible to the business scale and development speed. In 2019, the Company has maintained its business stable with a positive momentum, achieved adequate solvency, maintained the comprehensive risk rating at a relatively good level, achieved a combined ratio outperforming the industry average, and had no systemic risks that may affect its business operation and management.

In terms of macro economy, China is undergoing the period that the "three-stage overlapping" impact continues to deepen and the downward pressure on the economy increases, but the general trend that the China's economy maintains stable with a positive momentum and long-term growth remains unchanged. In terms of industry development, the insurance market witnesses profound changes, such as the accelerated transformation and upgrading of insurance supply and demand. The insurance companies, while embracing opportunities, are also faced with challenges, in particulars: **Firstly, the profound changes in motor vehicle insurance market.** The deregulation of premium rate of commercial motor vehicle insurance is accompanied with the stringent supervision of the regulator. The third round of premium rate deregulation, if fully implemented nationwide, will affect the premium income growth, business model and market position of each property insurance company. **Secondly, the change in insurance measurement accounting policy.** As an insurance enterprise listed in Hong Kong, the Company will implement the Hong Kong Financial Reporting Standard No. 17 (HKFRS 17) in accordance with relevant regulations. The implementation of the new insurance accounting standard will have impacts on the profit of the Company in terms of recoginition of income, classification of insurance policy and expenses, recoginition of loss composition and etc., which requires the Company to formulate new financial reporting and disclosure rules in accordance with the standard and raise challenges in respect of the operating process and system construction, etc. **Thirdly, the continuous evolvement in market ecology.** New technologies such as Big Data, Internet of Things, artificial intelligence and blockchain have accelerated penetration in the insurance industry. Internet platform companies, leveraging on their advantages in technology and flow, have created their exclusive ecology. Traditional insurance companies may face fundamental changes in respect of marketing, claim settlement, actuarial and other segments of insurance. **Fourthly, impact of major emergencies.** The Novel Coronavirus Pneumonia, or COVID-19, has weighed on the operation of small and medium-sized enterprises, and directly hit industries such as transportation and tourism. The development of commercial property insurance, accidental injury and health insurance and cargo insurance, which are closely related to the above industries, is under pressure. Impacts of COVID-19 can spread to the macroeconomy, which may further increase credit risks, and the underwriting results in respect of credit and surety insurance may be affected.

The credit risk, exchange rate risk and interest rate risk are set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

In 2020, the Company will continue to uphold the general working principle of pursuing progress while ensuring stability and take the insurance supply-side structural reform as the main line. We will implement the "3411 Project" of PICC Group and speed up the promotion of "Ten Key Initiatives" to establish the new business model of "insurance + technology + service", build up a modern and technology-driven risk management company, improve the business operation and management capability in all aspects and transform into high-quality development. **Firstly, to continuously deepen business model reform and improve operation and management capability in all aspects.** The Company will continue to adhere to the principle of "reducing dependency on intermediaries, lowering sales cost, improving customer experience, and enhancing customer loyalty", and establish a new mode for motor vehicle insurance adapting to the existing market competition and a new mode for commercial non-motor vehicle insurance adapting to new economy; will build new capability of developing policy-oriented insurance to ensure the market share stability and underwriting profitability in respect of policy-oriented insurance; will speed up the construction of direct sales team and channels, deepen cost reduction and efficiency improvement, and carry out loss reduction measures in claim settlement; and will optimise the regional development and improve the regional operating capability and market competitiveness. **Secondly, to deepen technology empowerment and value creation and further promote the integration of technological reform and business model reform.** The Company will speed up promoting application of the technologies such as mobile internet, cloud computing, Big Data and blockchain, enhance IT system construction, advance core system reconfiguration, promote management upgrading by digitalised applications, optimise business process and strengthen the management and control in critical stages such as underwriting, claim settlement and finance; and will speed up promoting the new industrial ecology of "insurance + technology + service", deepen digital transformation, build up a service ecology, strengthen link with partners, optimise operation process, upgrade operation mode and improve operation efficiency. **Thirdly, to upgrade risk management in all aspects and uphold the bottom line of no systemic risks.** The Company will fully implement the requirements of the central government, focus on the three key areas of "key personnel management, fund control and system firewall construction", use compliance-based approach to improve systems and mechanisms, optimise risk management information system, and increase the level of digitalisation and intelligence relating to risk monitoring and early warning; and will strengthen supervision and management of key positions and personnel, enhance risk investigation on key businesses and steps, strengthen process control, continuously improve the closed-loop management mechanism of "Three Tiers of Defence" in respect of risk and compliance management to secure the bottom line of no systematic risk occurrence.

## *PARTICULARS OF IMPORTANT EVENTS AFFECTING THE COMPANY THAT HAVE OCCURRED SINCE THE END OF THE YEAR*

Particulars of the important events affecting the Company that have occurred since the end of the Year are set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

## *FUTURE DEVELOPMENT*

Potential future development in the Company's business is set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

## *ENVIRONMENTAL POLICIES AND PERFORMANCE*

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

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

The Company strictly complied with all relevant national environmental laws and regulations. In 2019, the Company had no environmental pollution accident, received no complaint and was neither fined nor punished for environmental pollution or violation of environmental regulations.

The Company put its philosophy of green development into practice by implementing a mechanism for green operation and striving to reduce resources and energy consumption. As water and papers are two of the primary resources consumed by the Company, in order to continuously reduce the consumption of resources, the Company continued to improve paperless operation at all levels of the Company through the promotion of digital operation, and imposed reasonable control over water consumption. The primary energies consumed by the Company include electricity, gasoline and natural gas. By adopting specific measures such as staggering the operation hours of central air-conditioning, public lighting, elevators and other public energy-consuming facilities, introducing energy conservation signs and increasing employees' awareness about energy conservation, the Company strived to reduce energy consumption and continued to increase efficiency in order to reduce the emission of greenhouse gases. In 2019, the Company's headquarters received an award from the Development and Reform Commission of Chaoyang District in Beijing for having achieved the 2018 energy conservation target under "the thirteenth Five-Year Plan" of Chaoyang District in Beijing.

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

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

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

In 2019, the Company actively adapted to the insurance industry development and reform trends, researched the impacts of various newly promulgated laws and regulations on the Company's business operation, and proactively took measures to ensure the effective implementation of various reform initiatives. The Company continuously strengthened the promotion of compliance culture, introduced innovative means and methods to the promotion and training and expanded the coverage of such promotion and training, so as to promote the philosophy of carrying out business in accordance with laws and regulations throughout the Company. According to the requirements of rectifying market chaos issued by the CBIRC, the Company continued to promote self-review and self-correction throughout the system, effectively strengthened the protection of consumers' rights and interests and ensured that the risks of the Company were under control on the whole. The Company made great efforts in improving risk prevention and control capabilities in key areas, perfecting the overall risk management system, establishing a framework for risk prevention and control, upgrading risk management technologies and enhancing risk prevention and control at the branch level. With the "Three Tiers of Defence" each playing its role and the continuous strengthening of an operation mechanism based on closed-loop management, the Company firmly secured the bottom line of zero systematic risk occurrence. Through formulating and improving internal rules and systems, the Company carried out various legal and regulatory requirements, improved internal control and management of the Company and facilitated the establishment of a long-term mechanism of operation in compliance with laws and regulations, with a view to providing solid support for the high-quality development of the Company.

In 2019, the overall compliance status of the operation and management activities of the Company was good and the compliance risk management system was in normal operation. Although no significant systematic compliance risk was found in the Company, there were still forms of underperformance in terms of compliance with laws and regulations in some branch organisations, bringing non-compliance risk to the operation of the Company.

### *RELATIONSHIP BETWEEN THE COMPANY AND EMPLOYEES*

The relationship between the Company and employees is set out in the "Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

### *RELATIONSHIP BETWEEN THE COMPANY AND CUSTOMERS*

The Company kept in mind its original aspiration and mission of "People's Insurance Serves the People", adhered to the customer-centric principle and promoted the Company's transformation to high-quality development, thus continuously enhancing its service capabilities and brand reputation. In 2019, the Company received the rating of "AA" in service ratings of insurance companies for the third year in a row, which is the highest rating received by any insurance company taking part in the assessment. The new service model known as "Traffic Police and Insurer Joint Work" was rated one of the top ten significant service innovation projects. Firstly, we continuously enhanced our services. Service indicators such as the satisfaction rate in respect of customer service representatives and the approval rate of customer claim requests continued to improve. The "95518" customer service center of the Company received the "Best Customer Contact Center in China" award from the CCCS Customer Contact Center Standard Committee. The Company was awarded the title of "Excellent Model Enterprise with a Trustworthy Quality Brand in China" in the Fifth Trustworthy Quality Brand Forum of China. Secondly, we accelerated the effective implementation of a mechanism for protecting consumers' rights and interest. We optimised customer complaint management, and further carried out special action 2.0 addressing customer complaint. We organised the "3.15" consumers' rights and interest protection education and promotion week activity and comprehensive financial knowledge education and promotion activity in 2019, both of which led to the accreditation of the Company by the CBIRC as one of the top ten excellent organisers in the property insurance industry. Thirdly, we fully demonstrated our sense of responsibility through the provision of services in disasters. In 2019, the Company spared no efforts in disaster relief services in natural disasters including typhoon Lekima, the earthquake in Yibin, Sichuan, and urban heavy rainstorm waterlogging, giving national support to the 95518 service in the areas struck by the disasters and ensuring the smooth operation of the customer service hotlines, thus fully demonstrated the fulfilment of our social responsibilities.

## PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTRATION FOR H SHARE MEMBERS

The Board proposed the distribution of a final dividend of RMB0.461 per share (inclusive of applicable tax) for the year ended 31 December 2019. The total amount of dividend was approximately RMB10,254 million. The above proposal is subject to the approval of the Company's shareholders at the annual general meeting. The specific arrangement regarding announcement and distribution of the final dividend, the closure of registration for H share members and etc. will be disclosed separately in the circular for the annual general meeting. If approved at the annual general meeting, the final dividend will be paid around 21 August 2020 by the Company.

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

## WITHHOLDING AND PAYMENT OF DIVIDEND INCOME TAX

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

## SHARE CAPITAL

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

## PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, according to the PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB41,343 million and the distributable reserves of the Company were RMB41,321 million.

## CAPITAL SUPPLEMENTATRY BONDS

On 22 March 2019, the Board of the Company approved the issue of the 10-year capital supplementary bonds in one or more tranches with an aggregate amount of RMB8 billion within 12 months from the date of approval of the relevant resolution by the Shareholders' general meeting. The resolution on the issue of the capital supplementary bonds has been approved by the annual general meeting of the Company on 21 June 2019. The issuance application has been approved by the CBIRC and the People's Bank of China in October 2019 and December 2019, respectively. The Company completed the issue of capital supplementary bonds of RMB8 billion on 23 March 2020.

## CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB204.90 million, of which RMB68.33 million were donations for public benefits.

## MAJOR CUSTOMERS

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

## DIRECTORS AND SUPERVISORS

The Directors and Supervisors in office during the Year, and the changes in the members of the Board of Directors and the members of the Supervisory Committee as well as the reasons for resignation of Directors and Supervisors from 1 January 2019 to the date of this report are set out in the "Corporate Governance Report" section of this annual report.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and other senior management of the Company are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this annual report.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with any Director or Supervisor.

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

## HIGHEST PAID INDIVIDUALS

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

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

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Save as disclosed above, none of the Directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2019 to the date of this report.

## PERMITTED INDEMNITY PROVISION

At any time during the Year and up to the date of this report, there was or is no permitted indemnity provision being in force for the benefit of any of the Directors of the Company or its associates.

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

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

The Directors, Supervisors and President of the Company did not hold any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as at 31 December 2019 that were required to be recorded in the register as required to be kept under Section 352 of the SFO or required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code.

During the Year, the Company did not grant any rights to the Directors, Supervisors or President of the Company (including their spouses or children under the age of 18) to subscribe for shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO. As at the end of the Year, none of the abovementioned subscription right existed.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2019, the following persons held interests or short positions in the shares or underlying shares of the Company that were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO, or notified to the Company and the Hong Kong Stock Exchange by other means:

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

| Name of shareholder | Capacity | Number of H shares | Nature of interests | Percentage of total number of H shares in issue *(Note 1)* | Percentage of total number of shares in issue *(Note 1)* |
|---|---|---|---|---|---|
| JPMorgan Chase & Co. | Interest of controlled corporations, investment manager, person having a security interest in shares, trustee, approved lending agent | 554,579,272 *(Note 2)* | Long position | 8.03% | 2.49% |
| | Interest of controlled corporations | 25,408,690 *(Note 2)* | Short position | 0.36% | 0.11% |
| | Approved lending agent | 471,090,227 | Lending pool | 6.82% | 2.12% |
| The Capital Group Companies, Inc. | Interest of controlled corporations | 553,744,144 *(Note 3)* | Long position | 8.03% | 2.49% |
| Citigroup Inc. | Person having a security interest in shares, interest of controlled corporations, approved lending agent | 551,741,723 *(Note 4)* | Long position | 7.99% | 2.48% |
| | Interest of controlled corporations | 12,000 *(Note 4)* | Short position | 0.00% | 0.00% |

| Name of shareholder | Capacity | Number of H shares | Nature of interests | Percentage of total number of H shares in issue *(Note 1)* | Percentage of total number of shares in issue *(Note 1)* |
|---|---|---|---|---|---|
| | Approved lending agent | 500,038,205 | Lending pool | 7.24% | 2.25% |
| BlackRock, Inc. | Interest of controlled corporations | 416,412,739 | Long position | 6.04% | 1.87% |
| | Interest of controlled corporations | 2,319,000 *(Note 5)* | Short position | 0.03% | 0.01% |
| T. Rowe Price Associates, Inc. and its Affiliates | Beneficial owner | 351,286,120 | Long position | 5.09% | 1.58% |

*Notes:*

1. As of 31 December 2019, the Company has issued a total of 15,343,471,470 domestic shares and 6,899,293,833 H shares. Combined, the Company has issued a total of 22,242,765,303 shares as of 31 December 2019.

2. Among which, 165,400 H shares (Short position) were held through derivatives, categorised as held through cash settled listed derivatives; 4,980,089 H shares (Long position) and 2,895,562 H shares (Short position) were held through derivatives, categorised as held through physically settled unlisted derivatives; 24,766,442 H shares (Long position) and 21,091,892 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

3. Among which, 275 H shares (Long position) were held through derivatives, categorised as held through physically settled unlisted derivatives.

4. Among which, 4,791,000 H shares (Long position) and 12,000 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

5. Among which, 1,143,000 H shares (Short position) were held through derivatives, categorised as held through cash settled unlisted derivatives.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company that were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register as required to be kept under Section 336 of the SFO, or being substantial shareholders of the Company as at 31 December 2019.

## PUBLIC FLOAT

As at the date of this report, 31.02% of the total number of issued shares of the Company is held by the public and therefore the Company continues to comply with the minimum public float requirement under the Listing Rules.

## MANAGEMENT CONTRACT

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

## SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF THE COMPANY WITH ITS CONTROLLING SHAREHOLDER (AND ITS SUBSIDIARIES)

The particulars of the significant transactions, arrangements and contracts entered into by the Company with its controlling shareholder (and its subsidiaries) during the Year are set out in "Connected Transaction" and "Continuing Connected Transactions" below.

## CONNECTED TRANSACTION

The connected transaction of the Company in the Year that is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules is the Equity Transfer Agreement regarding ZSIB with PICC Group. As PICC Group is the controlling shareholder of the Company, PICC Group is a connected person of the Company according to the Listing Rules.

On 30 December 2019, the Company entered into the Equity Transfer Agreement regarding ZSIB with PICC Group, pursuant to which PICC Group shall transfer all of its 92.71% equity interest in ZSIB to the Company. The consideration of the Equity Transfer is RMB236,419,585.58, which is determined based on the value of shareholders' equity of ZSIB as of the valuation reference date, i.e. 31 December 2018, as assessed by an independent third party valuation agency and the percentage of equity interest held by the transferor in ZSIB. ZSIB is an insurance brokerage company and the Company's acquisition of the equity interest in ZSIB will be beneficial to the Company in terms of strengthening and enhancing the Company's professional capability in areas such as reinsurance brokerage, risk control and assessment and sales resources, and is of promising strategic investment value.

All of the conditions for Equity Transfer have been satisfied. ZSIB and its subsidiary CIB have become subsidiaries of the Company.

## CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions of the Company in the Year that are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules include: (I) the framework agreement on reinsurance business cooperation entered into between the Company and PICC HK; (II) the framework agreement on reinsurance business cooperation and the supplemental agreement to the framework agreement on reinsurance business cooperation entered into between the Company and PICC Re; (III) the business cooperation agreement entered into between the Company and ZSIB, CIB and PIB; (IV) the asset management agreement and the supplemental agreement to the asset management agreement entered into between the Company and PICC AMC; (V) the asset management agreements and the supplemental agreements to the asset management agreements entered into between the Company and PICC Investment and PICC Capital, as well as the memorandum on connected transaction entered into between the Company and PICC AMC; (VI) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively; (VII) the internet insurance business cooperation agreement and the supplemental agreement to the internet insurance business cooperation agreement entered into between the Company and PICC Financial Services; (VIII) the goods procurement contract entered into between the Company and Bangbang Auto Sales & Services; and (IX) the framework agreement on occupational annuity fund management business and corporate annuity fund management business cooperation entered into between the Company and PICC Pension. As all of PICC HK, PICC Re, ZSIB, CIB, PIB, PICC AMC, PICC Investment, PICC Capital, PICC Life, PICC Health, PICC Financial Services and PICC Pension are subsidiaries of PICC Group, the controlling shareholder of the Company, these companies are connected persons of the Company according to the Listing Rules. As the Company and PICC Financial Services, a wholly-owned subsidiary of PICC Group (the controlling shareholder of the Company) each holds 24.5% of the registered capital in Bangbang Auto Sales & Services, pursuant to the Listing Rules, Bangbang Auto Sales & Services is a connected person of the Company.

### *(I) THE FRAMEWORK AGREEMENT ON REINSURANCE BUSINESS COOPERATION ENTERED INTO BETWEEN THE COMPANY AND PICC HK*

On 18 February 2019, the Company and PICC HK entered into the Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2019 and expiring on 31 December 2019. PICC HK is one of the reinsurers of the Company and the Company entered into the Framework Agreement on Reinsurance Business Cooperation with PICC HK for the purposes of risk diversification and stabilisation of operation. Pursuant to the framework agreement, the Company agreed to cede insurance premiums to PICC HK from time to time, and PICC HK agreed to cede insurance premiums to the Company from time to time. One party to the agreement who acted as reinsurer accepted the risks of and paid commissions to the other party to the agreement in return for the agreed insurance premiums received from such other party. Under the framework agreement, the parties to the agreement would enter into various types of reinsurance agreements in respect of particular reinsurance business. Under the framework agreement, the annual caps for the insurance premiums expected to be ceded to PICC HK by the Company and the commissions expected to be received by the Company from PICC HK for the Year were RMB700 million and RMB315 million, respectively. Under the framework agreement, the insurance premiums expected to be ceded to the Company by PICC HK and the commissions expected to be received by PICC HK from the Company for the Year would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules. The actual insurance premiums ceded to PICC HK by the Company and the commissions received by the Company from PICC HK for the Year were RMB534 million and RMB165 million, respectively. The actual insurance premiums ceded to the Company by PICC HK and the commissions received by PICC HK from the Company for the Year were RMB8 million and RMB2 million, respectively.

On 21 January 2020, the Company and PICC HK renewed the Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2020 and expiring on 31 December 2020.

### *(II) THE FRAMEWORK AGREEMENT ON REINSURANCE BUSINESS COOPERATION AND THE SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT ON REINSURANCE BUSINESS COOPERATION ENTERED INTO BETWEEN THE COMPANY AND PICC RE*

On 18 February 2019, the Company and PICC Re entered into the Framework Agreement on Reinsurance Business Cooperation for a term commencing from 1 January 2019 and expiring on 31 December 2019. PICC Re is the fourth Chinese-funded corporate reinsurance company in the PRC. The Company entered into the Framework Agreement on Reinsurance Business Cooperation with PICC Re in order to achieve risk diversification and stabilisation of operation. Pursuant to the framework agreement, the Company agreed to cede insurance premiums to PICC Re from time to time, and PICC Re, who acted as reinsurer, accepted the risks of and paid commissions to the Company in return for the agreed insurance premiums received. Under the framework agreement, the parties to the agreement would enter into various types of reinsurance agreements in respect of particular reinsurance business. Under the framework agreement, the annual caps for the insurance premiums expected to be ceded by the Company to PICC Re and the commissions expected to be received by the Company from PICC Re for the Year were RMB5,000 million and RMB2,250 million, respectively.

On 18 December 2019, the Company and PICC Re entered into the Supplemental Agreement to the Framework Agreement on Reinsurance Business Cooperation to increase the annual caps in relation to the premiums ceded by the Company to PICC Re and the commissions paid to the Company by PICC Re for the Year as set under the framework agreement. The revised annual caps in relation to the premiums ceded by the Company to PICC Re and the commissions received by the Company from PICC Re for the Year were RMB5,500 million and RMB2,475 million, respectively. Apart from the revisions on annual caps mentioned above, the other terms of the framework agreement on reinsurance business cooperation remained unchanged. The actual insurance premiums ceded by the Company to PICC Re and the commissions received by the Company from PICC Re for the Year were RMB4,701 million and RMB1,520 million, respectively.

On 21 January 2020, the Company and PICC Re renewed the Framework Agreement on Reinsurance Business Cooperation for a term of one year commencing from 1 January 2020 and expiring on 31 December 2020.

### (III) THE BUSINESS COOPERATION AGREEMENT ENTERED INTO BETWEEN THE COMPANY AND ZSIB, CIB AND PIB

The Company entered into the Insurance Business Cooperation Agreement with ZSIB and CIB on 27 December 2018 with a term commencing from 27 December 2018 and expiring on 16 June 2019. Pursuant to the agreement, the Company cooperated with ZSIB and CIB mainly in the field of insurance brokerage. On 21 June 2019, the Company entered into Business Cooperation Agreements with ZSIB, CIB and PIB respectively with a term commencing from 17 June 2019 and expiring on 16 June 2022, pursuant to which, the Company continued to cooperate with ZSIB, CIB and PIB in the insurance business. Under such Business Cooperation Agreements, ZSIB, CIB and PIB provide insurance brokerage services for the insurance contracts entered into between the insurance purchasers and the Company, and the Company pays brokerage commissions to them. In addition, ZSIB also provides services on disaster prevention, loss prevention, risk assessment and risk management consultation to the customers of the Company, and the Company pays service fees to ZSIB. The Company and ZSIB, CIB and PIB enter into agreements for the cooperation on specific projects. Such Business Cooperation Agreements are beneficial for resources integration and business synergy among the Company, ZSIB, CIB and PIB and also beneficial for the building up of the Company's distribution channels and the promotion of the Company's development capability in brokerage business market. Pursuant to such Business Cooperation Agreements, the annual caps for the brokerage commissions expected to be paid by the Company to ZSIB, CIB and PIB for the Year were RMB370 million, RMB30 million and RMB300 million, respectively, and RMB700 million in aggregate; the proposed annual caps of the service fees involved in the Business Cooperation Agreement with ZSIB are less than 0.1% specified under Rule 14A.76 of the Listing Rules. The actual brokerage commissions paid by the Company to ZSIB, CIB and PIB for the Year were RMB238 million, RMB9 million and RMB131 million, respectively.

As set out in the Connected Transaction section of this report, following the completion of the Equtity Transaction of ZSIB, ZSIB and its subsidiary CIB have become subsidiaries of the Company. They are no longer connected persons of the Company. As PIB is still a subsidiary of PICC Group, the controlling shareholder of the Company, it remains as a connected person of the Company. Therefore, the Business Cooperation Agreements entered into between the Company and ZSIB and CIB respectively on 21 June 2019 are no longer continuing connected transactions of the Company; while that entered between the Company and PIB on 21 June 2019 remains as a continuing connected transaction of the Company.

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

On 23 June 2016, the Company and PICC AMC entered into the Asset Management Agreement for a term of three years commencing from 1 July 2016 and expiring on 30 June 2019. On 28 August 2019, the Company and PICC AMC entered into the Asset Management Agreement and Supplemental Agreement to the Asset Management Agreement with a term commencing from 1 July 2019 and expiring on 30 June 2022 to continue the original asset management arrangement. PICC AMC, principally engaged in the provision of asset management and asset management consultation services in the PRC, has the experience and expertise in asset management and presents satisfactory investment management capability with management fee rates at comparatively lower level in the asset management industry. PICC AMC has established a good cooperation relationship with the Company. Pursuant to the Asset Management Agreement and Supplemental Agreement to the Asset Management Agreement, the Company entrusted PICC AMC to manage some of its investment assets, and PICC AMC manages the entrusted assets in accordance with the Asset Management Agreement and Supplemental agreement, relevant laws and regulations and regulatory rules and the investment guidelines formulated by the Company. The Company pays entrusted asset management fees and performance bonuses or deduction of management fees (if any) to PICC AMC. The annual cap for the entrusted asset management fees (including performance-based bonuses and penalties) expected to be paid by the Company to PICC AMC for the Year was RMB240 million. The actual entrusted asset management fees (including performance-based bonuses and penalties) paid by the Company to PICC AMC for the Year were RMB207 million.

In addition, the Company entered into the Marketisation Entrusted Portfolio Asset Management Agreement with PICC AMC on 7 August 2019 with a term from 7 August 2019 to 6 August 2022. As the Marketisation Agreement differs from the Asset Management Agreement and the Supplemental Agreement in terms of investment asset scale, investable scope, management fee level and performance benchmark, the Company entered into the Marketisation Agreement with PICC AMC separately. Pursuant to the Marketisation Agreement, the Company agreed to entrust PICC AMC to manage some of its assets, and PICC AMC should manage the entrusted assets in accordance with the Marketisation Agreement, relevant laws and regulations and regulatory rules; the Company would pay entrusted asset management fees to PICC AMC. Under the Marketisation Agreement, the annual cap for the entrusted asset management fees expected to be paid by the Company to PICC AMC for the Year was RMB1.8 million, and the actual entrusted asset management fees paid by the Company to PICC AMC for the Year was RMB0.93 million.

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

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

The Company has previously entrusted some investment assets to PICC AMC for its management, and PICC AMC may utilize the assets entrusted by the Company to subscribe for debt financial products and equity financial products sponsored and managed by PICC AMC, PICC Capital, PICC Investment or PICC Equity, while the Company shall pay product management fees to PICC AMC, PICC Capital, PICC Investment and PICC Equity. On 24 November 2016, the Company and PICC AMC entered into a memorandum regarding the asset management agreement, effective from 24 November 2016 to 30 June 2019. On 28 August 2019, the Company entered into the Memorandum on Connected Transaction with PICC AMC, which regulates the connected transactions in relation to the subscription of debt financial products, the subscription of equity financial products and the payments of product management fees. The Memorandum took effect on 28 August 2019, with a term of three years.

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

Pursuant to the Asset Management Agreements and Supplemental Agreements between the Company and PICC Investment and PICC Capital respectively, and the Memorandum on Connected Transaction between the Company and PICC AMC, for each calendar year, the aggregated annual cap of the paid-up amount of the product management fees paid by the Company to PICC AMC, PICC Capital, PICC Investment and PICC Equity shall not exceed RMB450 million. The actual aggregated amount of product management fees paid by the Company for the Year was RMB71 million.

Under the Asset Management Agreements and Supplemental Agreements between the Company and PICC Investment and PICC Capital respectively, and the Memorandum on Connected Transaction between the Company and PICC AMC, PICC AMC, PICC Capital or PICC Investment use the assets entrusted by the Company to subscribe for the debt financial products or the equity financial products individually or jointly sponsored and managed by PICC AMC, PICC Capital, PICC Investment or PICC Equity. If the subscribers of these financial products include connected persons of the Company, then the subscription by the Company in the same financial product constitutes a connected transaction of the Company. For each calendar year, each of the aggregated annual cap of the paid-up amount of the debt financial products or the equity financial products subscribed by the Company where connected persons participate in the subscription shall be RMB8 billion, and none of the applicable percentage ratios shall be more than 5% under Chapter 14A of the Listing Rules. The aggregated amount of the debt financial products actually and cumulatively subscribed by the Company where connected persons participate in the subscription for the Year was RMB6,940 million. The aggregated amount of the equity financial products actually and cumulatively subscribed by the Company where connected persons participate in the subscription for the Year was RMB287 million.

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

On 30 August 2019, the Company renewed the Mutual Agency Agreements with PICC Life and PICC Health respectively, with a term of three years commencing from 31 August 2019 and expiring on 30 August 2022, in order to continue the sales of insurance products of each other on a mutual agency basis. PICC Life and PICC Health have their own distribution channels and customer bases, and the Company renewed the mutual agency agreements with PICC Life and PICC Health in order to lead the strategic synergies into further play and expand the sales channels of the Company. Pursuant to such agreements, the Company and PICC Life and PICC Health mutually act as an agency for selling insurance products of each other, collecting the premiums on behalf of each other, and engaging in such other businesses or services on a mutual agency basis as authorised in writing. The Company, PICC Life and PICC Health pay commissions to each other, including the business commissions to be paid to the business personnel of the agent party and the management commissions to be paid to the agent party for organising and conducting the mutual agency business. Under the Mutual Agency Agreements, the estimated annual caps of the commissions to be paid by the Company to PICC Life and PICC Health in aggregate for the Year was RMB742 million, the estimated annual caps of the commissions to be paid by PICC Life and PICC Health to the Company in aggregate for the Year was RMB302 million. The actual commissions paid by the Company to PICC Life and PICC Health for the Year was RMB547 million. The actual commissions paid by PICC Life and PICC Health to the Company for the Year was RMB113 million.

### *(VII) THE INTERNET INSURANCE BUSINESS COOPERATION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO THE INTERNET INSURANCE BUSINESS COOPERATION AGREEMENT ENTERED INTO BETWEEN THE COMPANY AND PICC FINANCIAL SERVICES*

On 27 November 2017, the Company and PICC Financial Services entered into the Internet Insurance Business Cooperation Agreement to carry out the cooperation regarding the internet insurance business. The term of the agreement is one year from 27 November 2017 to 26 November 2018. If neither party terminated the cooperation under the agreement by notifying in writing within 30 days before the expiry date of the agreement, the agreement would be automatically extended for one year. The agreement had been automatically extended for one year, commencing from 27 November 2018 and expiring on 26 November 2019. On 11 July 2019, the Company and PICC Financial Services entered into the Supplemental Agreement to the Internet Insurance Business Cooperation Agreement to supplement the contents of cooperation and to reach an agreement in respect of the cap of service fees for the period from 1 January 2019 to 26 November 2019. Pursuant to the Supplemental Agreement, PICC Financial Services will, by leveraging its information platform resources and advantages, provide the Company with technical support, information technology platform services and publicity and promotion services for both parties to exchange and share information, share customer acquisition channels and enhance customer experience. Both parties will not be entitled to interests or assume obligations in relation to insurance display (excluding reference to products for the purpose of overall promotion of the platform). The branches of the Company respectively entered into local service agreements with PICC Financial Services based on specific local demands. Pursuant to the Supplemental Agreement, the cap of service fees estimated to be paid by the Company to PICC Financial Services for the period from 1 January 2019 to 26 November 2019 was RMB254.4 million (including tax). The actual service fees paid by the Company to PICC Financial Services for the Year was RMB146 million.

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

On 29 May 2019, the Company entered into the Goods Procurement Contract with BangBang Auto Sales & Services with a term commencing from 1 April 2019 and expiring on 31 March 2021. Pursuant to the Contract, the Company purchases spare parts for the maintenance of insured accident-damaged vehicles from BangBang Auto Sales & Services, and BangBang Auto Sales & Services supplies spare parts for accident-damaged vehicles and provides services on development, operation and maintenance of relevant systems to the Company. The Company pays the cost of the auto spare parts to BangBang Auto Sales & Services; other than that, the Company is not liable to make any extra payment to BangBang Auto Sales & Services pursuant to the contract. The cooperation between the Company and BangBang Auto Sales & Services will be able to improve our pricing power during the claim settlement of motor vehicle insurances, promote business development, reduce the claim cost, accelerate the processing of claim cases and enhance the customer satisfaction so as to provide high-quality claim services to the insured. The Company and BangBang Auto Sales & Services entered into the contract and expressly set out the cooperation policy guidance of the headquarter for each branch office, which will be helpful for loss reduction in claim settlement in each branch. Under the Contract, the annual cap for the payment for auto spare parts expected to be paid by the Company to BangBang Auto Sales & Services for the Year was RMB1,540 million. The actual payment for auto spare parts paid by the Company to BangBang Auto Sales & Services for the Year was RMB388 million.

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

The Company entered into the Framework Agreement on Occupational Annuity Fund Management Business and Corporate Annuity Fund Management Business Cooperation with PICC Pension on 20 February 2019 with a term commencing from 20 February 2019 and expiring on 31 December 2020. Pursuant to the Agreement, the Company provides PICC Pension with customer information (within the authorisation of customers) which can help promote the development of its occupational annuity fund management business and corporate annuity fund management business, assist it on customer development, publicity, promotion, bidding or participation in contract negotiations and will receive business cooperation fees from PICC Pension. The Company entered into the agreement with PICC Pension, with a view to achieving resource sharing and interest complementation through business cooperation, and further enhancing the Company's influence in corporate customers. Under the Agreement, the annual cap for the business cooperation fees expected to be received by the Company from PICC Pension for the Year was RMB300 million. The actual business cooperation fees received by the Company from PICC Pension for the Year was RMB0.

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

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

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

3. such transactions were carried out in accordance with the terms of the agreements governing the transactions, the terms were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditor to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors has received a confirmation letter issued by the auditor in relation to the continuing connected transactions mentioned above, confirming that for the Year:

1. nothing has come to their attention that causes them to believe that the continuing connected transactions abovementioned have not been approved by the Company's Board of Directors;

2. for transactions involving the provision of goods or services by the Company and its subsidiaries, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions mentioned above, nothing has come to their attention that causes them to believe that the transactions have exceeded the annual caps set by the Company.

The Company complied with the requirements under Chapter 14A of the Listing Rules in the Year.

## CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the "Corporate Governance Report" section of this annual report.

## AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the Year. The composition and the role of the Audit Committee and a summary of its work performance during the Year are set out in the "Corporate Governance Report" section of this annual report.

## AUDITORS

The service terms of Deloitte Touche Tohmatsu, the international auditor of the Company, and Deloitte Touche Tohmatsu Certified Public Accountants LLP, the domestic auditor of the Company, will end upon the conclusion of the forthcoming annual general meeting. The proposal for re-appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditor and domestic auditor, respectively, of the Company will be submitted at the forthcoming annual general meeting. The Company has not changed its auditors in the past three years.

By Order of the Board of Directors
**Miao Jianmin**
*Chairman*

Beijing, the PRC
27 March 2020

# Report of the Supervisory Committee

In 2019, the Supervisory Committee and all of its members conducted in-depth studies on and acted thoroughly on the spirits of the 19th National Congress of the Communist Party of China, the Fourth Plenary Session of the 19th Central Committee of the Communist Party of China and the Central Economic Work Conference. Under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, in accordance with the relevant laws, regulations and regulatory requirements of the PRC and the Articles of Association, with the leadership and support of the shareholders and the Party Committee and focusing on "promotion of business model reform" and "transformation towards high quality development", the Supervisory Committee focused on improving its supervision work system, promoted the specialization of performance capabilities, exercised dedication and diligence, earnestly exercised its supervisory duties and functions, carried out its work in compliance with regulations, made efforts to give a play to the role of "facilitating supervision", assisted the Company in the transformation towards high quality development, effectively upheld the highly efficient operation of the Company's corporate governance and protected the interests of the shareholders, the Company and its employees.

## MEETINGS OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee convened five meetings to study, consider and hear 18 proposals, provided comments and suggestions in respect of certain proposals and provided feedbacks to the Board of Directors and the operational management team. Details are set out as follows:

**Firstly,** the first meeting of the fifth session of the Supervisory Committee was held on 7 March and the Proposal to Election of the Chairman of the Fifth Session of the Supervisory Committee was considered and approved.

**Secondly,** the second meeting of the fifth session of the Supervisory Committee was held on 21 March and ten proposals, namely the Proposal to Consider the Auditor's Report and the Audited Financial Statements for 2018, the Proposal to Consider the Profit Distribution Plan for 2018, the Proposal to Consider the Withdrawal of Discretionary Surplus Reserve, the Proposal to Consider the Report of the Supervisory Committee for 2018, the Proposal to Consider the Corporate Governance Report for 2018 – the Supervisory Committee section, the Proposal to Consider the Internal Control Assessment Report for 2018, the Proposal to Consider the Compliance Assessment Report for 2018, the Proposal to Consider the Risk Assessment Report for 2018, the Proposal to Consider the Evaluation Report on the Implementation of the Related Party Transactions and the Internal Transactions for 2018 and the Proposal to Consider the Evaluation Report on Implementation of the Development Plan for 2018, were considered and approved.

**Thirdly,** the third meeting of the fifth session of the Supervisory Committee was held on 29 April and the Proposal to Consider the Financial Statements for the First Quarter of 2019 was considered and approved.

**Fourthly,** the fourth meeting of the fifth session of the Supervisory Committee was held on 23 August and the Proposal for the Financial Statements for the Interim Period of 2019 and the Proposal for the Profit Distribution Plan for the Interim Period of 2019 were considered and approved. Separately, the Report of Deloitte Touche Tohmatsu on the Findings of the Reviewing Work for the Interim Period of 2019, the Report on the Auditing Work Progress for the First Half of 2019 and the Report on the Related Party Transactions Management Audit for 2018, were considered.

**Fifthly,** the fifth meeting of the fifth session of the Supervisory Committee was held on 28 October and the Proposal for the Financial Statements for the Third Quarter of 2019 was considered and approved.

## WORK OF THE SUPERVISORY COMMITTEE

During the Year, the Supervisory Committee completed the reelection of its fifth session, the appointment of the Supervisors and the election of the Chairman of the Supervisory Committee pursuant to the relevant legal procedures. The fifth session of the Supervisory Committee is currently composed of five Supervisors, including Mr Jiang Caishi, Chairman of the Supervisory Committee, Mr Wang Yadong, Shareholder Representative Supervisor, Mr Lu Zhengfei and Mr Charlie Yucheng SHI, Independent Supervisors, and Ms Gao Hong, Employee Representative Supervisor. The qualification of each of Mr Charlie Yucheng SHI and Ms Gao Hong is still subject to the approval by the CBIRC.

During the Year, the Supervisory Committee attended the Company's 2018 annual general meeting and the 2019 first extraordinary general meeting. The Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2018 to the 2018 annual general meeting, which was approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in writing, attended twelve meetings of the Board of Directors and twelve meetings of the Audit Committee, earnestly reviewed and studied the resolutions of the shareholders' general meetings and the meetings of the Board of Directors, fully expressed its opinions and suggestions, and performed supervision over the legality of the agendas and procedures of the meetings while strengthening the supervision over significant issues of the Company. The Supervisory Committee further regulated the corporate governance structure of the Company through its participation, and supervised and urged the Company to run its business according to laws and regulations. The Employee Representative Supervisors fully expressed employees' intentions and requests in the supervision process, and effectively protected employees' legal rights and interests.

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

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

During the Year, the Supervisory Committee adopted the "concentrated and individual" method to conduct visits and inspections in various forms. In addition to specific visits and inspections specific to the transformation and development of the Company, the Supervisors, to perform their responsibilities, gave full play to their own strengths and took advantage of opportunities (such as business trips, meetings, tours and lectures) to go down to the branches of the Company to conduct a number of visits and inspections. Through the visits and inspections, the Supervisors obtained a comprehensive understanding of the Company's business operation and development, finance, fund, internal control system and risk management and control at the basic level, and more effectively performed their duties of knowing, supervision and inspection.

## INDEPENDENT OPINIONS ISSUED BY THE SUPERVISORY COMMITTEE

The Supervisory Committee issues the following opinions in relation to the supervision and inspection work for the Year:

The compliant operation of the Company. The Directors and senior management of the Company performed their duties set forth in the Articles of Association in diligence and good faith, and diligently implemented all resolutions of the shareholders' general meetings and those of the Board. No Director or member of the senior management was found to have committed any breach of laws and regulations or the Articles of Association or to have infringed any rights or interests of the shareholders, the Company or its employees when performing their duties.

Authenticity of financial reports. The Company and its subsidiaries' reviewed financial statements for the interim period of 2019 and audited annual financial statements for the year of 2019 were strictly prepared in accordance with the relevant accounting standards. The financial statements have given a true and fair view of the financial position and operating results of the Company and its subsidiaries.

Related party transactions. The related party transactions of the Company were conducted on an arm's length basis, on normal commercial terms or better terms and in the interests of the Company's shareholders as a whole. There was no indication of any infringement of the interests of all the shareholders or the Company.

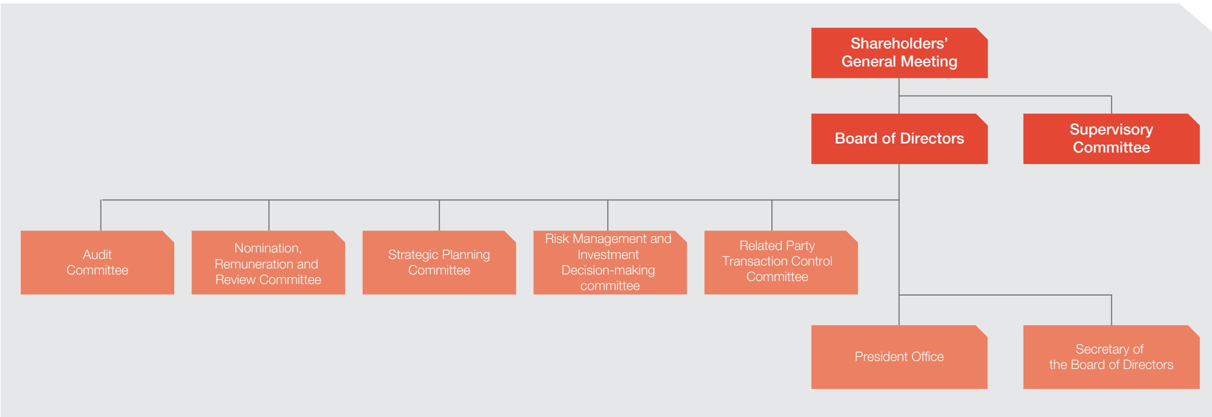
In 2020, the Supervisory Committee will continue to strictly perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, uphold a highly efficient corporate governance operation and the sound development of the Company, take the initiative in exploration and innovation, constantly improve its performance capabilities, exert the important role of the Supervisory Committee in the corporate governance system, put efforts into the implementation of "comprehensive supervision" and "facilitating supervision", earnestly safeguard the interests of the shareholders, the Company and employees and diligently perform all its duties.

# Corporate Governance Report

## OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. The Company has been continuously enhancing its corporate governance in accordance with the Company Law, the Listing Rules, the Guidelines and other relevant laws and regulations, and the Articles of Association.

In 2019, the Company continuously strengthened its internal control, supervision and risk management capabilities, refined its management system for related party transactions, and strengthened its compliance construction and management in accordance with the Insurance Law of the People's Republic of China, the Measures on the Administration of Information Disclosure of Insurance Companies, the Working Rules for the Internal Audit of Insurance Institutions and the Measures on the Administration of Related Party Transactions of Insurance Companies issued by the CBIRC and the requirements under the applicable provisions of the Corporate Governance Code and the SFO.




Save for the deviation from code provision A.4.2 of the Corporate Governance Code for the period from 26 June 2018 to 6 March 2019, the Company complied with all the code provisions of the Corporate Governance Code during the Year.

## BOARD OF DIRECTORS

### *Overview*

During the Year, the Board convened two shareholders' general meetings and submitted thirty proposals and reports to the shareholders' general meetings, held twelve Board meetings, at which eighty proposals were considered and approved, formulated the Company's business development plan, financial plan, fixed assets investment plan, strategic allocations of and investment policies on entrusted assets, elected a new session of the Board, conducted annual performance appraisals of the senior management, appointed President, considered and approved the enhancement of the reform of the Company's head office and considered the re-appointment of the auditors, etc., and enhanced the Company's internal control management, compliance management, and risk management and control, etc.

The Board holds regular meetings at least four times a year, and convenes extraordinary meetings when necessary. Notices and materials for regular Board meetings are given to the Directors at least fourteen days and three days prior to the meetings, respectively. All Directors are entitled to propose resolutions to be included as part of the agenda of the Board meetings. Detailed minutes of each Board meeting are kept. Five specialised committees are formed under the Board, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, the Risk Management and Investment Decision-making Committee, and Related Party Transaction Control Committee. The duties and responsibilities of and the operating procedures for each of the Board committees are clearly defined. The Board committees submit opinions and proposals to the Board on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the applicable principles and code provisions of the Corporate Governance Code, and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board continued to regulate its operations and enhance its corporate governance. Save for the deviation from code provision A.4.2 of the Corporate Governance Code, the Company complied with all the code provisions of the Corporate Governance Code and adopted recommended best practices where applicable to continuously perfect its corporate governance structure.

According to the code provision A.4.2 of the Corporate Governance Code, each Director should be subject to retirement by rotation at least once every three years. The term of office of the Directors of the fourth session of the Board expired on 25 June 2018. However, in accordance with the requirements of the Company Law, where a director has not yet been re-elected upon the expiry of his/her term of office or the number of directors is less than the required quorum as a result of resignation of directors, the existing director shall continue to serve as a director until the newly elected director commences his/her term of office. Accordingly, the Directors of the fourth session of the Board will continue to serve as Directors until the Directors of the fifth session of the Board commence their terms of office. In order to comply with the requirement of code provision A.4.2 of the Corporate Governance Code, the Company held an extraordinary general meeting on 7 March 2019 and elected the Directors of the fifth session of the Board, whose terms of office commence from the date of the formal appointment by the Company and end on the expiry of the term of office of the fifth session of the Board. As a result of the Directors of the fourth session of the Board not having retired by rotation upon the expiry of their terms of office, the Company failed to comply with the relevant requirement of the code provision A.4.2 of the Corporate Governance Code during the period from 26 June 2018 to 6 March 2019.

### *Composition*

During the Year, the Board comprised the following Directors:

| Name | Position | Date of commencement of directorship | Term (*Note 1*) |
|---|---|---|---|
| Mr Miao Jianmin | Chairman, Executive Director | 12 March 2018 | From 7 March 2019 to 6 March 2022 |
| Mr Xie Yiqun (*Note 2*) | Vice Chairman, Executive Director | 22 June 2018 | From 7 March 2019 to 6 March 2022 |
| Mr Lin Zhiyong (Resigned) (*Note 3*) | Vice Chairman, Executive Director | 26 June 2015 | Re-elected but resigned as an Executive Director on 7 March 2019 and resigned as the Vice Chairman on 25 February 2019 |
| Mr Tang Zhigang (Resigned) (*Note 4*) | Non-executive Director | 7 March 2019 | From 7 March 2019 to 20 January 2020 (Resigned on 21 January 2020) |
| Mr Li Tao | Non-executive Director | 18 October 2006 | From 7 March 2019 to 6 March 2022 |
| Ms Xie Xiaoyu* | Executive Director | 7 March 2019 | From 7 March 2019 to 6 March 2022 |
| Mr Hua Shan (Resigned) (*Note 5*) | Executive Director | 7 March 2019 | From 7 March 2019 to 22 September 2019 (Resigned on 23 September 2019) |
| Mr Lin Hanchuan | Independent Non-executive Director | 25 March 2013 | From 7 March 2019 to 6 March 2022 |
| Mr Lo Chung Hing | Independent Non-executive Director | 26 June 2015 | From 7 March 2019 to 6 March 2022 |
| Mr Na Guoyi (Resigned) (*Note 6*) | Independent Non-executive Director | 26 June 2015 | From 7 March 2019 to 18 July 2019 (Resigned on 19 July 2019) |
| Mr Ma Yusheng* | Independent Non-executive Director | 26 June 2015 | From 7 March 2019 to 6 March 2022 |
| Mr Chu Bende (*Note 7*) | Independent Non-executive Director | 24 June 2016 | From 7 March 2019 to 6 March 2022 |
| Ms Qu Xiaohui | Independent Non-executive Director | 31 October 2017 | From 7 March 2019 to 6 March 2022 |

*Notes:*

1. The terms of office of the Directors of the fourth session of the Board expired on 25 June 2018. According to the requirements of the Company Law, where a director has not yet been re-elected upon the expiry of his/her term of office or the number of directors is less than the required quorum as a result of resignation of directors, the Directors of the fourth session of the Board shall continue to serve as a director until the newly elected director commences his/her term of office. The Company held an extraordinary general meeting on 7 March 2019 and elected the Directors of the fifth session of the Board.

2. Mr Xie Yiqun was appointed as the Vice Chairman and the President and was re-designated from a Non-executive Director to an Executive Director on 7 March 2019.

3. Mr Lin Zhiyong resigned as the Vice Chairman and the President on 25 February 2019, and resigned as an Executive Director on 7 March 2019.

4. Mr Tang Zhigang obtained the CBIRC's approval of his qualification for serving as a Director on 10 May 2019 and resigned as a Non-executive Director on 21 January 2020.

5. Mr Hua Shan resigned as an Executive Director and the Executive Vice President on 23 September 2019.

6. Mr Na Guoyi (那國毅)'s former name was Na Guoyi (那國義). Mr Na Guoyi resigned as an Independent Non-executive Director on 19 July 2019.

7. Mr Chu Bende obtained the CBIRC's approval of his qualification for serving as a Director on 12 December 2019.

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

Changes in the Board members during the period from 1 January 2019 to the date of this report are as follows:

At the Extraordinary General Meeting of the Company on 7 March 2019, Mr Miao Jianmin was re-elected as an Executive Director, Mr Xie Yiqun was re-elected as a Non-executive Director, Mr Tang Zhigang was appointed as a Non-executive Director, Mr Lin Zhiyong was re-elected as an Executive Director (who resigned as an Executive Director due to other work arrangements, with effect from 7 March 2019), Mr Li Tao was re-elected as a Non-executive Director, Ms Xie Xiaoyu and Mr Hua Shan were appointed as Executive Directors, and Mr Lin Hanchuan, Mr Lo Chung Hing, Mr Na Guoyi, Mr Ma Yusheng, Mr Chu Bende and Ms Qu Xiaohui were re-elected as Independent Non-executive Directors. The terms of office of the aforesaid directors commence from the date of the formal appointment by the Company and end on the expiry of the term of the fifth session of the Board. On the same day, the Board re-elected Mr Miao Jianmin as the Chairman of the Board and Mr Xie Yiqun as the Vice Chairman of the Board.

Meanwhile, Mr Xie Yiqun was appointed as the President and was re-designated from a Non-executive Director to an Executive Director.

Mr Lin Zhiyong resigned as the Vice Chairman and the President due to other work arrangements, with effect from 25 February 2019.

Mr Na Guoyi resigned as an Independent Non-executive Director due to other work arrangements, with effect from 19 July 2019.

Mr Hua Shan resigned as an Executive Director and the Executive Vice President due to other work arrangements, with effect from 23 September 2019.

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

### *Duties and Responsibilities*

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

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

### *Summary of Work Undertaken*

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

| | Board Meeting | | Shareholders' General Meeting | |
|---|---|---|---|---|
| **Name** | **Number of meetings attended/Number of meetings that require attendance** | **Attendance rate** | **Number of meetings attended/Number of meetings held** | **Attendance rate** |
| Miao Jainmin | 11/12 | 92% | 2/2 | 100% |
| Xie Yiqun | 11/12 | 92% | 2/2 | 100% |
| Lin Zhiyong | 1/1 | 100% | 0/1 | 0% |
| Tang Zhigang | 9/11 | 82% | 1/1 | 100% |
| Li Tao | 9/12 | 75% | 1/2 | 50% |
| Xie Xiaoyu | 10/11 | 91% | 0/1 | 0% |
| Hua Shan | 4/7 | 57% | 0/1 | 0% |
| Lin Hanchuan | 11/12 | 92% | 2/2 | 100% |
| Lo Chung Hing | 12/12 | 100% | 2/2 | 100% |
| Na Guoyi | 6/6 | 100% | 2/2 | 100% |
| Ma Yusheng | 11/12 | 92% | 1/2 | 50% |
| Chu Bende | 12/12 | 100% | 2/2 | 100% |
| Qu Xiaohui | 12/12 | 100% | 2/2 | 100% |

*Notes:*

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

2. During the Year, Mr Miao Jianmin, Mr Xie Yiqun, Mr Lin Hanchuan and Mr Ma Yusheng each attended eleven Board meetings in person and one Board meeting by appointing another Director as proxy to attend on his behalf; Mr Tang Zhigang attended nine Board meeting in person and two Board meetings by appointing another Director as proxy to attend on his behalf; Mr Li Tao attended nine Board meetings in person and three Board meetings by appointing another Director as proxy to attend on his behalf; Ms Xie Xiaoyu attended ten Board meetings in person and one Board meeting by appointing another Director as proxy to attend on her behalf; Mr Hua Shan attended four Board meetings in person and three Board meetings by appointing another Director as proxy to attend on his behalf.

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

- convened two shareholders' general meetings and submitted a list of nominated members of the fifth session of the Board and the Supervisory Committee, thirty proposals and reports to the shareholders' general meetings, including the Report of the Board for 2018, the Report of the Supervisory Committee for 2018, the Auditor's Report and the audited financial statements for 2018, the profit distribution plan for 2018, the re-appointment of the auditors and the proposal for approving the issuance of RMB8.0 billion capital supplementary bonds, etc., all of which were approved at the shareholders' general meetings;
- considered and approved the election of the Chairman and Vice Chairman of the fifth session of the Board, appointed the Chairman and members of each Board committee;
- considered and approved the appointment of Mr Xie Yiqun as President;
- considered and approved the business development plan, financial plan, fixed assets investment plan, and strategic allocations of and investment strategies on entrusted assets of the Company for the Year;
- considered and approved the total amount of remuneration payable by the Company for the Year, conducted annual performance appraisals of the senior management, including the President, Vice Presidents, Assistants to the President, etc.;
- considered and approved the internal audit plan, internal audit budget and human resources plans of the Company during the Year, the Internal Control Assessment Report for 2018 and the Compliance Assessment Report for 2018 of the Company, considered the Report on Progress of Improvement Based on the Management Recommendation Letter of the Previous Year, reviewed and continuously enhanced the effectiveness of the Company's internal control;
- considered and approved the Risk Assessment Report for 2018, the Solvency Report for the Fourth Quarter in 2018 and the Second Quarter in 2019, the Solvency Margin Condition and Audit Report and the Solvency Stress Test Report for 2018 of the Company, considered and approved the Reputation Risk Management Measures (2019 Revision) of the Company; revised and improved the Risk Preference Statement and Risk Tolerance and Limit Indicator System of the Company, and reviewed and continuously improved the effectiveness of the Company's risk management;
- considered and approved the Information Disclosure Report for 2018, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2018, the Report on the Status of Related Party Transactions and Implementation of the Related Party Transactions Management System for 2018 and the Evaluation Report on Implementation of the Development Plan for 2018, the Capital Plan (2019-2021);
- revised and improved the Asset and Liability Management Measures of the Company to meet new regulatory requirements;
- considered and approved the 2019 interim results;

- considered and approved the 2018 Corporate Social Responsibility Report of the Company;
- considered and approved the enhancement of the reform of the Company's head office; and
- considered and approved the purchase of fixed assets by branches of the Company, the related party transactions between the Company and its subsidiaries, affiliated branches or related subsidiaries and affiliated branches of PICC Group.

## DIRECTORS

### *Responsibilities for the Financial Statements*

The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants and through the consistent adoption of appropriate accounting policies and, subject to compliance with the Hong Kong Financial Reporting Standards, the implementation of the regulations on accounting treatment issued by the Ministry of Finance of the PRC and the CBIRC. The Directors are not aware of any event or condition which may cause material adverse impact on the Company's ability to continue as a going concern.

### *Securities Transactions*

The Company has formulated the Guidelines on Transactions of the Company's Securities by the Employees (the "Securities Transactions Guidelines") that are applicable to Directors, Supervisors and all employees. The terms of the Securities Transactions Guidelines are no less exacting than those set out in the Model Code. The Company enquired with all the Directors and Supervisors and they all confirmed that they complied with the requirements under the Model Code and the Securities Transactions Guidelines during the Year.

### *Independence of Independent Non-executive Directors*

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

### *Directors' Continuous Professional Development*

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

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

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

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

Miao Jianmin: attended various trainings and meetings organised by the regulators and PICC Group related to the performance of director's functions and duties, conducted in-depth studies on national reform and development, macro economy and industrial regulation and gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

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

Li Tao: attended relevant trainings and meetings organised by the Party School of the Central Committee of the Communist Party of China and PICC Group and gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

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

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

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

Ma Yusheng: organised and attended the holding of financial forums and the implementation of management-related courses, paid continuous attention to areas relating to organisation efficiency and human resource development, and attended the trainings organised by the Company related to the laws and regulations, corporate governance, performance of director's functions and duties and insurance industry.

Chu Bende: paid continuous attention to and conducted research on corporate finance and corporate governance, gained a deeper understanding of applicable domestic and foreign laws and regulations as well as regulatory requirements in respect of related party transactions, directors' continuous responsibilities and obligations, etc., and attended the trainings organised by the Company related to the laws and regulations, corporate governance, performance of director's functions and duties and insurance industry.

Qu Xiaohui: paid continuous attention to and conducted research on the changes in global accounting standards, especially the developments in the standards of financial instruments and insurance contracts, hosted and completed the research on national key projects in respect of social science with outstanding performance, hosted the research on key ministerial-level major projects, attended American Accounting Association 2019 Annual Meeting and reported and made the comments on papers, attended the 2019 Annual Academic Conference of Accounting Society of China and its standing council meeting and hosted the closing ceremony, attended the third meeting of the seventh session of Cost Research Society of China and academic seminars, attended the International Symposium on Empirical Accounting Research in China and its standing council meeting and chaired the doctoral student forum and workshop meeting, attended the third annual meeting of Cross-Strait New-Era Accounting and Auditing Forum and Accounting Academic Alliance, attended the information exchange meeting for independent directors of insurance companies organised by the Insurance Association of China, and attended the follow-up trainings under the 2019 Phase 3 Program for Independent Directors of Listed Companies organised by Shanghai Stock Exchange and received a certificate of training issued by SSE Enterprise Training Department.

## CHAIRMAN/PRESIDENT

As at the date of this report, the Chairman of the Company is Mr Miao Jianmin, and the Vice Chairman and the President of the Company is Mr Xie Yiqun. The Chairman is responsible for leading the Board and ensuring that the Board operates effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, the annual operation plans and investment plans, formulating proposals for organisational structure for internal management and the basic management system, and making proposals to the Board for the appointment or removal of the Vice President(s), the Responsible Compliance Officer, the Responsible Finance Officer and the Assistant(s) to the President, etc.

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

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

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

- to be in charge of the operation and management of the Company and shall organise the implementation of the Board resolutions;

- to organise the implementation of the Company's annual business plans and annual investment plans;
- to issue general administrative documents of the Company;
- to draw up plans for organisational structure for internal management of the Company and, in accordance with operating needs, decide on general organisational restructuring plans;
- to draw up the Company's basic management system;
- to formulate basic rules and regulations for the Company;
- to propose to the Board for the appointment or removal of Vice President(s), Responsible Compliance Officer, Responsible Financial Officer and Assistant(s) to the President;
- to appoint or remove responsible management personnel other than those required to be appointed or removed by the Board;
- to formulate policies for the remuneration, welfare benefits, rewards and penalties of the employees of the Company other than the senior management personnel and to determine, or authorise subordinate department heads to determine, the employment and removal of the employees other than the senior management personnel and the responsible management personnel described in the item no.8 of the details of the duties and responsibilities of the President above;
- to propose the holding of special meetings of the Board; and
- to exercise any other functions and powers empired by laws and regulations, regulatory provisions, the Articles of Association and the Board.

## AUDIT COMMITTEE

### *Overview*

During the Year, the Audit Committee continued to perform earnestly its duties of supervising and providing guidance on internal and external audits, reviewing financial reports, supervising financial reporting procedures, strengthening internal control management and compliance management, etc., and put forward a number of opinions and suggestions to the Board and the management on financial affairs, internal control, compliance and business operation and management, thereby playing an active role in further improving the management of the Company and enhancing the level of the Company's corporate governance.

### *Composition*

During the Year, the Audit Committee comprised:

| | |
|---|---|
| Chairman: | Lin Hanchuan (Independent Non-executive Director, the Fourth Session)<br>Qu Xiaohui (Independent Non-executive Director, the Fifth Session) |
| Members of the Fourth Session: | Li Tao (Non-executive Director), Lo Chung Hing (Independent Non-executive Director), Chu Bende (Independent Non-executive Director), Qu Xiaohui (Independent Non-executive Director) |
| Members of the Fifth Session: | Lin Hanchuan (Independent Non-executive Director), Li Tao (Non-executive Director), Lo Chung Hing (Independent Non-executive Director), Chu Bende (Independent Non-executive Director) |

*Notes:*

1. The term of office of the fourth session of the Audit Committee in the Year was from 1 January 2019 to 6 March 2019. On 7 March 2019, the Board approved the composition of the fifth session of the Audit Committee, whose term of office commenced on the same day.

2. Ms Qu Xiaohui was appointed on 7 March 2019 as the Chairman of the Audit Committee.

3. Mr Lin Hanchuan was appointed on 7 March 2019 as a member of the Audit Committee.

### *Duties and Responsibilities*

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

### *Remuneration of Auditors*

In the Year, the Company paid RMB16.65 million for audit-related services, including the fees for the audit of the financial statements for 2019 and the review of the interim financial statements for 2019. In the Year, the Company paid RMB0.65 million to the auditors for non-audit services, including remunerations of RMB0.35 million and RMB0.30 million respectively for translation and review services relating to the 2019 annual and 2019 interim filing materials to Kanto Local Finance Bureau of Japan. Taking into account the respective functions and responsibilities of the Company and the auditors in the implementation and provision of such services, the Company is of the view that such non-audit services have not affected the independence and objectivity of the auditors.

### *Summary of Work Undertaken*

During the Year, the Audit Committee held twelve meetings and considered fifty-seven proposals. The attendance record of committee members at the meetings is as follows:

| Name | Qu Xiaohui | Lin Hanchuan | Li Tao | Lo Chung Hing | Chu Bende |
|---|---|---|---|---|---|
| Number of meetings attended/Number of meetings that require attendance | 12/12 | 11/12 | 11/12 | 12/12 | 11/12 |
| Attendance rate | 100% | 92% | 92% | 100% | 92% |

*Notes:*

1. The table above lists the numbers of meetings held and attended by each member during his/her term of office.

2. Mr Lin Hanchuan, Mr Li Tao and Mr Chu Bende each attended eleven meetings in person and one meeting by appointing Ms Qu Xiaohui as proxy to attend on their behalf.

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

Engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit work for 2018 and on the interim review work for 2019; and
- considered the proposal for the engagement of auditors for 2019, and obtained approvals from the Board and the shareholders' general meeting for the engagement proposal.

Reviewing the financial reports, etc.:

- reviewed the financial statements and results announcement, the Information Disclosure Report, the Special Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance and the Solvency Reports of the Company for 2018, the Solvency Reports for the fourth quarter of 2018 and the second quarter of 2019, the financial statements and results announcement for the interim period of 2019, and the financial statements and results announcement for the first and third quarters of 2019, discussed with the management on issues relating to, among others, the progress of implementing the new standards of financial instruments and the possible impact on the Company arising therefrom.

Monitoring and inspecting the financial reporting procedures and the internal control system:

- considered and approved the Company's Internal Control Assessment Report and the Compliance Assessment Report for 2018;
- considered and approved the Report on Progress of Improvement Based on the Management Recommendation Letter for 2017, considered the Management Recommendation Letter for 2018;
- supervised and provided guidance on the internal audit and financial accounting work, reviewed the working report on internal audit for 2018, internal audit plan for 2019, internal audit budget, human resources plans, and quarterly internal audit status of the Company, and considered the report of the Finance and Accounting Department of the Company on their work summaries for 2018 and the work plans for 2019;
- reviewed the audit report on administration of related party transactions, considered and approved the Assessment Report on the Status of Related Party Transactions Implementation and Internal Transactions for 2018; and
- considered and approved twenty-three proposals for related party transactions.

## NOMINATION, REMUNERATION AND REVIEW COMMITTEE

### *Overview*

During the Year, the Nomination, Remuneration and Review Committee started a new session and considered the structure and composition of the Board, conducted annual appraisals of the President and other senior management, and made constructive suggestions to the Board on issues relating to remuneration of the Company.

### *Composition*

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

| | |
|---|---|
| Chairman: | Ma Yusheng (Independent Non-executive Director, the fourth and the fifth sessions) |
| Members of the Fourth Session: | Lin Hanchuan (Independent Non-executive Director), Chu Bende (Independent Non-executive Director) |
| Members of the Fifth Session: | Tang Zhigang (Non-executive Director, resigned), Lin Hanchuan (Independent Non-executive Director), Chu Bende (Independent Non-executive Director) |

*Notes:*

1. The term of office of the fourth session of the Nomination, Remuneration and Review Committee in the Year was from 1 January 2019 to 6 March 2019. On 7 March 2019, the Board approved the composition of the fifth session of the Nomination, Remuneration and Review Committee, whose term of office commenced on the same day.

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

### *Duties and Responsibilities*

The Nomination, Remuneration and Review Committee is responsible for assessing the structure and composition of the Board on a regular basis, recommending candidates for directorships, formulating remuneration policies and structures for Directors, the President and other senior management, formulating appraisal standards and conducting annual appraisals, making recommendations in respect of the remuneration packages for the directors and senior management to the Board, etc.

### *Nomination of Directors*

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates for new directors, examine the qualifications of these candidates, and then recommend such candidates to the Board. The Board shall determine whether such candidates should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board include the candidates' education background, management and research experience in the financial industry, especially in the insurance sector, their extent of commitment to the Company and should also achieve diversity of the Board members. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates for directorships.

The Company understands and agrees with the importance of the diversity of the Board members, and regards the achieving of diversity of the Board members as an important factor for enhancing the level of the Company's corporate governance and achieving sustainable development. The Company has formulated the Policy on Diversity of Board Members, which requires the Nomination, Remuneration and Review Committee to consider a candidate for directorship on a merit basis following objective standards, take into account factors such as gender, age, culture and education background and professional experience of the Board members, and select candidates for directorships in accordance with the business characteristics, specific requirements and future development of the Company. While performing its responsibilities, the committee may seek advice from independent advisers at the Company's expense, when necessary.

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

### *Remuneration of Directors and Other Senior Management*

The fixed salaries of the Executive Directors and other senior management are determined in accordance with the market levels and their respective positions and duties. Their performance-related bonuses are subject to various considerations, including the operating results of the Company and the scores in their performance appraisals. Directors' fees and Supervisors' fees are determined with reference to the market levels and the actual circumstances of the Company.

### *Remuneration Policy of the Company*

The remuneration policy of the Company follows the guiding principle of "distribution according to work accomplished, performance-linked, gross controlled, and market-oriented" and implements a job sequence-based, market-oriented and performance-based remuneration incentive system. Based on job sequence, the remuneration will be paid based on the value of the job as well as performance contribution to ensure a fair and reasonable distribution. Through market-orientation, emphasis is placed on determining remuneration according to the market labour price to ensure the external competitiveness of the remuneration package; and by basing on performance, bonuses are linked with and inter-related to business performance, highlighting contribution to business. The Company also implements a welfare plan in accordance with relevant laws and regulations and operating results to provide reasonable protection for the employees.

### *Summary of Work Undertaken*

During the Year, the Nomination, Remuneration and Review Committee held two meetings, at which three proposals were considered, and at these meetings remuneration-related matters were discussed. The attendance record of committee members at the meetings is as follows:

| Name | Ma Yusheng | Tang Zhigang | Lin Hanchuan | Chu Bende |
|---|---|---|---|---|
| Number of meetings attended/Number of meetings that require attendance | 2/2 | 2/2 | 2/2 | 2/2 |
| Attendance rate | 100% | 100% | 100% | 100% |

*Note:* During the Year, the Nomination, Remuneration and Review Committee started a new session. The table above lists the numbers of meetings held and attended by each member during his term of office.

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

- considered the structure, number of members and composition of the Board;
- took into consideration the market salary levels of comparable companies of the same industry and the Company's actual circumstances, made recommendations to the Board in respect of the fees for the Directors and Supervisors for 2019, and such recommendations were approved by the Board and the shareholders' general meeting;

- considered the performance appraisal plan for the senior management for 2018 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the President, Vice Presidents, Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the head office of the Company; and made recommendations for bonus coefficients for the President, Vice Presidents and Assistants to the President, the Secretary of the Board, the Chief Accountant, and the senior professional officers of the head office of the Company, which were approved by the Board;
- considered the Corporate Governance Report for 2018.

## STRATEGIC PLANNING COMMITTEE

### *Overview*

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

### *Composition*

During the Year, the Strategic Planning Committee comprised:

| | |
|---|---|
| Chairman: | Miao Jianmin (Executive Director, the fourth and the fifth sessions) |
| Members of the Fourth Session: | Lin Zhiyong (Executive Director, resigned), Li Tao (Non-executive Director), Na Guoyi (Independent Non-executive Director, resigned) |
| Members of the Fifth Session: | Xie Yiqun (Executive Director), Hua Shan (Executive Director, resigned), Li Tao (Non-executive Director), Na Guoyi (Independent Non-executive Director, resigned) |

*Notes:*

1. The term of office of the fourth session of the Strategic Planning Committee in the Year was from 1 January 2019 to 6 March 2019. On 7 March 2019, the Board approved the composition of the fifth session of the Strategic Planning Committee, whose term of office commenced on the same day.

2. Mr Lin Zhiyong resigned as an Executive Director on 7 March 2019 and has ceased to act as a member of the Strategic Planning Committee since the election of a new session of the Board.

3. Mr Hua Shan resigned as an Executive Director on 23 September 2019 and ceased to act as a member of the Strategic Planning Committee simultaneously.

4. Mr Na Guoyi resigned as an Independent Non-executive Director on 19 July 2019 and ceased to act as a member of the Strategic Planning Committee simultaneously.

### *Duties and Responsibilities*

The Strategic Planning Committee is responsible for formulating medium and long-term development strategies, considering business plans, major investment plans, financing plans, annual financial budgets and final accounts, profit distribution plans and loss recovery plans, plans for the disposal of material assets, plans for the issuance of shares and bonds, plans for material modification to the organisational structure of the Company and proposals for amendments to the Articles of Association, and formulating and reviewing corporate governance policies and practices of the Company, etc.

*Summary of Work Undertaken*

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

| Name | Miao Jianmin | Xie Yiqun | Lin Zhiyong | Hua Shan | Li Tao | Na Guoyi |
|---|---|---|---|---|---|---|
| Number of meetings attended/ Number of meetings that require attendance | 8/8 | 7/7 | 1/1 | 5/5 | 8/8 | 4/4 |
| Attendance rate | 100% | 100% | 100% | 100% | 100% | 100% |

*Note:* During the Year, the Strategic Planning Committee started a new session, and some Directors resigned and ceased to act as members of the Strategic Planning Committee simultaneously. The table above lists the numbers of meetings held and attended by each member during his term of office.

The major work accomplished by the Strategic Planning Committee in the Year included:

- considered and approved the business development plan and fixed assets investment plan for the Year, the Evaluation Report on Implementation of the Development Plan for 2018 and the Corporate Governance Report for 2018;
- considered and approved the financial plan for the Year;
- considered and approved the interim profit distribution plans for 2018 and 2019;
- considered and approved the investment and acquisition of equity interest in ZSIB;
- considered and approved the enhancement of the reform of the Company's head office;
- considered and approved the Capital Plan (2019-2021) of the Company;
- considered and approved the 2018 Corporate Social Responsibility Report of the Company;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and monitored the training and continuous professional development of Directors, Supervisors and senior management;
- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- reviewed and supervised the regular update of the Normative Manual on Rights and Duties by the Company; and
- considered the Company's compliance with the Corporate Governance Code and the disclosure set out in the Corporate Governance Report.

## RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

### *Overview*

During the Year, the Risk Management and Investment Decision-making Committee started a new session and continued to supervise the operation of the risk management system of the Company, and considered the risk assessment report, the Report on Special Rectification Campaign concerning Risk Check in Fund Utilisation, the Capital Plan (2019-2021), various risk management basic rules and investment plans of the Company.

### *Composition*

During the Year, the Risk Management and Investment Decision-making Committee comprised:

| | |
|---|---|
| Chairman: | Miao Jianmin (Executive Director, the fourth and the fifth sessions) |
| Members of the Fourth Session: | Xie Yiqun (Executive Director), Lin Zhiyong (Executive Director, resigned) |
| Members of the Fifth Session: | Xie Yiqun (Executive Director), Xie Xiaoyu (Executive Director), Hua Shan (Executive Director, resigned) |

*Notes:*

1. The term of office of the fourth session of the Risk Management and Investment Decision-making Committee in the Year was from 1 January 2019 to 6 March 2019. On 7 March 2019, the Board approved the composition of the fifth session of the Risk Management and Investment Decision-making Committee, whose term of office commenced on the same day.

2. Mr Lin Zhiyong resigned as an Executive Director on 7 March 2019 and has ceased to act as a member of the Risk Management and Investment Decision-making Committee since the election of a new session of the Board.

3. Mr Hua Shan resigned as an Executive Director on 23 September 2019 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

### *Duties and Responsibilities*

The Risk Management and Investment Decision-making Committee is responsible for evaluating and clearly determining the nature and extent of the risks that the Company is willing to take in achieving the Company's business objectives, considering the various basic systems of the Company for risk management, considering annual risk assessment reports and the risk assessment reports in respect of major decisions, monitoring the effectiveness and adequacy of the operation of the risk management system, monitoring the design, implementation and supervision of the risk management system by the management, so as to ensure that the Company has and maintains an appropriate and effective risk management system, etc.

### *Summary of Work Undertaken*

During the Year, the Risk Management and Investment Decision-making Committee held eight meetings and considered fourteen proposals. The attendance record of committee members at the meetings is as follows:

| Name | Miao Jianmin | Xie Yiqun | Lin Zhiyong | Xie Xiaoyu | Hua Shan |
|---|---|---|---|---|---|
| Number of meetings attended/Number of meetings that require attendance | 8/8 | 8/8 | 1/1 | 7/7 | 5/5 |
| Attendance rate | 100% | 100% | 100% | 100% | 100% |

*Note:* During the Year, the Risk Management and Investment Decision-Making Committee started a new session, and some Directors resigned and ceased to act as members of the Risk Management and Investment Decision-making Committee simultaneously. The table above lists the numbers of meetings held and attended by each member during his/her term of office.

The major work accomplished by the Risk Management and Investment Decision-making Committee in the Year included:

- considered and approved the Risk Assessment Report for 2018, and gave advice on further development of the comprehensive risk management system;
- considered and approved the 2018 Annual Report on Assets and Liabilities Management and the Capital Plan (2019-2021), revised the Assets and Liabilities Management Measures and the Reputation Risk Management Measures of the Company, and revised and improved the Risk Preference Statement and Risk Tolerance and Limit Indicator System of the Company, and discussed with the management on ongoing improvement in risk management policies and procedures and ensuring the effectiveness of the risk management system of the Company;
- considered and approved the investment and acquisition of equity interest in ZSIB;
- inspected the risk management system of the Company and reviewed the effectiveness of the risk management system of the Company (including subsidiaries of the Company); and
- considered and approved the strategic allocations of and investment policies on entrusted assets, the guidance on offshore investment and the compliance issue list of the Company for the Year.

## RELATED PARTY TRANSACTION CONTROL COMMITTEE

### *Overview*

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

### *Composition*

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

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

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

### *Duties and Responsibilities*

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

## INTERNAL CONTROL

In accordance with the Basic Rules for Internal Control of Enterprises and their supporting guidelines and the Basic Standards for Internal Control of Insurance Companies and having regard to the Company's internal control system and assessment methods, the Company conducted a self-assessment of the effectiveness of its internal control as of 31 December 2019 in terms of day-to-day supervision and supervision of particular matters. The Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2019 to review and continuously improve the effectiveness of the internal control systems of the Company and its subsidiaries.

The Board of the Company is responsible for establishing, improving and effectively implementing internal control, the Supervisory Committee is responsible for supervising the establishment and implementation of internal control by the Board, and the management is responsible for organising and leading for the day-to-day operation of the Company's internal control. In internal control assessment, the Board of the Company takes charge of determining major defects in internal control and approving the annual internal control assessment reports. The President Office is responsible for leading and organising internal control assessment as required by the Board, and approving the internal control assessment work plan as authorised by the Board. The Compliance Department/Risk Management Department is responsible for organising and implementing the internal control assessment work, and assessing the business areas and operating units which are included in the scope of assessment. All departments of the head office, direct subordinate units and all provincial branches and subsidiaries participating in the assessment have established internal control assessment work teams to carry out assessment work as required by the work plan.

During the Year, the internal control assessment, in terms of the target entities, covered all departments of the head office, direct subordinate units, the East China Center work team, provincial branches and two subsidiaries, namely PICC Motor Insurance Sales Services Company Limited and ZSIB. In terms of the target businesses, the internal control assessment covered controls on tiers of the Company, business and information technology without major omissions.

The assessment result demonstrated that effective and adequate internal control had been established for all businesses and matters that were within the scope of assessment, which achieved the internal control objectives of the Company without major defects. No major changes in internal control which would cause fundamental impact on assessment result occurred between the reference date of internal control assessment and the issuance date of the internal control assessment report. According to the Measures on the Administration of Internal Control Assessment of the Company, after being aware of any major or material defects in internal control, the main responsible department or entity should make rectifications within the prescribed period and report them to the Board and the President Office. The Company will arrange for audit of such rectification to the defects, and hold those attributing to the defects accountable according to the extent of damage incurred to the Company.

The objectives of the Company's internal control are to reasonably ensure the lawfulness and compliance of its operation and management, security of the assets and the truthfulness and completeness of its financial statements and related information, to improve operating efficiency and performance and to achieve the development strategy. Due to its inherent limitations, internal control can only give reasonable but not absolute assurance for achieving such objectives. In addition, when reviewing the effectiveness of the operation of internal control, the Board can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has the Responsible Auditing Officer and internal audit bodies in place. The audit bodies include the Company's Auditing Department/Office of the Supervisory Committee, six Inspection and Auditing Centres and the Audit Departments of 36 provincial branches, which form an internal audit organisational framework featuring "coordination between the head office and the branches and management at different levels".

The Company has formulated the regulations for the administration of information disclosure, setting out the procedures for identification, handling and dissemination of inside information. All departments of the head office provide the Office of the Board with information, within the scope of their duties, which may need to be disclosed, and the Office of the Board is responsible for dealing with the specific information disclosure matters, including identification of inside information, submission of inside information to the Secretary of the Board, the President Office and the Directors for approval, and publication of inside information, etc. The Company organised regular trainings on information disclosure to shape awareness of information disclosure in compliance with laws and regulations, and enhance risk prevention, management and control involving information disclosure. The Company will impose disciplinary measures upon those who violate its information disclosure administration regulations.

## RISK MANAGEMENT

The Company believes that sound risk management is essential. By adhering to the basic risk management principles of "covering every aspect with focus on key areas, practising division of labour and cooperation, and adopting a closed-loop management system" and upholding the risk management objective of "operational compliance, effective management and control, asset safety, and sufficient capital", the Company has continued to improve the risk management system, improve its risk prevention and control ability, vigorously upheld the bottom line of abiding by laws and regulations and avoiding systematic risks, and managed to contain the operational risk within the scope of its risk preference, tolerance and limit. The Board is ultimately responsible for the completeness and effectiveness of the risk management system of the Company. The Board is committed to establishing a complete and effective risk management system, continuously paying close attention to and monitoring the effectiveness of the risk management, examining and approving the risk preference system, the organisational structure for risk management, the solutions to significant risks and the annual risk assessment reports of the Company, etc. The Risk Management and Investment Decision-making Committee under the Board is responsible for considering the risk management system, the annual risk assessment reports, risk assessment of major decisions and the solutions to significant risks as well as continuously reviewing, monitoring and assessing the effectiveness of the risk management system. The President Office and the Risk Compliance Committee under the President Office are responsible for guiding, coordinating and supervising the work of risk management, internal control and compliance. The President Office reviews the risk assessment reports on a quarterly basis, reports the Company's risk level and management situations to the Risk Management and Investment Decision-making Committee under the Board at least once a year and is subject to the Board's supervision. The functional departments of the Company bear primary responsibilities for the risk management, where the risk compliance department is responsible for the coordination, planning and organising the implementation of risk management, internal control and compliance before and during implementation, and the auditing department assesses the operation and operational effect of the risk management system at least once a year and monitors the implementation of risk management policies.

By resolutely implementing the working requirements on prevention and control of financial risks raised by the CPC's central committee and the "3411 Project" of PICC Group, the Company upholds a prudent and rational approach in the significant risk management, implements steady marketing, underwriting, reinsurance and investment policies, maintains the underwriting ability and solvency compatible to the business scale and development speed. In 2019, the Company saw stable and sound business development, achieved adequate solvency, maintained the comprehensive risk rating at a good level and kept the combined ratio better than the industrial average level and had not experienced any systematic risks affecting its operation and management.

In 2019, the Company continued to implement the regulatory requirements of "C-ROSS" of the CBIRC focused on the "3411 Project" and "Ten Key Initiatives" to push forward the transformation toward high quality development, emphasized the key points and stressed the implementation, consolidated our strengths and boosted areas of weakness, enhanced the overall risk prevention and control capabilities. **Firstly, the Company improved the risk management mechanism and system.** The Company formulated the work plan to enhance the risk prevention and control capabilities in major areas and promoted the implementation; improved the risk preference system and promoted the transmission and implementation to business units; improved the system of the Risk Compliance Committee and strengthened the operation. **Secondly, the Company strengthened the risk information system construction.** The Company improved the risk implementation information system to achieve list-level dynamic monitoring of key risk points in major areas; the institutions at all levels gradually used the system to carry out risk checks and risk data monitoring, and significantly increased the level of digitalisation, automation and professionalisation of risk prevention and control. **Thirdly, the Company intensified the risk checks and rectification.** The Company implemented self-inspection and rectification of insurance chaos required by the CBIRC, carried out compliance inspections in key areas and internal control assessments, the Company carried out inspections to check various risks relating to counterparties, illegal fund raising, credit and surety insurance business, and internet finance platform related business, and rectified the problems found in the inspection in a timely manner, in order to effectively prevent and eliminate any significant risks which may affect the Company's operation. **Fourthly, the Company continuously enhanced the risk monitoring, management and control.** The Company regularly carried out its C-ROSS solvency measurement, stress test and cash flow stress test; continuously focused on the implementation of risk preference, risk tolerance and amount limit, implemented dynamic tracking of the indicator change trend, and continuously enhanced the monitoring, management and control of seven categories of risks, including insurance risk, market risk, credit risk, liquidity risk, operational risk, strategic risk and reputation risk.

With a view to reviewing and continuously enhancing the effectiveness of the risk management system of the Company and its subsidiaries, the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2019 and considered that system was effective and sufficient.

## SUPERVISORY COMMITTEE

### *Overview*

During the Year, the Supervisory Committee discharged its supervisory duties strictly in accordance with the Company Law, the Articles of Association and relevant laws and regulations and in adherence to the principle of good faith, which effectively protected the interests of the shareholders, the Company and its employees.

### *Composition*

During the Year, the Supervisory Committee comprised:

| | |
|---|---|
| Chairman: | Jiang Caishi (Resigned on 12 March 2020) |
| Supervisors: | Li Zhuyong (Shareholder Representative Supervisor, retired), Wang Yadong (Shareholder Representative Supervisor), Lu Zhengfei (Independent Supervisor), Charlie Yucheng SHI* (Independent Supervisor), Li Fuhan* (Employee Representative Supervisor, resigned), Gao Hong* (Employee Representative Supervisor) |

Changes in the members of the Supervisory Committee during the period from 1 January 2019 to the date of this report are as follows:

At the Extraordinary General Meeting of the Company on 7 March 2019, Mr Jiang Caishi and Mr Wang Yadong were appointed as Supervisors of the fifth session of the Supervisory Committee. Mr Charlie Yucheng SHI was appointed as an Independent Supervisor of the fifth session of the Supervisory Committee. Mr Lu Zhengfei was re-elected as an Independent Supervisor of the fifth session of the Supervisory Committee. The terms of office of above-mentioned persons commence from the date of the formal appointment of the Company and end on the expiry of the term of the fifth session of the Supervisory Committee. Mr Jiang Caishi was elected as the Chairman of the fifth session of the Supervisory Committee on the same day, whose term of office is the same as his term of office as a Supervisor.

Mr Li Zhuyong retired as a Shareholder Representative Supervisor on 7 March 2019.

Mr Li Fuhan resigned as an Employee Representative Supervisor on 16 December 2019.

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

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

### *Duties and Responsibilities*

In accordance with the Company Law and the Articles of Association, the Supervisory Committee is accountable to the shareholders' general meeting. It performs duties of supervision over the financial affairs, directors and senior management of the Company, convenes and presides over shareholders' general meetings when the Board fails to perform its duties to convene and preside over any shareholders' general meeting, etc.

### *Summary of Work Undertaken*

During the Year, the Supervisory Committee carried out its work, performed its supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the Supervisory Committee held five meetings, at which eighteen proposals were considered and approved. The attendance record of the Supervisors at the meetings is as follows:

| Name | Jiang Caishi | Li Zhuyong | Wang Yadong | Lu Zhengfei | Charlie Yucheng SHI | Li Fuhan | Gao Hong |
|---|---|---|---|---|---|---|---|
| Number of meetings attended/Number of meetings that require attendance | 4/5 | 0/0 | 4/5 | 5/5 | 5/5 | 5/5 | 5/5 |
| Attendance rate | 80% | – | 80% | 100% | 100% | 100% | 100% |

*Notes:*

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

2. During the Year, Mr Jiang Caishi attended four meetings in person and one meeting by appointing Mr Li Fuhan as proxy to attend on his behalf; Mr Wang Yadong attended four meetings in person and one meeting by appointing Mr Li Fuhan as proxy to attend on his behalf.

Details of the work accomplished by the Supervisory Committee in the Year are set out in the "Report of the Supervisory Committee" section of this annual report.

## COMPANY SECRETARY

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

## RIGHTS OF SHAREHOLDERS

### *Methods of Convening Extraordinary General Meetings*

According to the Articles of Association and the Procedural Rules for Shareholders' General Meeting of the Company, any shareholder(s) individually or collectively, holding 10% or more of the voting shares of the Company may request in writing to convene an extraordinary general meeting and such shareholder(s) shall submit the complete proposed resolution(s) to the Board in writing. If the Board is satisfied that the proposed resolution(s) complies with the requirements under the laws and regulations and the Articles of Association, it shall issue a notice of extraordinary general meeting within fifteen days after receipt of the proposed resolution in writing.

### *Procedures for Proposing Resolutions at Annual General Meetings*

Any shareholder(s), individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose new resolution(s) and submit such proposed resolution(s) in writing to the Board ten days prior to the Annual General Meeting. The Board shall notify other shareholders of such proposed resolution(s) within two days after receipt of such proposal(s) and submit the same to the Annual General Meeting for consideration. The proposed resolution(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved. The proposed resolution(s) submitted by a shareholder to the Board shall be delivered in person or by registered mail to the Office of the Board according to the registered address listed in the inside back cover of this annual report.

## DIVIDEND POLICY

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

## INVESTORS RELATIONS

The Company focused on the maintenance of sound investors relations and maintained effective communication with investors through various means. The Company timely communicated its operating results and business development trends with investors after the announcements of the 2018 annual results and the 2019 interim results by way of results briefings and roadshows, among others, strengthening communication with investors and facilitating the understanding of the Company by investors. The Company also maintains sound communication with investors through accepting visits by investors, holding telephone conferences, attending major investment forums, by telephone and email, etc., and proactively providing information to investors on the Company's website, with a view to establishing and maintaining a good relationship with investors.

The Company appoints the office of the Board to act as the information inquiry department for investors, which can be contacted by telephone, fax, e-mail, mail, etc. For contact details, please see the telephone number, fax number, e-mail address and registered address of the Company listed in the inside back cover of this annual report. On the Company's website www.epicc.com.cn, there is a section titled "Investors Relations", in which the information is updated on a regular basis.

## PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the Annual General Meeting held at PICC Building, No. 88 Xichang'an Street, Xicheng District, Beijing, the PRC on 21 June 2019, at which the following proposals and reports were considered and reviewed, including the Report of the Board for 2018, the Report of the Supervisory Committee for 2018, the Auditor's Report and the audited financial statements for 2018, the profit distribution plan for 2018, the proposals for the fees of the Directors and Supervisors for 2019, re-appoint of the auditors, general authorization to the Board for secondary public offering and approval for the issuance of RMB8 billion capital supplementary bonds, report on performance of the Directors for 2018, report on the related party transactions for 2018 and report on the implementation of related party transaction management system for 2018. Relevant resolutions were passed at the Annual General Meeting by way of poll. Details are set out in the circular of the Company dated 7 May 2019 and the poll results of the Annual General Meeting dated 21 June 2019.

# Independent Auditor's Report

**TO THE SHAREHOLDERS OF**
**PICC PROPERTY AND CASUALTY COMPANY LIMITED**
*(A joint stock company incorporated in the People's Republic of China with limited liability)*

## OPINION

We have audited the consolidated financial statements of PICC Property and Casualty Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 229 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of insurance contract liabilities** | |
| We identified the valuation of insurance contract liabilities as a key audit matter as the estimation of insurance contract liabilities involves a significant degree of judgement.<br><br>The Group recorded insurance contract liabilities of RMB305,140 million as at 31 December 2019.<br><br>Insurance contract liabilities comprised unearned premium reserves and loss and loss adjustment expense reserves. Unearned premium reserves represent premiums received for risks that have not yet expired, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. Loss and loss adjustment expense reserves are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, the related claims handling costs, together with a risk margin to reflect the related uncertainty. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. Small changes in these assumptions could result in material changes to the amount of loss and loss adjustment expense reserves.<br><br>Details of the insurance contract liabilities are set out in note 36 to the consolidated financial statements. | Our procedures in relation to the valuation of insurance contract liabilities included:<br><br>• Testing and evaluating the key controls relevant to our audit of the estimation of insurance contract liabilities;<br><br>• Testing the policy data input into the actuarial models and the related supporting documents;<br><br>• With the assistance of actuarial specialists:<br><br>– Comparing the methodology, models and assumptions used against recognised actuarial practices to assess their reasonableness;<br><br>– Performing independent projections on insurance contract liabilities, and comparing our projected reserves to those recorded by the management to assess their reasonableness;<br><br>– Performing independent testing on the liability adequacy for unearned premium reserves; and<br><br>– Reviewing the appropriateness of the results of the Group's retrospective analysis for loss and loss adjustment expense reserves. |

## KEY AUDIT MATTERS *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of financial assets** | |
| We identified the impairment of financial assets as a key audit matter as the Group applied significant judgement to determine whether impairment indicator exists. This included for available-for-sale equity instruments and mutual funds, judging whether any decline of fair value below cost is "significant" or "prolonged", and for financial assets measured at amortised cost, judging whether objective evidence of impairment exists. Significant accounting estimates are also involved in determining the present values of expected future cash flows, or the fair values measured by using significant unobservable inputs.<br><br>As at 31 December 2019, the Group held debt securities of RMB149,072 million, equity securities and mutual funds of RMB91,728 million, net insurance receivables of RMB53,593 million and investments classified as loans and receivables of RMB67,391 million. Impairment losses of RMB706 million and RMB233 million respectively were recorded for available-for-sale financial assets and insurance receivables for the current year.<br><br>Details of these financial assets and key estimation uncertainties of their impairment are disclosed in note 18, note 19, note 20, note 23 and note 3 to the consolidated financial statements, respectively. | Our procedures in relation to impairment of financial assets included:<br><br>• Testing and evaluating the key controls relevant to our audit on the identification of financial assets with evidence of impairment;<br><br>• Testing the financial assets data to supporting documents on a sample basis;<br><br>• For financial assets that have evidence of impairment, reviewing the impairment assessment and recalculating the impairment amounts provided by management;<br><br>• For financial assets measured at amortised cost, checking whether any evidence of impairment exists, including financial difficulties experienced by the issuers of the financial assets, default on repayment or delinquency on principal or interests; and<br><br>• For available-for-sale equity instruments and mutual funds, checking whether the judgment on "significant" or "prolonged" decline of fair value below cost is appropriate and consistently applied. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
27 March 2020

# Consolidated Income Statement

For the year ended 31 December 2019

| | Notes | 2019 RMB million | 2018 RMB million |
|---|---|---|---|
| **GROSS WRITTEN PREMIUMS** | 5 | **433,175** | 388,769 |
| Net earned premiums | 5 | **380,683** | 344,124 |
| Net claims incurred | 6 | **(251,822)** | (213,303) |
| Net policy acquisition costs | 7 | **(77,943)** | (90,508) |
| Other underwriting expenses | | **(38,400)** | (26,820) |
| Administrative expenses | | **(9,341)** | (8,189) |
| **UNDERWRITING PROFIT** | | **3,177** | 5,304 |
| Investment income | 8 | **16,986** | 16,635 |
| Net realised and unrealised gains/(losses) on investments | 9 | **733** | (1,226) |
| Investment related expenses | | **(370)** | (319) |
| Interest expenses credited to policyholders' deposits | | **–** | (1) |
| Exchange gains, net | | **77** | 213 |
| Other income, net | | **354** | 1,151 |
| Finance costs | 10 | **(1,424)** | (2,074) |
| Share of profits or losses of associates and joint venture | | **4,250** | 4,482 |
| Loss on deemed disposal of an associate | 24 | **–** | (737) |
| **PROFIT BEFORE TAX** | 11 | **23,783** | 23,428 |
| Income tax credit/(expense) | 12 | **496** | (7,942) |
| **PROFIT FOR THE YEAR** | | **24,279** | 15,486 |
| Attributable to | | | |
| – Owners of the Company | | **24,282** | 15,485 |
| – Non-controlling interests | | **(3)** | 1 |
| | | **24,279** | 15,486 |
| **BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (in RMB Yuan)** | 15 | **1.092** | 0.696 |

# Consolidated Statement of Comprehensive Income

**For the year ended 31 December 2019**

| | Notes | **2019**<br>***RMB million*** | 2018<br>*RMB million* |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | 24,279 | 15,486 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Available-for-sale financial assets | | | |
| – Fair value gains/(losses) | | 14,859 | (4,673) |
| – Reclassification of (gains)/losses to profit or loss on disposals | | (1,367) | 531 |
| – Impairment losses | *9* | 706 | 636 |
| Income tax effect | *30* | (3,549) | 877 |
| | | 10,649 | (2,629) |
| Share of other comprehensive income of associates and joint venture | | 898 | 359 |
| **NET OTHER COMPREHENSIVE INCOME/(EXPENSE) THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | 11,547 | (2,270) |
| Items that will not be reclassified to profit or loss: | | | |
| Gains on revaluation of properties and right-of-use assets/prepaid land premiums upon transfer to investment properties | | 232 | 247 |
| Income tax effect | *30* | (58) | (62) |
| **NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | 174 | 185 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX** | | 11,721 | (2,085) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 36,000 | 13,401 |
| Total comprehensive income attributable to | | | |
| – Owners of the Company | | 36,003 | 13,400 |
| – Non-controlling interests | | (3) | 1 |
| | | 36,000 | 13,401 |

# Consolidated Statement of Financial Position

**At 31 December 2019**

| | Notes | 31 December 2019 RMB million | 31 December 2018 RMB million |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 17 | **32,520** | 33,797 |
| Debt securities | 18 | **149,072** | 143,499 |
| Equity securities and mutual funds | 19 | **91,728** | 74,102 |
| Insurance receivables, net | 20 | **53,593** | 42,421 |
| Reinsurance assets | 21 | **30,321** | 28,565 |
| Term deposits | 22 | **64,398** | 73,963 |
| Investments classified as loans and receivables | 23 | **67,391** | 54,097 |
| Investments in associates and joint venture | 24 | **50,477** | 45,301 |
| Investment properties | 26 | **4,598** | 4,881 |
| Property and equipment | 27 | **18,086** | 17,235 |
| Right-of-use assets | 28 | **5,863** | – |
| Prepaid land premiums | 29 | **–** | 2,845 |
| Deferred tax assets | 30 | **5,121** | 6,779 |
| Prepayments and other assets | 31 | **22,913** | 23,134 |
| **TOTAL ASSETS** | | **596,081** | 550,619 |
| **LIABILITIES** | | | |
| Payables to reinsurers | 33 | **19,449** | 15,706 |
| Accrued insurance security fund | 34 | **1,076** | 1,026 |
| Securities sold under agreements to repurchase | 35 | **16,759** | 27,999 |
| Income tax payable | | **96** | 3,109 |
| Insurance contract liabilities | 36 | **305,140** | 275,781 |
| Policyholders' deposits | 37 | **1,762** | 1,956 |
| Bonds payable | 38 | **15,198** | 23,420 |
| Lease liabilities | 39 | **2,198** | – |
| Accruals and other liabilities | 40 | **64,449** | 60,119 |
| **TOTAL LIABILITIES** | | **426,127** | 409,116 |
| **EQUITY** | | | |
| Issued capital | 41 | **22,242** | 22,242 |
| Reserves | | **147,711** | 119,253 |
| Equity attributable to owners of the Company | | **169,953** | 141,495 |
| Non-controlling interests | | **1** | 8 |
| **TOTAL EQUITY** | | **169,954** | 141,503 |
| **TOTAL EQUITY AND LIABILITIES** | | **596,081** | 550,619 |

# Consolidated Statement of Changes in Equity

**For the year ended 31 December 2019**

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

* The consolidated reserves of RMB147,711 million in the consolidated statement of financial position as at 31 December 2019 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

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

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital *RMB million* | Share premium account *RMB million* | Asset revaluation reserve** *RMB million* | Available-for-sale investment revaluation reserve *RMB million* | Surplus reserve*** *RMB million* | General risk reserve *RMB million* | Agriculture catastrophic loss reserve *RMB million* | Share of other comprehensive (expense)/income of associates and joint venture *RMB million* | Retained profits *RMB million* | Sub-total *RMB million* | Non–controlling interests *RMB million* | Total equity *RMB million* |
| Balance at 1 January 2018 | 14,828 | 18,986* | 3,017* | 6,191* | 34,585* | 11,308* | 2,471* | (552)* | 42,273* | 133,107 | 7 | 133,114 |
| Profit for the year | – | – | – | – | – | – | – | – | 15,485 | 15,485 | 1 | 15,486 |
| Other comprehensive income/(expense) | – | – | 185 | (2,629) | – | – | – | 359 | – | (2,085) | – | (2,085) |
| Total comprehensive income/(expense) | – | – | 185 | (2,629) | – | – | – | 359 | 15,485 | 13,400 | 1 | 13,401 |
| Appropriations to statutory surplus reserve and general risk reserve | – | – | – | – | 1,627 | 1,627 | – | – | (3,254) | – | – | – |
| Appropriations to discretionary surplus reserve**** | – | – | – | – | 6,000 | – | – | – | (6,000) | – | – | – |
| Appropriations to agriculture catastrophic loss reserve | – | – | – | – | – | – | 279 | – | (279) | – | – | – |
| Utilisation of agriculture catastrophic loss reserve | – | – | – | – | – | – | (279) | – | 279 | – | – | – |
| Conversion from share premium account to issued capital**** | 7,414 | (7,414) | – | – | – | – | – | – | – | – | – | – |
| 2017 final dividend**** | – | – | – | – | – | – | – | – | (5,012) | (5,012) | – | (5,012) |
| Balance at 31 December 2018 | 22,242 | 11,572* | 3,202* | 3,562* | 42,212* | 12,935* | 2,471* | (193)* | 43,492* | 141,495 | 8 | 141,503 |

* The consolidated reserves of RMB119,253 million in the consolidated statement of financial position as at 31 December 2018 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 22 June 2018, the shareholders of the Company at a general meeting approved a final dividend of RMB0.338 per ordinary share totalling RMB5,012 million for the year ended 31 December 2017, an amount of RMB6,000 million to be appropriated to discretionary surplus reserve, and a conversion of RMB7,414 million from share premium account to issued capital on the basis of 5 shares for every 10 existing shares.

# Consolidated Statement of Cash Flows

**For the year ended 31 December 2019**

| | Notes | 2019 RMB million | 2018 RMB million |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **23,783** | 23,428 |
| Adjustments for: | | | |
| Investment income | 8 | **(16,986)** | (16,635) |
| Net realised and unrealised (gains)/losses on investments | 9 | **(733)** | 1,226 |
| Interest expenses credited to policyholders' deposits | | **–** | 1 |
| Exchange gains, net | | **(77)** | (213) |
| Share of profits or losses of associates and joint venture | | **(4,250)** | (4,482) |
| Loss on deemed disposal of an associate | | **–** | 737 |
| Depreciation of property and equipment | 11, 27 | **1,884** | 1,678 |
| Depreciation of right-of-use assets | 11, 28 | **1,102** | – |
| Amortisation of prepaid land premiums | 11, 29 | **–** | 170 |
| Net gains on disposal of items of property and equipment | 11 | **(34)** | (71) |
| Finance costs | 10 | **1,424** | 2,074 |
| Investment related expenses | | **370** | 319 |
| Provision for/(reversal of) impairment losses on insurance receivables | 11, 20 | **233** | (367) |
| Reversal of impairment losses on prepayments and other assets | 11 | **(99)** | (87) |
| Operating cash flows before working capital changes | | **6,617** | 7,778 |
| Changes in working capital: | | | |
| Increase in insurance receivables | | **(11,405)** | (4,274) |
| Decrease in policyholders' deposits | | **(194)** | (340) |
| Decrease/(increase) in other assets | | **142** | (1,183) |
| Increase/(decrease) in payables to reinsurers | | **3,743** | (1,613) |
| Increase in accrued insurance security fund | | **50** | 68 |
| Increase in accruals and other liabilities | | **3,755** | 5,518 |
| Increase in insurance contract liabilities, net | | **27,603** | 11,878 |
| Cash generated from operations | | **30,311** | 17,832 |
| Income tax paid | | **(4,466)** | (7,953) |
| Net cash flows from operating activities | | **25,845** | 9,879 |

| | Note | 2019 RMB million | 2018 RMB million |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **13,987** | 14,312 |
| Rental income received from investment properties | | **275** | 247 |
| Dividend income received from equity securities and mutual funds | | **2,684** | 2,343 |
| Payment for capital expenditure | | **(3,813)** | (4,177) |
| Proceeds from disposal of items of property and equipment | | **84** | 169 |
| Payment for acquisition of subsidiaries | | **(8)** | – |
| Payment for acquisition/capital increase of associates and joint venture | | **(2,077)** | (98) |
| Payment for purchase of debt securities, equity securities and mutual funds | | **(89,583)** | (70,376) |
| Payment for purchase of investments classified as loans and receivables | | **(22,305)** | (10,657) |
| Dividend income received from associates | | **715** | 734 |
| Proceeds from sale of debt securities, equity securities and mutual funds | | **82,406** | 65,177 |
| Proceeds from maturity of investments classified as loans and receivables | | **9,011** | 7,740 |
| Decrease/(increase)in term deposits, net | | **9,565** | (12,663) |
| Increase in capital security fund | | **–** | (1,483) |
| Net cash flows from/(used in) investing activities | | **941** | (8,732) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment for redemption of bonds payable | 46 | **(8,000)** | – |
| (Decrease)/increase in securities sold under agreements to repurchase, net | 46 | **(11,240)** | 4,878 |
| Interest paid | 46 | **(1,661)** | (1,904) |
| Dividends paid | | **(6,050)** | (5,012) |
| Repayments of lease liabilities | 46 | **(1,112)** | – |
| Net cash flows used in financing activities | | **(28,063)** | (2,038) |

| | Note | 2019<br>RMB million | 2018<br>RMB million |
|---|---|---|---|
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(1,277)** | (891) |
| Cash and cash equivalents at beginning of the year | | **33,797** | 34,688 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | *17* | **32,520** | 33,797 |
| Analysis of balances of cash and cash equivalents | | | |
| Demand deposits and deposits with banks with original maturity of no more than three months | *17* | **13,704** | 16,508 |
| Securities purchased under resale agreements with original maturity of no more than three months | *17* | **18,816** | 17,289 |
| Cash and cash equivalents at end of the year | | **32,520** | 33,797 |

# Notes To The Consolidated Financial Statements

**For the year ended 31 December 2019**

## 1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at Tower 2, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, the PRC. The Company is listed on The Stock Exchange of Hong Kong Limited. The parent and the ultimate holding company of the Company is The People's Insurance Company (Group) of China Limited (the "PICC Group"), which is incorporated in the PRC and listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

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

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

## 2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

## 2.2 BASIS OF PREPARATION

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

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

## 2.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK (IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

Except as described below, the application of the above new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17") and the related interpretations.

#### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### *As a lessee*

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition, with no impact on retained profits on 1 January 2019. Comparative information has not been restated as permitted under the specific transitional provisions in HKFRS 16.

## 2.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(continued)*

### HKFRS 16 Leases *(continued)*

*As a lessee (continued)*

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised right-of-use assets of RMB5,649 million and lease liabilities of RMB2,733 million at 1 January 2019. Prepaid rent of RMB71 million and prepaid land premiums of RMB2,845 million were included in the right-of-use assets on 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the group entities ranged from 4.03% to 4.61% for different lease terms.

*As a lessor*

The application of HKFRS 16 has had no material impact on the Group's consolidated financial statements.

## 2.4 NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 3 | Definition of a Business[3] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[6] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[6] |

1 Effective for annual periods beginning on or after 1 January 2018, except for entities engaging predominantly in insurance activities and opt for deferral/overlay approach as permitted by Amendments to HKFRS 4 – Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after 1 January 2019, or the annual period in which the Group first adopts HKFRS 9, whichever the later.

5 Effective for annual periods beginning on or after a date to be determined.

6 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

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

### HKFRS 9 – Financial Instruments

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

Key requirements of HKFRS 9:

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

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

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

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

### HKFRS 9 – Financial Instruments *(continued)*

Based on the Group's financial instruments and risk management policies as at 31 December 2019, the following principal impacts to the consolidated financial statements on initial application of HKFRS 9 are expected:

*Classification and measurement*

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

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

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

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

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

### HKFRS 9 – Financial Instruments *(continued)*

*Impairment*

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

### HKFRS 17 – Insurance Contracts

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

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

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

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

The standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. The International Accounting Standards Board ("IASB") proposed a two year deferral of the effective date for IFRS 17 and extend the temporary exemption for insurers to apply IFRS 9 Financial Instruments. The relevant amendments have not been finalised yet. Finalisation of the relevant amendments by the IASB is expected to have similar deferral on HKFRS 17 (the equivalent of IFRS 17).

The directors of the Company anticipate that the new standard will result in an important change to the accounting policies for insurance contracts and is likely to have a material impact on the Group's profit and financial position, together with significant changes in presentation and disclosure. In order to adopt HKFRS 17 in the consolidated financial statements, a HKFRS 17 implementation workgroup comprised of various functions (Finance, Actuarial, Risk, IT and Operations) has been operating since 2018. The Company is in the process of assessing the impact of HKFRS 17. As of 31 December 2019, it was not practicable to quantify the potential impact on the Group's financial position or performance of applying HKFRS 17.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Basis of consolidation *(continued)*

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

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

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

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

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

*Changes in the Group's ownership interests in existing subsidiaries*

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates and joint venture

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates and joint venture *(continued)*

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

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

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

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

### Cash and cash equivalents

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

### Financial assets

*Initial recognition and measurement*

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

#### *Subsequent measurement*

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

#### Financial assets at fair value through profit or loss

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

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

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

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

#### Loans and receivables

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

***Subsequent measurement** (continued)*

#### Held-to-maturity investments

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

#### Available-for-sale financial assets

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

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

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

***Effective interest method***

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets

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

*Financial assets carried at amortised cost*

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

#### *Assets carried at cost*

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

#### *Available-for-sale financial assets*

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial assets

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

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

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

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

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

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

### Financial liabilities

*Initial recognition and measurement*

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities *(continued)*

***Subsequent measurement***

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

#### Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

***Effective interest method***

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities *(continued)*

#### *Derecognition of financial liabilities*

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

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

#### *Offsetting a financial asset and a financial liability*

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

### Financial guarantee contracts

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

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

### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before applications of HKFRS 16) Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

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

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment properties

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property and equipment and depreciation

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, other than construction in progress, to its residual value over its estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for this purpose are as follows:

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of non-financial assets

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

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

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

### Insurance contracts

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Significant insurance risk testing

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

### Insurance receivables

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

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

### Insurance contract liabilities

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

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

The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as commission expenses, underwriting personnel expenses, tax and other surcharges, insurance security fund and other incremental costs are recorded as expenses in profit or loss against an equal and opposite amount of premium being recognised as revenue. Subsequent to the initial recognition, the unearned premium reserves are released over the term of the contract and are primarily earned on a 365-day basis. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Insurance contract liabilities *(continued)*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. If current estimates of the present value of the expected future claims and loss adjustment expenses in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty associated with the future net cash flows, exceed the unearned premium reserves, then the unearned premium reserves are deemed to be deficient. The resulting deficiency is recognised immediately through profit or loss. The risk margin for the tests described above is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark.

Loss and loss adjustment expense reserves include incurred and reported reserves, incurred but not reported ("IBNR") reserves and loss adjustment expense reserves.

Loss and loss adjustment expense reserves are established for the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries, plus a risk margin. Delays can be experienced in notification and settlement of certain types of claims, and therefore the ultimate cost of these claims cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial projection techniques, based on empirical data and current assumptions. Risk margin is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. Adjustments to the liabilities at the end of each reporting period are recorded in profit or loss.

#### *Derecognition of insurance contract liabilities*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Reinsurance

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

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

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

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

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

#### *Gross premiums*

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

#### *Investment income*

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

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

#### *Rental income*

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

### Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation

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

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

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

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

### Related parties

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

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Provisions

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

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

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

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

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

### Employee benefits

#### *Retirement benefit costs and termination benefits*

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance. The Group has made annuity contributions in proportion to its employees' wages.

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

#### *Short-term and other long-term employee benefits*

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits *(continued)*

#### *Share-based payments*

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

### Leases

#### *Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2.3)*

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

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

#### *The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2.3)*

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

##### Short-term leases and leases of low-value assets

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases *(continued)*

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2.3) (continued)***

#### Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases *(continued)*

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2.3) (continued)*

#### Lease liabilities

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

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

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

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

*As a lessee (prior to 1 January 2019)*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land premiums" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

*As a lessor*

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Profit appropriation

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

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

According to the relevant regulations of the PRC, the Company is required to make appropriations to the agriculture catastrophic loss reserve when the agriculture insurance business achieves annual or accumulated excessive underwriting profits determined in accordance with PRC GAAP. This agriculture catastrophic loss reserve cannot be used for dividend distribution or conversion to capital.

### Dividends

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

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### Critical judgements in applying accounting policies

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

#### *Product classification*

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

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

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

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

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

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

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

### Critical judgements in applying accounting policies *(continued)*

#### *Consolidations of structured entities*

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

#### *Impairment assessment on investments in associates*

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

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

### Key sources of estimation uncertainty

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

*Valuation of insurance contract liabilities*

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

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

- For insurance contracts under which the future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of yield curve of China's treasury bonds published by China Central Depository and Clearing Co., Ltd., with consideration of tax effect and illiquidity premiums. In consideration of the different duration of each line of business, the Group used premiums of 95 – 106 basis points as at 31 December 2019 (31 December 2018: 84 – 104 basis points). The discount rates of the different duration used as at 31 December 2019 were 3.8% – 4.3% (31 December 2018: 3.7% – 4.1%).

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

| Type | 2019 | 2018 |
|---|---|---|
| Agriculture insurance | **33.8%** | 33.8% |
| Motor vehicle insurance | **3%** | 3% |
| Health insurance | **3%** | 6% |
| Other insurance | **6%** | 6% |

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

| Type | 2019 | 2018 |
|---|---|---|
| Agriculture insurance | **33.3%** | 33.3% |
| Motor vehicle insurance | **2.5%** | 2.5% |
| Health insurance | **2.5%** | 5.5% |
| Other insurance | **5.5%** | 5.5% |

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

## Key sources of estimation uncertainty *(continued)*

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

The China Banking and Insurance Regulatory Commission (the "CBIRC") issued a new health insurance business management rule which has been implemented since 1 December 2019. According to the rule, the Group separately calculated the risk margin for health business based on its historical data and experiences. As a result of the separate assessment, risk margin assumptions for unearned premium reserve and loss and loss adjustment expense reserve have been revised to 3% and 2.5% (2018: 6% and 5.5%) respectively, leading to a RMB505 million decrease in the insurance contract liabilities.

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

Management is of the opinion that as at the end of the reporting period, loss and loss adjustment expense reserves are sufficient to cover all incurred events to date but cannot guarantee there is no under-provision or over-provision of the reserve, which is an estimate of the ultimate losses. The term and assumptions of insurance contract liabilities and development of claims are set out in note 45(a).

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

### Key sources of estimation uncertainty *(continued)*

***Impairment of financial assets***

**Financial assets measured at amortised cost**

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

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

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

**Available-for-sale financial assets**

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

***Fair values of financial assets determined using valuation techniques***

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities, correlations and earnings require management to make estimates. Fair values of financial assets, their hierarchy, valuation techniques and key inputs are disclosed in note 42 to these consolidated financial statements.

## 4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of performance assessment. Segment performance is evaluated based on reportable segment result, in which insurance business income and expense (for segments (a) to (h)) is a measure of underwriting profit/loss and corporate business income and expense (for segment (i)), primarily investment related income and expense, is a measure of profit for the year excluding underwriting profit/loss. Income tax expense is not further allocated but assigned to corporate business segment.

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

Geographical information is not presented as all of the Group's customers, business, assets and liabilities are located and operations are mainly carried out in the PRC for relevant entities. No inter-segment transactions occurred in 2019 and 2018.

In 2019 and 2018, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

## 4. OPERATING SEGMENT INFORMATION *(continued)*

The segment income statements for the years ended 31 December 2019 and 2018 are as follows:

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

## 4. OPERATING SEGMENT INFORMATION *(continued)*

The segment income statements for the years ended 31 December 2019 and 2018 are as follows: (continued)

| | Insurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | Motor vehicle *RMB million* | Commercial property *RMB million* | Cargo *RMB million* | Liability *RMB million* | Accidental injury and health *RMB million* | Agriculture *RMB million* | Credit and surety *RMB million* | Others *RMB million* | Corporate *RMB million* | Total *RMB million* |
| Gross written premiums | 258,904 | 13,413 | 3,864 | 21,706 | 40,444 | 26,718 | 11,575 | 12,145 | – | 388,769 |
| Net earned premiums | 249,111 | 7,957 | 2,801 | 15,086 | 34,038 | 22,655 | 5,969 | 6,507 | – | 344,124 |
| Net claims incurred | (142,476) | (5,475) | (1,503) | (8,829) | (30,348) | (16,534) | (3,591) | (4,547) | – | (213,303) |
| Net policy acquisition costs | (78,019) | (2,054) | (684) | (3,575) | (2,116) | (1,251) | (1,657) | (1,152) | – | (90,508) |
| Other underwriting expenses | (18,970) | (840) | (211) | (1,268) | (1,069) | (3,242) | (273) | (947) | – | (26,820) |
| Administrative expenses | (5,752) | (352) | (141) | (502) | (321) | (674) | (263) | (184) | – | (8,189) |
| Underwriting profit/(loss) | 3,894 | (764) | 262 | 912 | 184 | 954 | 185 | (323) | – | 5,304 |
| Investment income | – | – | – | – | – | – | – | – | 16,635 | 16,635 |
| Net realised and unrealised losses on investments | – | – | – | – | – | – | – | – | (1,226) | (1,226) |
| Investment related expenses | – | – | – | – | – | – | – | – | (319) | (319) |
| Interest expenses credited to policyholders' deposits | – | – | – | – | – | – | – | (1) | – | (1) |
| Exchange gains, net | – | – | – | – | – | – | – | – | 213 | 213 |
| Other income, net | – | – | – | – | – | – | – | – | 1,151 | 1,151 |
| Finance costs | – | – | – | – | – | – | – | – | (2,074) | (2,074) |
| Share of profits or losses of associates and joint venture | – | – | – | – | – | – | – | – | 4,482 | 4,482 |
| Loss on deemed disposal of an associate | – | – | – | – | – | – | – | – | (737) | (737) |
| Profit/(loss) before tax | 3,894 | (764) | 262 | 912 | 184 | 954 | 185 | (324) | 18,125 | 23,428 |
| Income tax expense | – | – | – | – | – | – | – | – | (7,942) | (7,942) |
| Profit/(loss) for the year – segment results | 3,894 | (764) | 262 | 912 | 184 | 954 | 185 | (324) | 10,183 | 15,486 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets and liabilities of the Group as at 31 December 2019 and 2018 and other segment information for the years then ended are as follows:

| | Insurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2019** | **Motor vehicle** ***RMB million*** | **Commercial property** ***RMB million*** | **Cargo** ***RMB million*** | **Liability** ***RMB million*** | **Accidental injury and health** ***RMB million*** | **Agriculture** ***RMB million*** | **Credit and surety** ***RMB million*** | **Others** ***RMB million*** | **Corporate** ***RMB million*** | **Total** ***RMB million*** |
| Segment assets | **8,371** | **9,826** | **1,424** | **10,735** | **10,712** | **12,161** | **16,023** | **17,978** | **508,851** | **596,081** |
| Segment liabilities | **212,576** | **19,204** | **3,495** | **29,034** | **29,213** | **16,781** | **23,983** | **24,682** | **67,159** | **426,127** |
| Other segment information: | | | | | | | | | | |
| Capital expenditures | **2,314** | **134** | **35** | **240** | **507** | **271** | **200** | **112** | **–** | **3,813** |
| Depreciation and amortisation | **2,081** | **120** | **31** | **215** | **456** | **244** | **180** | **100** | **–** | **3,427** |
| Provision for/(reversal of) impairment losses on insurance receivables, prepayments and other assets | **8** | **24** | **(9)** | **(10)** | **10** | **45** | **51** | **15** | **–** | **134** |
| Interest income | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **14,027** | **14,027** |

| | Insurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 31 December 2018 | Motor vehicle *RMB million* | Commercial property *RMB million* | Cargo *RMB million* | Liability *RMB million* | Accidental injury and health *RMB million* | Agriculture *RMB million* | Credit and surety *RMB million* | Others *RMB million* | Corporate *RMB million* | Total *RMB million* |
| Segment assets | 9,758 | 8,891 | 1,421 | 9,536 | 10,319 | 7,272 | 11,385 | 16,213 | 475,824 | 550,619 |
| Segment liabilities | 208,558 | 17,195 | 3,269 | 23,763 | 24,341 | 14,569 | 11,732 | 22,658 | 83,031 | 409,116 |
| Other segment information: | | | | | | | | | | |
| Capital expenditures | 2,782 | 144 | 42 | 233 | 435 | 287 | 124 | 130 | – | 4,177 |
| Depreciation and amortisation | 1,470 | 76 | 22 | 123 | 230 | 152 | 66 | 68 | – | 2,207 |
| (Reversal of)/provision for impairment losses on insurance receivables, prepayments and other assets | (2) | (20) | (15) | 43 | (148) | (187) | 99 | (224) | – | (454) |
| Interest income | – | – | – | – | – | – | – | – | 14,028 | 14,028 |

## 5. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| **Gross written premiums** | | |
| Direct written premiums | **431,724** | 388,020 |
| Reinsurance premiums assumed | **1,451** | 749 |
| | **433,175** | 388,769 |
| **Net earned premiums** | | |
| Gross written premiums | **433,175** | 388,769 |
| Reinsurance premiums ceded | **(35,159)** | (31,410) |
| Net written premiums | **398,016** | 357,359 |
| Gross change in unearned premium reserves | **(18,161)** | (14,242) |
| Reinsurer's share of change in unearned premium reserves | **828** | 1,007 |
| Net change in unearned premium reserves | **(17,333)** | (13,235) |
| Net earned premiums | **380,683** | 344,124 |

## 6. NET CLAIMS INCURRED

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Gross claims paid | **263,572** | 232,759 |
| Paid losses recoverable from reinsurers | **(22,020)** | (18,099) |
| Net claims paid | **241,552** | 214,660 |
| Gross change in loss and loss adjustment expense reserves | **11,198** | (3,209) |
| Reinsurer's share of change in loss and loss adjustment expense reserves | **(928)** | 1,852 |
| Net change in loss and loss adjustment expense reserves | **10,270** | (1,357) |
| Net claims incurred | **251,822** | 213,303 |

## 7. NET POLICY ACQUISITION COSTS

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Commission expenses | **55,042** | 74,036 |
| Less: Reinsurance commission income | **(10,143)** | (9,859) |
| Underwriting personnel expenses | **25,334** | 21,049 |
| Taxes and other surcharges | **1,210** | 1,379 |
| Contributions to insurance security fund (note 34) | **3,205** | 2,964 |
| Others | **3,295** | 939 |
| | **77,943** | 90,508 |

## 8. INVESTMENT INCOME

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Operating lease income from investment properties | **275** | 247 |
| Interest income from: | | |
| Current and term deposits | **3,816** | 4,161 |
| Debt securities | | |
| – Held-to-maturity | **2,223** | 2,103 |
| – Available-for-sale | **4,279** | 4,721 |
| – At fair value through profit or loss | **227** | 70 |
| Investments classified as loans and receivables | **3,482** | 2,973 |
| | **14,027** | 14,028 |
| Dividend income from equity securities and mutual funds: | | |
| – Available-for-sale | **2,533** | 2,257 |
| – At fair value through profit or loss | **151** | 103 |
| | **2,684** | 2,360 |
| | **16,986** | 16,635 |

## 9. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Realised gains/(losses) from: | | |
| Debt securities | | |
| – Available-for-sale | **149** | 277 |
| – At fair value through profit or loss | **15** | 26 |
| Equity securities and mutual funds | | |
| – Available-for-sale | **1,218** | (808) |
| – At fair value through profit or loss | **21** | (255) |
| | **1,403** | (760) |
| Unrealised gains from: | | |
| Debt securities classified as fair value through profit or loss | **67** | 61 |
| Equity securities and mutual funds classified as fair value through profit or loss | **45** | 4 |
| | **112** | 65 |
| Impairment losses on equity securities and mutual funds classified as available-for-sale (note 19) | **(706)** | (636) |
| Fair value (losses)/gains on investment properties (note 26) | **(76)** | 105 |
| | **733** | (1,226) |

## 10. FINANCE COSTS

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Interest on bonds payable | **697** | 1,165 |
| Interest on securities sold under agreements to repurchase | **599** | 855 |
| Interest on lease liabilities | **89** | – |
| Others | **39** | 54 |
| | **1,424** | 2,074 |

## 11. PROFIT BEFORE TAX

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

| | | **2019** | 2018 |
|---|---|---|---|
| | *Notes* | ***RMB million*** | RMB million |
| Depreciation of property and equipment | *27* | **1,884** | 1,678 |
| Depreciation of right-of-use assets | *28* | **1,102** | – |
| Amortisation of prepaid land premiums | *29* | **–** | 170 |
| Employee expenses (including directors', supervisors' and senior management's remunerations) | | | |
| – Salaries, allowances and performance related bonuses | | **38,785** | 34,373 |
| – Pension scheme contributions | | **4,093** | 3,666 |
| Provision for/(reversal of) impairment losses on insurance receivables | *20* | **233** | (367) |
| Reversal of impairment losses on prepayments and other assets | | **(99)** | (87) |
| Net gains on disposal of items of property and equipment | | **(34)** | (71) |
| Auditors' remuneration | | **17** | 17 |

## 12. INCOME TAX (CREDIT)/EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2018: 25%) in accordance with the relevant PRC income tax rules and regulations.

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Current tax | **5,683** | 6,658 |
| Adjustments in respect of prior years | **(4,230)** | 8 |
| Deferred tax (note 30) | **(1,949)** | 1,276 |
| Total | **(496)** | 7,942 |

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Profit before tax | **23,783** | 23,428 |
| Tax at the statutory tax rate of 25% (2018: 25%) | **5,946** | 5,857 |
| Income not subject to tax | **(2,362)** | (2,271) |
| Expenses not deductible for tax (note) | **150** | 4,348 |
| Adjustments in respect of prior years | **(4,230)** | 8 |
| Tax charge at the Group's effective tax rate | **(496)** | 7,942 |

Note:

For the year ended 31 December 2018, expenses not deductible for tax purpose mainly included the portion of commission expenses that exceeded the allowed limits.

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

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

## (a) Directors and supervisors

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

| 2019 | Fees *RMB'000* | Salaries and allowances *RMB'000* | Retirement benefits *RMB'000* | Housing fund and other benefits *RMB'000* | Total remuneration before tax *RMB'000* |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr Miao Jianmin (Chairman of the Board) | – | – | – | – | – |
| Mr Xie Yiqun (Vice Chairman/President) (appointed as vice chairman/president on 7 March 2019) | – | – | – | – | – |
| Mr Lin Zhiyong (resigned as vice chairman/ president on 25 February 2019, resigned as executive director on 7 March 2019) | – | 223 | 39 | 8 | 270 |
| Ms. Xie Xiaoyu (appointed on 7 March 2019) | – | 1,056 | 212 | 110 | 1,378 |
| Mr Hua Shan (appointed on 7 March 2019, resigned on 23 September 2019) | – | 703 | 151 | 73 | 927 |
| Non-executive directors: | | | | | |
| Mr Tang Zhigang (i) (appointed on 7 March 2019, resigned on 21 January 2020) | – | – | – | – | – |
| Mr Li Tao (i) | – | – | – | – | – |
| Independent non-executive directors: | | | | | |
| Mr Lin Hanchuan | 248 | – | – | – | 248 |
| Mr Lo Chung Hing | 253 | – | – | – | 253 |
| Mr Na Guoyi (resigned on 19 July 2019) | 140 | – | – | – | 140 |
| Mr Ma Yusheng | 248 | – | – | – | 248 |
| Mr Chu Bende | 248 | – | – | – | 248 |
| Ms. Qu Xiaohui | 248 | – | – | – | 248 |
| Supervisors: | | | | | |
| Mr Jiang Caishi (Chairman of the Supervisory Committee) (appointed on 7 March 2019, resigned on 12 March 2020) | – | 1,056 | 224 | 110 | 1,390 |
| Mr Li Zhuyong (i) (retired on 7 March 2019) | – | – | – | – | – |
| Mr Wang Yadong (i) (appointed on 7 March 2019) | – | – | – | – | – |
| Mr Li Fuhan (retired on 16 December 2019) | – | 653 | 132 | 95 | 880 |
| Ms. Gao Hong | – | 714 | 181 | 109 | 1,004 |
| Independent supervisors: | | | | | |
| Mr Lu Zhengfei | 248 | – | – | – | 248 |
| Mr Charlie Yucheng SHI (appointed on 7 March 2019) | 205 | – | – | – | 205 |
| | 1,838 | 4,405 | 939 | 505 | 7,687 |

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

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

### (a) Directors and supervisors *(continued)*

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

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

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

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

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

In respect of the Share Appreciation Rights ("SARs") granted to senior executives, in compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CBIRC, the Company decided to suspend the scheme in 2008 except for SAR granted to any person who is not a Chinese Mainland resident (please refer to note 44).

The total compensation packages for executive directors and supervisors for the year ended 31 December 2019 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

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

### (a) Directors and supervisors *(continued)*

| 2018 (Restated) | Fees *RMB'000* | Salaries and allowances *RMB'000* | Retirement benefits *RMB'000* | Housing fund and other benefits *RMB'000* | Total remuneration before tax *RMB'000* |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr Miao Jianmin (Chairman of the Board) (appointed as executive director and chairman on 12 March 2018) | – | – | – | – | – |
| Mr Xie Yiqun (Vice Chairman/President) (appointed as non-executive director on 22 June 2018 (i), appointed as vice chairman/ president on 7 March 2019) | – | – | – | – | – |
| Mr Lin Zhiyong (resigned as vice chairman/ president on 25 February 2019, resigned as executive director on 7 March 2019) | – | 1,647 | 232 | 110 | 1,989 |
| Mr Yun Zhen (resigned on 26 October 2018) | – | 1,376 | 187 | 90 | 1,653 |
| Mr Wang Dedi (resigned on 25 April 2018) | – | 489 | 68 | 42 | 599 |
| Non-executive directors: | | | | | |
| Mr Li Tao (i) | – | – | – | – | – |
| Ms. Yu Xiaoping (i) (resigned on 7 March 2018) | – | – | – | – | – |
| Independent non-executive directors: | | | | | |
| Mr Lin Hanchuan | 233 | – | – | – | 233 |
| Mr Lo Chung Hing | 233 | – | – | – | 233 |
| Mr Na Guoyi | 233 | – | – | – | 233 |
| Mr Ma Yusheng | 233 | – | – | – | 233 |
| Mr Chu Bende | 233 | – | – | – | 233 |
| Ms. Qu Xiaohui | 233 | – | – | – | 233 |
| Supervisors: | | | | | |
| Mr Wang He (Chairman of the Supervisory Committee) (resigned on 25 January 2018) | – | 138 | 18 | 18 | 174 |
| Mr Li Zhuyong (i) (retired on 7 March 2019) | – | – | – | – | – |
| Mr Li Fuhan | – | 1,798 | 132 | 96 | 2,026 |
| Ms. Gao Hong | – | 1,731 | 166 | 109 | 2,006 |
| Independent supervisors: | | | | | |
| Mr Lu Zhengfei | 233 | – | – | – | 233 |
| Mr Ding Ningning (resigned on 26 July 2018) | 131 | – | – | – | 131 |
| | 1,762 | 7,179 | 803 | 465 | 10,209 |

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

The compensation amounts for certain executive directors and supervisors for the year ended 31 December 2018 were restated based on the finalised amounts determined during 2019. Additionally, pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2018 amounting to approximately RMB2.08 million for executive directors and supervisors had been deferred contingent upon the future performance.

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

### (b) Senior management

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

| | **2019** | 2018 (Restated) |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and performance related bonuses | **6,155** | 11,612 |
| Retirement benefits | **1,613** | 1,973 |
| Housing fund and other benefits | **655** | 870 |
| | **8,423** | 14,455 |

Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for certain members of senior management are deferred for a minimum of 3 years contingent upon the future performance.

The total compensation packages for senior management for the year ended 31 December 2019 including performance related bonuses have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. Management of the Company believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

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

| | **2019** | 2018 (Restated) |
|---|---|---|
| Nil to HKD1,000,000 | **–** | 1 |
| HKD1,000,001 to HKD1,500,000 | **5** | – |
| HKD1,500,001 to HKD2,000,000 | **1** | 8 |
| | **6** | 9 |

The compensation amounts for certain members of senior management for the year ended 31 December 2018 were restated based on the finalised amounts determined during 2019. Pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2018 amounting to approximately RMB6.88 million for senior management had been deferred contingent upon the future performance.

## 14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included one director (2018: one director and two supervisors), details of whose remunerations are set out in note 13 above. Details of the remuneration for the year of the remaining four (2018: two) highest paid individuals are set out below:

| | **2019** *RMB'000* | 2018 (Restated) *RMB'000* |
|---|---|---|
| Salaries, allowances and performance related bonuses | **4,224** | 2,873 |
| Retirement benefits | **1,172** | 648 |
| Housing fund and other benefits | **440** | 224 |
| | **5,836** | 3,745 |

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

| | **2019** | 2018 (Restated) |
|---|---|---|
| HKD1,000,001 to HKD1,500,000 | **3** | – |
| HKD1,500,001 to HKD2,000,000 | **1** | 2 |
| | **4** | 2 |

The compensation amounts for highest paid individuals for the year ended 31 December 2018 were restated based on the finalised amounts determined during 2019.

## 15. EARNINGS PER SHARE

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

| | **2019** | 2018 |
|---|---|---|
| Earnings: | | |
| Profit attributable to owners of the Company (RMB million) | **24,282** | 15,485 |
| Shares: | | |
| Weighted average number of ordinary shares in issue (in million shares) (note 41) | **22,242** | 22,242 |
| Basic earnings per share (RMB Yuan) | **1.092** | 0.696 |

Basic earnings per share was calculated as the profit attributable to owners of the Company divided by the weighted average number of ordinary shares in issue.

Diluted earnings per share amounts for the years ended 31 December 2019 and 2018 have not been disclosed as there were no potential ordinary shares outstanding during these years.

## 16. DIVIDENDS

| | **2019** *RMB million* | 2018 *RMB million* |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2017 final dividend – RMB0.338 per ordinary share | **–** | 5,012 |
| 2018 final dividend – RMB0.272 per ordinary share | **6,050** | – |

No interim dividend was proposed by the Board of Directors in 2019 and 2018.

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

Pursuant to the shareholders' approval at the general meeting on 22 June 2018, a final dividend of RMB0.338 per ordinary share totalling RMB5,012 million in respect of the year ended 31 December 2017 was declared.

## 17. CASH AND CASH EQUIVALENTS

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Demand deposits | **13,704** | 15,376 |
| Securities purchased under resale agreements with original maturity of no more than three months | **18,816** | 17,289 |
| Deposits with banks with original maturity of no more than three months | **–** | 1,132 |
| | **32,520** | 33,797 |
| Classification of cash and cash equivalents: | | |
| Loans and receivables | **32,520** | 33,797 |

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals. The securities purchased are not recognised on the consolidated statement of financial position. The carrying amounts disclosed above reasonably approximate to the fair values of those collaterals as at 31 December 2019 and 2018.

## 18. DEBT SECURITIES

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Classification of debt securities: | | |
| At fair value through profit or loss | | |
| – Government bonds | **297** | 1,943 |
| – Financial bonds | **4,707** | 232 |
| – Corporate bonds | **8,790** | 3,468 |
| | **13,794** | 5,643 |
| Available-for-sale, at fair value | | |
| – Government bonds | **6,284** | 7,949 |
| – Financial bonds | **13,481** | 8,200 |
| – Corporate bonds | **58,726** | 60,718 |
| – Wealth management products and others | **11,700** | 19,200 |
| | **90,191** | 96,067 |
| Held-to-maturity, at amortised cost | | |
| – Government bonds | **3,225** | 3,224 |
| – Financial bonds | **29,620** | 25,982 |
| – Corporate bonds | **12,242** | 12,583 |
| | **45,087** | 41,789 |
| | **149,072** | 143,499 |

## 19. EQUITY SECURITIES AND MUTUAL FUNDS

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Investments, at fair value: | | |
| Listed shares | **32,687** | 25,697 |
| Unlisted shares | **1,755** | 1,661 |
| Mutual funds | **26,150** | 29,417 |
| Preferred shares | **7,886** | 7,973 |
| Equity schemes | **14,900** | 9,111 |
| Perpetual bonds | **3,350** | 243 |
| Perpetual trust plans | **5,000** | – |
| | **91,728** | 74,102 |

Equity schemes are structured entities which are set up for investing in one or more equity investments. The underlying equity investments of these equity schemes are usually determined at inception of these schemes and any changes to, or additional investments in, the underlying equity investments of any particular scheme requires support from two-thirds of the beneficiary interests in that scheme.

The Group did not guarantee or provide any financing support for these equity schemes, and considers that the carrying amount of these equity schemes represents the Group's maximum risk exposure.

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Classification of equity securities and mutual funds: | | |
| At fair value through profit or loss | **4,796** | 7,806 |
| Available-for-sale, at fair value | **86,932** | 66,296 |
| | **91,728** | 74,102 |

During the year, an impairment loss of RMB706 million was provided by the Group on equity securities and mutual funds (2018: RMB636 million).

## 20. INSURANCE RECEIVABLES, NET

| | 31 December 2019 *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Premiums receivable and agents' balances | **39,731** | 30,543 |
| Receivables from reinsurers | **17,194** | 15,030 |
| | **56,925** | 45,573 |
| Less: Impairment provisions on | | |
| – Premiums receivable and agents' balances | **(3,167)** | (2,958) |
| – Receivables from reinsurers | **(165)** | (194) |
| | **53,593** | 42,421 |

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

| | 31 December 2019 *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Not yet due | **40,138** | 29,822 |
| Within 1 month | **5,000** | 3,959 |
| 1 to 3 months | **2,694** | 3,385 |
| 3 to 6 months | **2,486** | 2,348 |
| 6 to 12 months | **2,313** | 2,410 |
| 1 to 2 years | **816** | 409 |
| Over 2 years | **146** | 88 |
| | **53,593** | 42,421 |

## 20. INSURANCE RECEIVABLES, NET *(continued)*

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| At 1 January | **3,152** | 3,566 |
| Impairment losses recognised/(reversed) (note 11) | **233** | (367) |
| Amount written off as uncollectible | **(53)** | (47) |
| At 31 December | **3,332** | 3,152 |

Included in the Group's insurance receivables are amounts due from a fellow subsidiary of RMB150 million (31 December 2018: RMB233 million) and an associate of RMB1,690 million (31 December 2018: RMB931 million), respectively. Please refer to note 48(d) for details.

## 21. REINSURANCE ASSETS

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Reinsurers' share of: | | |
| Unearned premium reserves (note 36) | **11,582** | 10,754 |
| Loss and loss adjustment expense reserves (note 36) | **18,739** | 17,811 |
| | **30,321** | 28,565 |

## 22. TERM DEPOSITS

The original maturities of the term deposits are as follows:

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| More than 3 months to 1 year | **1,192** | 577 |
| More than 1 year to 2 years | **121** | – |
| More than 2 years to 3 years | **2,268** | 1,021 |
| More than 3 years | **60,817** | 72,365 |
| | **64,398** | 73,963 |

## 23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Long-term debt investment schemes | **35,616** | 33,575 |
| Trust plans | **21,320** | 11,580 |
| Asset management products | **6,785** | 5,168 |
| Subordinated debts | **–** | 500 |
| Others | **3,670** | 3,274 |
| | **67,391** | 54,097 |

Long-term debt investment schemes (“Debt Schemes”) are structured entities and offer either fixed or variable interests to their investors. The Group has invested in a number of Debt Schemes over time. These Debt Schemes were created to raise funds from investors for lending onto various borrowers. The Group’s investments in Debt Schemes are entirely lending transactions in nature and the Group’s interests in these Debt Schemes range from 2% to 50% as at 31 December 2019 (31 December 2018: 2% to 100%). The interest rates of these Debt Schemes range from 4.20% to 6.80% (31 December 2018: 4.20% to 7.00%) per annum as at 31 December 2019.

## 23. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES *(continued)*

All loans originated by the Debt Schemes with the funds received from their investors are guaranteed by third parties and these guarantees are always joint, irrevocable and unconditional. Guarantors of Debt Schemes are banks of high credit rating or state-owned enterprises. The Group does not control any of these Debt Schemes. The Group's voting rights as lenders to these Debt Schemes are protective of the Group's interests in the Debt Schemes and mainly comprise early termination or extension of the Debt Schemes' term and, when certain conditions exist, change of the Debt Schemes' managers. Support from two-thirds of the beneficiary interests are required to pass resolutions to make these changes. The Group did not guarantee or provide any financing support for these Debt Schemes, and considers that the carrying amount of the loans to these Debt Schemes represents the Group's maximum risk exposure.

Trust schemes invest in predominantly debt instruments and offer the Group expected returns ranging from 4.85% – 6.70% (31 December 2018: ranging from 4.75% – 6.50%) per annum. The actual returns and eventual repayment of initial investments, however, depend on the performance of the underlying investments, which are predominantly debts in nature. The Group's maximum loss is limited to the investments and has no contractual obligations or intention to provide any financial support for these trust schemes.

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in an active market. These financial products include securitised assets, asset management products offered by asset management companies. The interest rates of these products range from 4.00% to 6.30% (31 December 2018: 3.50% to 6.30%) per annum as at 31 December 2019.

The original term of subordinated debt held is 10 years with a redemption right exercisable by the issuer at the end of the fifth year after its issue. During the current year, the issuer redeemed the subordinated debt of RMB500 million.

The Group considered there was no impairment indicators identified, and therefore no provision was accrued on investments classified as loans and receivables as at 31 December 2019 and 31 December 2018.

## 24. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Associates | | |
| Cost of investments in associates (i) | **38,960** | 36,883 |
| Share of post-acquisition profit and other comprehensive income, net of dividend received (ii) | **11,419** | 8,320 |
| Subtotal | **50,379** | 45,203 |
| Joint venture | | |
| Cost of investment in joint venture | **98** | 98 |
| Total | **50,477** | 45,301 |

(i) A deemed disposal loss of an associate amounting to RMB737 million was included in this item. Details are included in below section.

(ii) Hua Xia Bank Co., Ltd. (the Group's material associate, the "Hua Xia Bank") and Industrial Bank Co., Ltd. (an associate of the Group's another associate, the "IBC") applied PRC new financial instrument accounting standards (which is equivalent to HKFRS 9 Financial Instruments) retrospectively from 1 January 2019, with the practical expedients permitted under the standard. Comparatives of Hua Xia Bank and IBC for 2018 were not restated. This adoption has decreased the carrying amount of investments in associates and joint venture by RMB1,335 million on 1 January 2019. Adjustment to equity is as follows:

| | **1 January 2019** *RMB million* |
|---|---|
| Share of other comprehensive income of associates and joint venture | **91** |
| Retained profits | **(1,426)** |
| Total equity | **(1,335)** |

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

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

### Particulars of a material associate

Particulars of a material associate as at 31 December 2019 and 2018 are as follows:

| Name | Place of registration and operations | Paid up/ registered share capital *RMB million* | Proportion of ownership interest and voting right as at 31 December 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|
| Hua Xia Bank | Beijing, PRC | 15,387 | **16.660%** | 16.660% | Commercial banking |

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

Except for Hua Xia Bank, all the associates and joint venture are private companies or structured entities, and there are no quoted market prices available for these shares. Hua Xia Bank is listed on the Shanghai Stock Exchange and the fair value of the Group's interests in Hua Xia Bank as at 31 December 2019 was RMB19,660 million (31 December 2018: RMB18,942 million).

On 28 December 2018, Hua Xia Bank completed its private offering. The Group did not subscribe for the shares proportionately, and therefore its total equity interest in Hua Xia Bank was diluted from 19.99% to 16.66%. The Group is of the view that it still has significant influence over Hua Xia Bank, as it has appointed two directors to the Board of Directors of Hua Xia Bank and the Group is the third largest shareholder of Hua Xia Bank. The Group continues to account for the investment in Hua Xia Bank as an associate. As such, a deemed disposal loss amounting to RMB737 million was recognised in profit or loss for the year ended 31 December 2018.

As at 31 December 2019, the carrying amount of Hua Xia Bank exceeded its fair value for more than two years. Management performed impairment test accordingly considering such impairment indicator exists. The recoverable amount of the interest in Hua Xia Bank is determined by value-in-use approach. The calculation used pre-tax cash flow projections for the five years ending 31 December 2024 with subsequent extrapolation to perpetuity. The discount rate used was based on a cost of capital used to evaluate investments in Mainland China. Management judgement is required in estimating the future cash flows of Hua Xia Bank. The key assumptions are determined with reference to external sources of information. Based on management's assessment results, there was no impairment as at 31 December 2019. Reasonably possible changes in key assumptions will not lead to impairment loss.

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

### Summarised financial information of a material associate

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

*Hua Xia Bank*

| | **31 December 2019** ***RMB million*** | 31 December 2018 *RMB million* |
|---|---|---|
| Total assets | **3,020,789** | 2,680,580 |
| Net assets attributable to equity holders of Hua Xia Bank | **267,588** | 217,141 |

| | **2019** ***RMB million*** | 2018 *RMB million* |
|---|---|---|
| Revenue | **84,734** | 72,227 |
| Profit attributable to equity holders of Hua Xia Bank | **21,905** | 20,854 |
| Dividends received from the associate during the year | **446** | 387 |

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

### Summarised financial information of a material associate *(continued)*

***Hua Xia Bank** (continued)*

Reconciliation of the carrying amount of the interest in Hua Xia Bank recognised in the consolidated financial statements:

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Net assets of Hua Xia Bank attributable to equity holders of Hua Xia Bank | **267,588** | 217,141 |
| Total preference shares issued by Hua Xia Bank | **(19,978)** | (19,978) |
| Total perpetual bonds issued by Hua Xia Bank | **(39,993)** | – |
| Net assets attributable to ordinary share holders of Hua Xia Bank | **207,617** | 197,163 |
| Proportion of the Group's ownership interest in Hua Xia Bank | **16.660%** | 16.660% |
| The Group's ownership interest in net assets of Hua Xia Bank | **34,589** | 32,847 |
| Net fair value adjustment to the investee's identifiable assets and liabilities | **(65)** | (65) |
| Amortisation of intangible assets and financial instruments recognised in fair value adjustments | **236** | 141 |
| Carrying amount of the Group's interest in Hua Xia Bank | **34,760** | 32,923 |
| Fair value of shares listed in Mainland China | **19,660** | 18,942 |

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

### Aggregate information of associates that are not individually material:

As at 31 December 2019, apart from an associate disclosed above, the Group has in aggregate 8 (31 December 2018: 8) immaterial associates and joint venture and their aggregate information is presented as below:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| The Group's share of profit | **674** | 402 |
| The Group's share of other comprehensive income | **822** | 3 |
| The Group's share of total comprehensive income | **1,496** | 405 |
| Aggregate carrying amount of the Group's interests in these associates and joint venture | **15,717** | 12,378 |

## 25. INVESTMENTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **31 December** | 31 December |
| | **2019** | 2018 |
| | ***RMB million*** | *RMB million* |
| Unlisted shares, at cost | **218** | 96 |

## 25. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2019 and 2018 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Share capital registered/ paid-up capital *RMB million* | Equity interest and voting right held by the Group as at 31 December 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|
| PICC Community Sales Service Company Limited | Shenzhen, PRC | 50 | **100%** | 100% | Provision of insurance agency services |
| PICC Motor Insurance Sales Services Company Limited | Shandong, PRC | 50 | **90%** | 90% | Provision of insurance agency services |
| PICC Haikou Training Center Company Limited | Hainan, PRC | 0.1 | **100%** | 100% | Provision of training services |
| Zhongsheng International Insurance Brokers Company Limited Co., Ltd. ("ZSIB") | Beijing, PRC | 171 | **100%** | – | Provision of insurance agency services |
| PICC North Information Center Management Co., Ltd. ("PICC North Center") | Hebei, PRC | 50 | **70%** | – | Provision of IT services and business services |

The above subsidiaries are all registered as limited liability companies under the PRC Company Law.

None of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the directors, there is no subsidiary with material non-controlling interests within the Group. Accordingly, no further information on non-wholly owned subsidiary has been presented.

In the current year, the Group acquired ZSIB and PICC North Center respectively from PICC Group and a fellow subsidiary, which were accounted for using business combination under common control. As these two subsidiaries were not material, and the acquisition transactions have no material financial effect to the Group, the Group doesn't disclose further details.

## 26. INVESTMENT PROPERTIES

| | **2019**<br>***RMB million*** | 2018<br>*RMB million* |
|---|---|---|
| At 1 January | **4,881** | 4,976 |
| Transfers from property and equipment and right-of-use assets/prepaid land premiums (notes 27, 28 and 29) | **93** | 79 |
| Fair value gain on revaluation of investment properties transferred from property and equipment and right-of-use assets/prepaid land premiums | **232** | 247 |
| (Decrease)/increase in fair value of investment properties during the year (note 9) | **(76)** | 105 |
| Transfers to property and equipment (note 27) | **(532)** | (526) |
| At 31 December | **4,598** | 4,881 |
| Hierarchy of fair value: | | |
| Level 3 | **4,598** | 4,881 |

The Group is still in the process of applying for the title certificates of certain investment properties with a total carrying value of RMB237 million as at 31 December 2019 (31 December 2018: RMB220 million). The directors of the Company do not expect this to have any impacts on the operation of the Group.

As at 31 December 2019 and 2018, the Group's investment properties were not pledged as collateral.

At 31 December 2019 and 2018, the fair values were determined based on the valuation carried out by an external independent valuer, Cushman & Wakefield Shenzhen Valuation Co., Ltd.. Valuations were carried out by the following two approaches:

(i) The income approach determining the fair value at the evaluation point by discounting the target properties' rental income derived from existing lease agreements and the potential rental income projected by reference to the current market rental status, at an appropriate capitalisation rate; or

(ii) The direct comparison approach comparing the target properties with the recent similar transaction cases, using the recent similar transaction price adjusting for difference of status, date, region and other specific factors between the target properties and the recent similar transaction cases.

## 26. INVESTMENT PROPERTIES *(continued)*

The independent valuer usually determines the fair value of the investment properties by one of these approaches according to his professional judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used from the prior years. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which ranges from 4% to 7.5% as at 31 December 2019 (31 December 2018: 2% to 6%). A slight increase in the capitalisation rate used would result in significant decrease in fair value measurement of investment properties, and vice versa.

There was no transfer in or out of Level 3 during the year.

For investment properties measured at fair value categorised as Level 3, their valuations are performed by the independent valuer at 30 June and 31 December of each year, as well as on the dates of transfers in and out of investment properties. The finance department reviews the overall reasonableness of these valuations and reports the results of valuations to management.

Rental income generated from these investment properties amounting to RMB275 million (2018: RMB247 million) was recognised in the consolidated income statement for the year.

## 27. PROPERTY AND EQUIPMENT

| | Land and buildings *RMB million* | Motor vehicles *RMB million* | Office equipment, furniture and fixtures *RMB million* | Construction in progress *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 January 2019 | 17,582 | 2,064 | 8,030 | 2,819 | 30,495 |
| Additions | 183 | 4 | 1,042 | 1,035 | 2,264 |
| Transfers | 1,420 | – | 2 | (1,422) | – |
| Transfers from investment properties (note 26) | 532 | – | – | – | 532 |
| Transfers to investment properties (note 26) | (102) | – | – | – | (102) |
| Disposals | (25) | (139) | (476) | – | (640) |
| At 31 December 2019 | 19,590 | 1,929 | 8,598 | 2,432 | 32,549 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| At 1 January 2019 | (6,002) | (1,095) | (6,163) | – | (13,260) |
| Provided for the year (note 11) | (709) | (278) | (897) | – | (1,884) |
| Transfers to investment properties (note 26) | 56 | – | – | – | 56 |
| Disposals | 14 | 137 | 474 | – | 625 |
| At 31 December 2019 | (6,641) | (1,236) | (6,586) | – | (14,463) |
| **NET BOOK VALUE** | | | | | |
| At 31 December 2019 | 12,949 | 693 | 2,012 | 2,432 | 18,086 |

## 27. PROPERTY AND EQUIPMENT *(continued)*

| | Land and buildings *RMB million* | Motor vehicles *RMB million* | Office equipment, furniture and fixtures *RMB million* | Construction in progress *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 January 2018 | 16,630 | 1,935 | 7,056 | 2,223 | 27,844 |
| Additions | 90 | 311 | 1,433 | 1,099 | 2,933 |
| Transfers | 499 | – | 1 | (500) | – |
| Transfers from investment properties (note 26) | 526 | – | – | – | 526 |
| Transfers to investment properties (note 26) | (94) | – | – | – | (94) |
| Disposals | (69) | (182) | (460) | (3) | (714) |
| At 31 December 2018 | 17,582 | 2,064 | 8,030 | 2,819 | 30,495 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| At 1 January 2018 | (5,444) | (1,007) | (5,862) | – | (12,313) |
| Provided for the year (note 11) | (652) | (266) | (760) | – | (1,678) |
| Transfers to investment properties (note 26) | 49 | – | – | – | 49 |
| Disposals | 45 | 178 | 459 | – | 682 |
| At 31 December 2018 | (6,002) | (1,095) | (6,163) | – | (13,260) |
| **NET BOOK VALUE** | | | | | |
| At 31 December 2018 | 11,580 | 969 | 1,867 | 2,819 | 17,235 |

As at 31 December 2019, certain acquired buildings of the Group with a net book value of RMB602 million (31 December 2018: RMB492 million) were still in the process of title registration. The directors of the Company do not expect this to have any impacts on the operation of the Group.

## 28. RIGHT-OF-USE ASSETS

| | Leasehold lands *RMB million* | Leased properties *RMB million* | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2019 | 4,453 | 2,755 | 49 | 7,257 |
| Additions | 951 | 533 | 61 | 1,545 |
| Transfers to investment properties (note 26) | (81) | – | – | (81) |
| Disposals | (68) | (130) | (47) | (245) |
| At 31 December 2019 | 5,255 | 3,158 | 63 | 8,476 |
| **ACCUMULATED DEPRECIATION** | | | | |
| At 1 January 2019 | (1,608) | – | – | (1,608) |
| Provided for the year | (185) | (870) | (47) | (1,102) |
| Transfers to investment properties (note 26) | 34 | – | – | 34 |
| Disposals | 25 | 21 | 17 | 63 |
| At 31 December 2019 | (1,734) | (849) | (30) | (2,613) |
| **NET BOOK VALUE** | | | | |
| At 31 December 2019 | 3,521 | 2,309 | 33 | 5,863 |
| At 1 January 2019 | 2,845 | 2,755 | 49 | 5,649 |

The above items of leasehold land are amortised on a straight-line basis over 30-70 years. For the year ended 31 December 2019, expense relating to leases of low-value assets and short-term leases applying the simplified approach is approximately RMB171 million.

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB22 million (2018: RMB28 million) in which the Group is in the process of obtaining.

## 29. PREPAID LAND PREMIUMS

| | 2019 RMB million | 2018 RMB million |
|---|---|---|
| At 1 January | 2,845 | 3,023 |
| Reclassified to right-of-use assets (note) | (2,845) | – |
| Adjusted at 1 January | – | 3,023 |
| Additions | – | 51 |
| Amortisation recognised during the year (note 11) | – | (170) |
| Transfers to investment properties (note 26) | – | (34) |
| Disposal | – | (25) |
| At 31 December | – | 2,845 |

Note: Land leases are also in the scope of HKFRS 16. The Group recognises any prepaid premium for leasehold lands as right-of-use assets on initial application of HKFRS 16 at 1 January 2019.

## 30. DEFERRED TAX

The movements in deferred tax assets and liabilities are as follows:

| | Impairment losses on financial assets RMB million | Fair value changes of available-for-sale financial assets RMB million | Insurance contract liabilities RMB million | Salaries and staff welfare payables RMB million | Revaluation of investment properties RMB million | Others RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | | |
| At 1 January 2019 | 1,137 | – | 7,170 | 268 | – | 984 | 9,559 |
| Credited to income statement (note 12) | 19 | – | 1,691 | 111 | – | 195 | 2,016 |
| Gross deferred tax assets at 31 December 2019 | 1,156 | – | 8,861 | 379 | – | 1,179 | 11,575 |
| **Deferred tax liabilities** | | | | | | | |
| At 1 January 2019 | – | (1,189) | – | – | (1,465) | (126) | (2,780) |
| Credited/(charged) to income statement (note 12) | – | – | – | – | 19 | (86) | (67) |
| Charged to other comprehensive income | – | (3,549) | – | – | (58) | – | (3,607) |
| Gross deferred tax liabilities at 31 December 2019 | – | (4,738) | – | – | (1,504) | (212) | (6,454) |
| Net deferred tax assets at 31 December 2019 | | | | | | | 5,121 |

## 30. DEFERRED TAX *(continued)*

| | Impairment losses on financial assets *RMB million* | Fair value changes of available-for-sale financial assets *RMB million* | Insurance contract liabilities *RMB million* | Salaries and staff welfare payables *RMB million* | Revaluation of investment properties *RMB million* | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | | |
| At 1 January 2018 | 1,142 | – | 8,017 | 731 | – | 911 | 10,801 |
| (Charged)/credited to income statement (note 12) | (5) | – | (847) | (463) | – | 73 | (1,242) |
| Gross deferred tax assets at 31 December 2018 | 1,137 | – | 7,170 | 268 | – | 984 | 9,559 |
| **Deferred tax liabilities** | | | | | | | |
| At 1 January 2018 | – | (2,066) | – | – | (1,377) | (118) | (3,561) |
| Charged to income statement (note 12) | – | – | – | – | (26) | (8) | (34) |
| Credited/(charged) to other comprehensive income | – | 877 | – | – | (62) | – | 815 |
| Gross deferred tax liabilities at 31 December 2018 | – | (1,189) | – | – | (1,465) | (126) | (2,780) |
| Net deferred tax assets at 31 December 2018 | | | | | | | 6,779 |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities as they relate to the same tax authority.

## 31. PREPAYMENTS AND OTHER ASSETS

| | 31 December 2019 *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Interest receivables | **4,902** | 5,277 |
| Capital security fund (i) | **4,449** | 4,449 |
| Deductible input value-added tax | **3,992** | 3,778 |
| Co-insurance receivables | **2,060** | 1,822 |
| Deposits | **1,187** | 1,183 |
| Prepaid insurance underwriting commission | **1,161** | 1,808 |
| Prepayments for assets and expenses | **297** | 489 |
| Amounts due from associates (note 48(d)) | **35** | 314 |
| Amounts due from PICC Group (note 48(d)) | **50** | 57 |
| Amounts due from fellow subsidiaries (note 48(d)) | **25** | 30 |
| Others | **5,081** | 4,352 |
| | **23,239** | 23,559 |
| Less: Impairment provision on | | |
| – Co-insurance receivables | **(169)** | (268) |
| – Other receivables | **(157)** | (157) |
| | **22,913** | 23,134 |

(i) In accordance with the PRC Insurance Law, the Company is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by CBIRC as a security fund. The use of the security fund is subject to the approval of the CBIRC.

## 32. RESTRICTED DEPOSITS

As at 31 December 2019, term deposits contained an amount of RMB1,434 million (31 December 2018: RMB1,382 million) that were subject to various restrictions. These deposits are managed in specific bank accounts according to requirements of certain local governments and can only be used to settle for catastrophic losses from agriculture insurance business.

## 33. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Reinsurance payables | **19,449** | 15,706 |

The reinsurance payables are non-interest-bearing and are due within three months from the settlement dates or are repayable on demand.

Included in the Group's reinsurance payables are amounts due to a fellow subsidiary of RMB203 million (31 December 2018: RMB237 million) and an associate of RMB2,514 million (31 December 2018: RMB846 million), respectively. Please refer to note 48(d) for details.

## 34. ACCRUED INSURANCE SECURITY FUND

| | **2019** *RMB million* | 2018 *RMB million* |
|---|---|---|
| At 1 January | **1,026** | 958 |
| Accrued during the year (note 7) | **3,205** | 2,964 |
| Paid during the year | **(3,155)** | (2,896) |
| At 31 December | **1,076** | 1,026 |

The Group is required to make regular contributions to China Insurance Security Fund ("CISF") according to the types and premiums of products sold during the year. No further contribution is required once the accumulated balance has reached 6% (2018: 6%) of the Group's total assets as determined in accordance with the relevant regulations. CISF was established to provide protection for policyholders when an insurance company in China is in financial troubles.

Insurance companies are required to deposit their insurance security fund in bank accounts designated by the CBIRC.

## 35. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Transactions by market places: | | |
| Stock exchange | **12,479** | 15,141 |
| Inter-bank market | **4,280** | 12,858 |
| | **16,759** | 27,999 |

For debt repurchase transactions through stock exchange, the Group is required to deposit certain exchange-traded bonds into a collateral pool and the fair value converted at a standard rate pursuant to the stock exchange's regulation which should be no less than the balance of related repurchase transaction. As at 31 December 2019, the carrying amount and fair value of securities deposited in the collateral pool were RMB31,220 million and RMB31,398 million (31 December 2018: RMB30,356 million and RMB30,459 million) respectively. The collateral is restricted from trading during the period of the repurchase transaction. The Group can withdraw the exchange-traded bonds from the collateral pool provided that the value of the remaining exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

As at 31 December 2019, bonds with carrying amount and fair value of RMB4,366 million and RMB4,616 million (31 December 2018: RMB13,638 million and RMB14,602 million) respectively were pledged as collateral for securities sold under agreements to repurchase resulted from repurchase transactions entered into by the Group in the inter-bank market. The collateral is restricted from trading during the period of the repurchase transactions.

## 36. INSURANCE CONTRACT LIABILITIES

| | 31 December 2019 *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Unearned premium reserves | **158,513** | 140,352 |
| Loss and loss adjustment expense reserves | **146,627** | 135,429 |
| | **305,140** | 275,781 |

The movements in insurance contract liabilities and their corresponding reinsurance assets are set out below:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross amount** ***RMB*** **million** | **Reinsurers' share** ***RMB*** **million** (note 21) | **Net amount** ***RMB*** **million** | Gross amount *RMB* million | Reinsurers' share *RMB* million (note 21) | Net amount *RMB* million |
| Unearned premium reserves | | | | | | |
| At 1 January | **140,352** | **(10,754)** | **129,598** | 126,110 | (9,747) | 116,363 |
| Increase during the year | **357,501** | **(35,545)** | **321,956** | 288,085 | (42,061) | 246,024 |
| Release during the year | **(339,340)** | **34,717** | **(304,623)** | (273,843) | 41,054 | (232,789) |
| At 31 December | **158,513** | **(11,582)** | **146,931** | 140,352 | (10,754) | 129,598 |
| Loss and loss adjustment expense reserves | | | | | | |
| At 1 January | **135,429** | **(17,811)** | **117,618** | 138,638 | (19,663) | 118,975 |
| Increase during the year | **274,746** | **(22,948)** | **251,798** | 229,524 | (16,246) | 213,278 |
| Release during the year | **(263,548)** | **22,020** | **(241,528)** | (232,733) | 18,098 | (214,635) |
| At 31 December | **146,627** | **(18,739)** | **127,888** | 135,429 | (17,811) | 117,618 |
| Total insurance contract liabilities at 31 December | **305,140** | **(30,321)** | **274,819** | 275,781 | (28,565) | 247,216 |

## 37. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Interest-bearing deposits | **79** | 267 |
| Non-interest-bearing deposits | **1,683** | 1,689 |
| | **1,762** | 1,956 |

For the years ended 31 December 2019 and 2018, the Group has underwritten policies in homeowners' and accidental insurance products containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy, and the policyholders receive a fixed rate of interest or bear no interest. Penalties on early termination are charged according to the terms stated in the policy.

## 38. BONDS PAYABLE

Bonds payable comprised subordinated debts and capital supplementary bonds.

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Subordinated debts: | | |
| Carrying amount repayable in more than five years | **–** | 8,298 |
| Capital supplementary bonds: | | |
| Carrying amount repayable in more than five years | **15,198** | 15,122 |
| | **15,198** | 23,420 |

On 24 October 2014, the Company issued subordinated debts of RMB8,000 million. On 23 November 2016, the Company issued capital supplementary bonds of RMB15,000 million.

## 38. BONDS PAYABLE *(continued)*

Terms of the subordinated debts of the Company are ten years. With proper notice to the counterparties, the Company has an option to redeem the subordinated debts at par values at the end of the fifth year from the date of issue. The interest rate of the subordinated debts is 5.75% per annum in the first five years and 7.75% per annum in the following five years. The Company redeemed the subordinated debts of RMB8,000 million during the current year.

Terms of the capital supplementary bonds of the Company are ten years. With proper notice to the counterparties, the Company has an option to redeem the capital supplementary bonds at par values at the end of the fifth year from the date of issue. The interest rate of the capital supplementary bonds is 3.65% per annum in the first five years and 4.65% per annum in the following five years.

## 39. LEASE LIABILITIES

| | **31 December 2019** *RMB million* |
|---|---|
| Lease liabilities payable: | |
| Within one year | **722** |
| Within a period of more than one year but not more than two years | **560** |
| Within a period of more than two years but not more than five years | **750** |
| Within a period of more than five years | **166** |
| | **2,198** |

## 40. ACCRUALS AND OTHER LIABILITIES

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Premiums received in advance (note) | **21,268** | 23,589 |
| Salaries and staff welfare payables | **10,155** | 9,622 |
| Other taxes payable | **7,755** | 7,413 |
| Commission payable | **7,125** | 6,744 |
| Premium payable | **5,638** | 3,593 |
| Claims payable | **3,203** | 3,099 |
| Insurance business deposits | **1,342** | 325 |
| Accrued capital expenditure | **282** | 643 |
| Payables to interest holders of consolidated structured entities | **153** | 353 |
| Interest payable | **73** | 177 |
| Amounts due to fellow subsidiaries (note 48(d)) | **123** | 109 |
| Others | **7,332** | 4,452 |
| | **64,449** | 60,119 |

Note: Premiums received in advance represent amounts collected from policies not yet effective as at 31 December 2019 and 2018, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

## 41. ISSUED CAPITAL

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Issued and fully paid: | | |
| Domestic shares of RMB1.00 each | **15,343** | 15,343 |
| H shares of RMB1.00 each | **6,899** | 6,899 |
| | **22,242** | 22,242 |

# 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

## (1) Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, debt securities, equity securities and mutual funds, investments classified as loans and receivables, securities sold under agreements to repurchase and bonds payable, etc. The Group holds various other financial assets and liabilities which directly arose from insurance operations, such as insurance receivables and payables to reinsurers. The following table sets out the carrying values and fair values of the Group's major financial instruments by classification:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **31 December 2019** | 31 December 2018 | **31 December 2019** | 31 December 2018 |
| | ***RMB million*** | *RMB million* | ***RMB million*** | *RMB million* |
| **Financial assets** | | | | |
| At fair value through profit or loss | | | | |
| – Equity securities and mutual funds | **4,796** | 7,806 | **4,796** | 7,806 |
| – Debt securities | **13,794** | 5,643 | **13,794** | 5,643 |
| Available-for-sale | | | | |
| – Equity securities and mutual funds | **86,932** | 66,296 | **86,932** | 66,296 |
| – Debt securities | **90,191** | 96,067 | **90,191** | 96,067 |
| Held-to-maturity investments | | | | |
| – Debt securities | **45,087** | 41,789 | **47,851** | 44,435 |
| Loans and receivables | | | | |
| – Cash and cash equivalents | **32,520** | 33,797 | **32,520** | 33,797 |
| – Term deposits | **64,398** | 73,963 | **64,398** | 73,963 |
| – Investments classified as loans and receivables | **67,391** | 54,097 | **72,094** | 57,519 |
| – Insurance receivables, net | **53,593** | 42,421 | **53,593** | 42,421 |
| – Other financial assets | **15,161** | 15,203 | **15,161** | 15,203 |
| Total financial assets | **473,863** | 437,082 | **481,330** | 443,150 |
| **Financial liabilities** | | | | |
| Other financial liabilities, at amortised cost | | | | |
| – Payables to reinsurers | **19,449** | 15,706 | **19,449** | 15,706 |
| – Accrued insurance security fund | **1,076** | 1,026 | **1,076** | 1,026 |
| – Securities sold under agreements to repurchase | **16,759** | 27,999 | **16,759** | 27,999 |
| – Policyholders' deposits | **1,762** | 1,956 | **1,762** | 1,956 |
| – Bonds payable | **15,198** | 23,420 | **15,108** | 23,431 |
| – Other financial liabilities | **24,918** | 19,484 | **24,918** | 19,484 |
| Total financial liabilities | **79,162** | 89,591 | **79,072** | 89,602 |

# 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

## (2) Determination of fair value and the fair value hierarchy of financial instruments

This note provides information on how the Group determines the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 26 to these consolidated financial statements.

### *(a) Fair value of financial assets that are measured at fair value on a recurring basis*

Some of the Group's financial assets are measured at fair value at the end of the reporting periods. The following table gives information about how the fair values of these financial assets are determined (in particular, their fair value hierarchy, valuation technique(s) and key input(s) used).

| Items | Fair value<br>**31 December 2019 *(RMB million)*** | <br>31 December 2018 *(RMB million)* | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
|---|---|---|---|---|
| At fair value through profit or loss debt securities | **1,702** | 763 | Level 1 | Quoted bid prices in an active market. |
| At fair value through profit or loss debt securities | **12,092** | 4,880 | Level 2 | Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty. |
| Available-for-sale debt securities | **7,096** | 8,338 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale debt securities | **83,095** | 87,729 | Level 2 | Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty. |

## 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

### (2) Determination of fair value and the fair value hierarchy of financial instruments *(continued)*

#### *(a) Fair value of financial assets that are measured at fair value on a recurring basis (continued)*

| Items | Fair value<br>**31 December 2019** ***(RMB million)*** | <br>31 December 2018 *(RMB million)* | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
|---|---|---|---|---|
| At fair value through profit or loss equity securities and mutual funds | **4,796** | 7,806 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale equity securities and mutual funds | **54,536** | 47,779 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale equity securities and mutual funds | **19,971** | 7,744 | Level 2 | Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend yield, discounted at a rate that reflects the credit risk of counterparty. |
| Available-for-sale equity securities and mutual funds | **6,560** | 5,154 | Level 3 | The fair value is determined with reference to the latest private transaction price or net assets value. |
| Available-for-sale equity securities and mutual funds | **4,112** | 3,791 | Level 3 | Relative value that are assessed based on average price-to-earnings/price to sales ratio from comparable companies and earnings per share of target company. |
| Available-for-sale equity securities and mutual funds | **1,753** | 1,828 | Level 3 | Fair value of the investments is based on the use of internal discounted cash flow valuation models. |

## 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

### (2) Determination of fair value and the fair value hierarchy of financial instruments *(continued)*

#### *(a) Fair value of financial assets that are measured at fair value on a recurring basis (continued)*

| **31 December 2019** | **Level 1** *RMB million* | **Level 2** *RMB million* | **Level 3** *RMB million* | **Total** *RMB million* |
|---|---|---|---|---|
| Financial assets classified as fair value through profit or loss | | | | |
| – Equity securities and mutual funds | **4,796** | **–** | **–** | **4,796** |
| – Debt securities | **1,702** | **12,092** | **–** | **13,794** |
| Available-for-sale financial assets | | | | |
| – Equity securities and mutual funds | **54,536** | **19,971** | **12,425** | **86,932** |
| – Debt securities | **7,096** | **83,095** | **–** | **90,191** |
| | **68,130** | **115,158** | **12,425** | **195,713** |

| 31 December 2018 | Level 1 *RMB million* | Level 2 *RMB million* | Level 3 *RMB million* | Total *RMB million* |
|---|---|---|---|---|
| Financial assets classified as fair value through profit or loss | | | | |
| – Equity securities and mutual funds | 7,806 | – | – | 7,806 |
| – Debt securities | 763 | 4,880 | – | 5,643 |
| Available-for-sale financial assets | | | | |
| – Equity securities and mutual funds | 47,779 | 7,744 | 10,773 | 66,296 |
| – Debt securities | 8,338 | 87,729 | – | 96,067 |
| | 64,686 | 100,353 | 10,773 | 175,812 |

For the year ended 31 December 2019, available-for-sale debt securities with a carrying amount of RMB3,361 million (2018: RMB1,123 million) were transferred from Level 1 to Level 2 because the quoted prices in the market for such investments were no longer regularly available. Conversely, available-for-sale debt securities with a carrying amount of RMB3,115 million (2018: RMB3,341 million) were transferred from Level 2 to Level 1 because the quoted prices in active markets were available as at 31 December 2019.

No sensitivity analysis for Level 3 unlisted equity investments is presented as the fair value of these unlisted equity investments was not significantly sensitive to reasonably possible changes in unobservable inputs used in the sensitivity analysis.

# 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

## (2) Determination of fair value and the fair value hierarchy of financial instruments *(continued)*

### *(b) Fair value of financial assets and financial liabilities not measured at fair value*

The carrying amounts of the Group's financial assets and financial liabilities not measured at fair value approximate their fair values as at 31 December 2019 and 2018 except for the following financial instruments, for which fair value and the level of fair value hierarchy are disclosed below:

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **31 December 2019** | **Level 1** *RMB million* | **Level 2** *RMB million* | **Level 3** *RMB million* | **Total** *RMB million* |
| Financial assets | | | | |
| – Held-to-maturity investments | **1,046** | **46,805** | **–** | **47,851** |
| – Investments classified as loans and receivables | **–** | **72,094** | **–** | **72,094** |
| Financial liabilities | | | | |
| – Bonds payable | **–** | **15,108** | **–** | **15,108** |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| 31 December 2018 | Level 1 *RMB million* | Level 2 *RMB million* | Level 3 *RMB million* | Total *RMB million* |
| Financial assets | | | | |
| – Held-to-maturity investments | 3,666 | 40,769 | – | 44,435 |
| – Investments classified as loans and receivables | – | 57,519 | – | 57,519 |
| Financial liabilities | | | | |
| – Bonds payable | – | 23,431 | – | 23,431 |

The fair values of the financial assets and financial liabilities classified under Level 2 were determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties obtained from China Bond Yield Curves published by China Central Depository & Clearing Co., Ltd..

## 42. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

### (2) Determination of fair value and the fair value hierarchy of financial instruments *(continued)*

#### *(c) Reconciliation of Level 3 fair value measurements*

| | **2019** | 2018 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| At 1 January | **10,773** | 7,287 |
| Addition | **1,464** | 1,329 |
| Transfer in (i) | **–** | 1,943 |
| Transfer out (ii) | **–** | (1,151) |
| Unrealised gains recognised in other comprehensive income | **188** | 1,365 |
| At 31 December | **12,425** | 10,773 |

(i) As at 31 December 2018, the fair value of the Group's investment in an equity scheme classified as available-for-sale financial assets was classified as Level 3, as the underlying asset of the equity scheme is a New Third Board listed company that had been suspended for trading since June 2018 and the Group used comparable companies method to determine the fair value of the equity scheme.

(ii) During the year ended 31 December 2018, the lock-up period of shares of a listed equity investment expired, and consequently the Group transferred the listed equity investment with a carrying amount of RMB1,151 million from Level 3 to Level 1.

## 43. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that the Company meets all obligations arising from the insurance contracts and the applicable laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

The comprehensive and core solvency margin ratios of the Company are listed below:

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Actual capital | **181,721** | 162,860 |
| Core capital | **162,136** | 135,172 |
| Minimum capital | **64,414** | 59,136 |
| Comprehensive solvency margin ratio (%) | **282%** | 275% |
| Core solvency margin ratio (%) | **252%** | 229% |

Insurance companies carrying out business in China are required to comply with capital requirements imposed by the CBIRC. These capital requirements are generally known as solvency requirements in the insurance industry.

Insurance companies comply with requirements on both the core capital and actual capital (sum of core and supplementary capital). Under China Risk Oriented Solvency System, the minimum capital is calculated by formula prescribed by the CBIRC. The minimum capital requirement is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For the Company, core capital is principally net assets, while supplementary capital is mainly subordinated debts and capital supplementary bonds issued by the Company.

Comprehensive and core solvency margin ratios are defined as actual capital and core capital divided by the minimum capital requirements, respectively. Comprehensive and core solvency margin ratio have to be higher than 100% and 50% respectively for compliance with the solvency requirements.

The CBIRC can take a number of regulatory measures against any insurance company non-compliant with the solvency requirements. These regulatory measures include restriction on business scope, dividend distributions, investment strategy; order to transfer business or place reinsurance; removal of senior executives of the insurance companies.

## 44. SHARE APPRECIATION RIGHTS ("SARs")

The shareholders of the Company approved the adoption of a scheme of SARs for senior management on 30 July 2003. The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SARs.

Under the SARs scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, department managers of the Company, general managers of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SARs.

In compliance with the relevant laws and regulations issued by the Ministry of Finance of the PRC and the CBIRC, the Company decided to suspend the scheme in 2008 except for SARs that had been granted to anyone who is not a Mainland Chinese resident.

## 45. RISK MANAGEMENT

The Group's activities are exposed to insurance risk and varieties of financial risks. The Group issues contracts that transfer insurance risk or financial risk or both. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund the obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are credit risk, liquidity risk and market risk.

### (a) Insurance risk

#### *(1) Insurance contract liabilities*

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contract is that the actual claim payments and the costs of claim settlements exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

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

Severity risk – the possibility that the costs of the events will differ from those expected

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period

The Group has the objective to control and minimise insurance risk so as to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

– The launch of any new product has to be approved by appropriate authorities;

– Underwriting and claims-handling authorities at different levels are properly established;

– Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and

– Catastrophe reinsurance is used to limit the Group's exposure to flooding, earthquakes and typhoons.

# 45. RISK MANAGEMENT *(continued)*

## (a) Insurance risk *(continued)*

### *(1) Insurance contract liabilities (continued)*

Claims in certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Group's concentration of insurance risk before and after reinsurance, measured by geographical gross written premiums and net written premiums, is as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Gross written premiums** *RMB million* | **Net written premiums** *RMB million* | Gross written premiums *RMB million* | Net written premiums *RMB million* |
| Coastal and developed provinces/cities | **195,992** | **177,661** | 171,772 | 155,290 |
| Western China | **88,188** | **81,215** | 81,651 | 75,475 |
| Northern China | **54,823** | **51,987** | 51,196 | 48,554 |
| Central China | **68,588** | **64,677** | 60,089 | 56,321 |
| North-eastern China | **25,584** | **22,476** | 24,061 | 21,719 |
| Total | **433,175** | **398,016** | 388,769 | 357,359 |

#### Terms

Loss and loss adjustment expense reserves are refined on a monthly basis as part of a regular ongoing process as claims develop, certain claims are settled and further claims are reported. The reserves are discounted for the time value of money if the impact is material.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Estimates of gross loss and loss adjustment expense reserves of all lines of business are based on the following selected methods:

- Paid and incurred loss development method
- Paid and incurred Bornhuetter-Ferguson method
- Expected loss ratio method

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to cargo, liability, marine and non-marine insurance.

# 45. RISK MANAGEMENT *(continued)*

## (a) Insurance risk *(continued)*

### *(1) Insurance contract liabilities (continued)*

| Reinsurance | Estimation method |
|---|---|
| Proportional treaty | As a certain percentage of gross claim liabilities |
| Facultative reinsurance arrangements | Case estimates of individual large claims multiplied by IBNR |
| Other treaties | Incurred claims loss development method and Bornhuetter-Ferguson method |

#### Assumptions and sensitivities

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affecting the estimates. The rates used for discounting long-tailed liabilities were in the range of 3.8% – 4.3% and 3.7% – 4.1% for 2019 and 2018, respectively.

The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

It is not possible to quantify the sensitivity of certain variables like legislative change and uncertainty in the estimation process with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claim reserve is not quantifiable with certainty at the end of 2019 and 2018.

## 45. RISK MANAGEMENT *(continued)*

### (a) Insurance risk *(continued)*

#### *(1) Insurance contract liabilities (continued)*

Assumptions and sensitivities *(continued)*

Reproduced below is an analysis that shows the development of claims over a period of time on a gross basis:

| | Accident year-gross | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | **2019** | Total |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | ***RMB million*** | *RMB million* |
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year | 168,697 | 191,668 | 210,232 | 234,325 | **268,651** | |
| One year later | 167,879 | 192,274 | 210,281 | 235,121 | | |
| Two years later | 167,467 | 191,400 | 206,701 | | | |
| Three years later | 166,793 | 189,224 | | | | |
| Four years later | 163,244 | | | | | |
| Estimated cumulative claims | 163,244 | 189,224 | 206,701 | 235,121 | **268,651** | 1,062,941 |
| Cumulative claims paid | (159,845) | (184,856) | (194,812) | (213,181) | **(179,014)** | (931,708) |
| Sub-total | | | | | | 131,233 |
| Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin | | | | | | 15,394 |
| Outstanding claim reserves | | | | | | 146,627 |

## 45. RISK MANAGEMENT *(continued)*

### (a) Insurance risk *(continued)*

#### *(1) Insurance contract liabilities (continued)*

**Assumptions and sensitivities** *(continued)*

Reproduced below is an analysis that shows the development of claims over a period of time on a net basis:

| | Accident year-net | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | **2019** | Total |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | ***RMB million*** | *RMB million* |
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year | 150,312 | 170,712 | 192,690 | 215,470 | **245,535** | |
| One year later | 149,618 | 170,727 | 191,225 | 215,830 | | |
| Two years later | 148,973 | 170,676 | 187,941 | | | |
| Three years later | 148,429 | 168,696 | | | | |
| Four years later | 145,028 | | | | | |
| Estimated cumulative claims | 145,028 | 168,696 | 187,941 | 215,830 | **245,535** | 963,030 |
| Cumulative claims paid | (142,298) | (165,073) | (177,640) | (197,698) | **(165,848)** | (848,557) |
| Sub-total | | | | | | 114,473 |
| Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin | | | | | | 13,415 |
| Outstanding claim reserves | | | | | | 127,888 |

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

## 45. RISK MANAGEMENT *(continued)*

### (a) Insurance risk *(continued)*

#### *(2) Reinsurance assets – terms, assumptions and methods*

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the businesses ceded are placed on a quota share basis or surplus line basis with retention limits varying by product line. There are profit commission, sliding scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophe reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to RMB12,875 million in total (2018: RMB13,227 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that these reinsurers are unable to meet their obligations assumed under such reinsurance agreements.

### (b) Financial risks

#### *(1) Credit risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes the other party to incur a financial loss.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt securities, insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, corporate bonds with high credit ratings and term deposits with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration in credit risk.

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(1) Credit risk (continued)*

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A- (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch or Moody's) or above except for state-owned reinsurance companies. Management of the Group performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2019, receivables form the top three reinsurance companies amounted to RMB4,743 million in total (31 December 2018: RMB4,624 million).

The carrying amounts of financial assets included in the consolidated statement of financial position best represent the maximum credit risk exposure at the reporting date without taking into account any collaterals held or other credit enhancements.

An aging analysis of the financial assets past due but not impaired and impaired financial assets is shown as follows:

| 31 December 2019 | Not past due | Past due but not impaired | | | | Past due and impaired | Total |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | 31 to 90 days | More than 90 days | Sub-total | | |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| Cash and cash equivalents | 32,520 | – | – | – | – | – | 32,520 |
| Term deposits | 64,398 | – | – | – | – | – | 64,398 |
| Debt securities | 149,072 | – | – | – | – | – | 149,072 |
| Insurance receivables | 40,401 | 3,665 | 2,230 | 3,287 | 9,182 | 7,342 | 56,925 |
| Reinsurance assets | 30,321 | – | – | – | – | – | 30,321 |
| Investments classified as loans and receivables | 67,391 | – | – | – | – | – | 67,391 |
| Other financial assets | 12,818 | 709 | 373 | 1,261 | 2,343 | 326 | 15,487 |
| Gross Amount | 396,921 | 4,374 | 2,603 | 4,548 | 11,525 | 7,668 | 416,114 |
| Less: Impairment provision | – | – | – | – | – | (3,658) | (3,658) |
| Net Amount | 396,921 | 4,374 | 2,603 | 4,548 | 11,525 | 4,010 | 412,456 |

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(1) Credit risk (continued)*

| 31 December 2018 | Not past due | Past due but not impaired: Less than 30 days | Past due but not impaired: 31 to 90 days | Past due but not impaired: More than 90 days | Past due but not impaired: Sub-total | Past due and impaired | Total |
|---|---|---|---|---|---|---|---|
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| Cash and cash equivalents | 33,797 | – | – | – | – | – | 33,797 |
| Term deposits | 73,963 | – | – | – | – | – | 73,963 |
| Debt securities | 143,499 | – | – | – | – | – | 143,499 |
| Insurance receivables | 30,024 | 3,639 | 3,205 | 2,851 | 9,695 | 5,854 | 45,573 |
| Reinsurance assets | 28,565 | – | – | – | – | – | 28,565 |
| Investments classified as loans and receivables | 54,097 | – | – | – | – | – | 54,097 |
| Other financial assets | 12,896 | 430 | 242 | 1,403 | 2,075 | 657 | 15,628 |
| Gross Amount | 376,841 | 4,069 | 3,447 | 4,254 | 11,770 | 6,511 | 395,122 |
| Less: Impairment provision | – | – | – | – | – | (3,577) | (3,577) |
| Net Amount | 376,841 | 4,069 | 3,447 | 4,254 | 11,770 | 2,934 | 391,545 |

#### Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. The government bonds and financial bonds are issued by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2019, 100% (31 December 2018: 100%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2019, 98.74% (31 December 2018: 98.74%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks and CSDCC have a high credit quality.

The credit risk associated with securities purchased under resale agreements included in cash equivalent will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2019 and 2018.

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(1) Credit risk (continued)*

#### Credit quality *(continued)*

As at 31 December 2019 and 2018, investments classified as loans and receivables are issued by asset management companies, trust companies or large financial institutions with high credit quality, and mostly are guaranteed by the lenders' related parties. The Group believes investments classified as loans and receivables have a high credit quality.

#### Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collaterals and the valuation parameters.

Securities purchased under resale agreements are pledged by counterparts' debt securities of which the Group could take the ownership should the owner of the collateral defaults.

The Group's long-term debt investment schemes, asset management products and asset-backed securities, included in investments classified as loans and receivables, are supported by third party guarantee or with pledge.

Management monitors the market value of the collateral, requests additional collaterals when needed and performs impairment testing when applicable.

### *(2) Liquidity or funding risk*

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

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate according to statistical techniques and past experience.

As at 31 December 2019, the Group maintained demand deposits and term deposits with original maturity of no more than three months at 2% of total assets (31 December 2018: 3%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitors the increase of non-current assets.

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(2) Liquidity or funding risk (continued)*

**Maturity profiles of financial assets and financial liabilities**

The table below summarises maturity profiles of financial assets and financial liabilities of the Group. Maturity profiles of financial assets and financial liabilities are prepared, using the contractual collection or repayment dates.

All amounts are based on undiscounted contractual cash flows.

| 31 December 2019 | On demand/ past due *RMB million* | Within 3 months *RMB million* | 3 to 12 months *RMB million* | 1 to 5 years *RMB million* | More than 5 years *RMB million* | No maturity date *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| Financial assets: | | | | | | | |
| Cash and cash equivalents | 13,748 | 18,821 | – | – | – | – | 32,569 |
| Debt securities | | | | | | | |
| – Available-for-sale | – | 5,565 | 14,778 | 47,396 | 41,881 | – | 109,620 |
| – Held-for-trading | – | 1,198 | 7,447 | 4,510 | 1,918 | – | 15,073 |
| – Held-to-maturity | – | 103 | 1,230 | 13,650 | 55,171 | – | 70,154 |
| Equity securities and mutual funds | – | – | – | – | – | 91,728 | 91,728 |
| Insurance receivables, net | 13,455 | 13,892 | 15,023 | 11,004 | 219 | – | 53,593 |
| Term deposits | – | 11,031 | 12,400 | 46,933 | 1,914 | – | 72,278 |
| Investments classified as loans and receivables | – | 1,361 | 5,842 | 44,794 | 34,402 | – | 86,399 |
| Other financial assets | 2,501 | 4,521 | 3,695 | 4,802 | 198 | – | 15,717 |
| Total financial assets | 29,704 | 56,492 | 60,415 | 173,089 | 135,703 | 91,728 | 547,131 |
| Financial liabilities: | | | | | | | |
| Payables to reinsurers | 4,939 | 9,361 | 4,500 | 619 | 30 | – | 19,449 |
| Accrued insurance security fund | – | 1,076 | – | – | – | – | 1,076 |
| Securities sold under agreements to repurchase | – | 16,782 | – | – | – | – | 16,782 |
| Policyholders' deposits | 1,762 | – | – | – | – | – | 1,762 |
| Bonds payable | – | – | 488 | 2,190 | 18,488 | – | 21,166 |
| Other financial liabilities | 5,157 | 15,557 | 2,142 | 1,818 | 244 | – | 24,918 |
| Total financial liabilities | 11,858 | 42,776 | 7,130 | 4,627 | 18,762 | – | 85,153 |
| Net liquidity gap | 17,846 | 13,716 | 53,285 | 168,462 | 116,941 | 91,728 | 461,978 |

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(2) Liquidity or funding risk (continued)*

#### Maturity profiles of financial assets and financial liabilities *(continued)*

| 31 December 2018 | On demand/ past due *RMB million* | Within 3 months *RMB million* | 3 to 12 months *RMB million* | 1 to 5 years *RMB million* | More than 5 years *RMB million* | No maturity date *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| Financial assets: | | | | | | | |
| Cash and cash equivalents | 15,376 | 18,435 | – | – | – | – | 33,811 |
| Debt securities | | | | | | | |
| – Available-for-sale | – | 2,281 | 16,266 | 58,336 | 38,454 | – | 115,337 |
| – Held-for-trading | – | 238 | 4,001 | 1,087 | 585 | – | 5,911 |
| – Held-to-maturity | – | 183 | 1,294 | 13,260 | 51,137 | – | 65,874 |
| Equity securities and mutual funds | – | – | – | – | – | 74,102 | 74,102 |
| Insurance receivables, net | 12,599 | 10,662 | 11,051 | 7,951 | 158 | – | 42,421 |
| Term deposits | – | 11,327 | 9,958 | 57,894 | 2,990 | – | 82,169 |
| Investments classified as loans and receivables | – | 10,914 | 2,576 | 37,776 | 11,859 | – | 63,125 |
| Other financial assets | 1,879 | 4,230 | 3,363 | 6,070 | 217 | – | 15,759 |
| Total financial assets | 29,854 | 58,270 | 48,509 | 182,374 | 105,400 | 74,102 | 498,509 |
| Financial liabilities: | | | | | | | |
| Payables to reinsurers | 7,595 | 6,793 | 939 | 356 | 23 | – | 15,706 |
| Accrued insurance security fund | – | 1,026 | – | – | – | – | 1,026 |
| Securities sold under agreements to repurchase | – | 28,035 | – | – | – | – | 28,035 |
| Policyholders' deposits | 1,750 | – | 206 | – | – | – | 1,956 |
| Bonds payable | – | – | 859 | 5,120 | 25,713 | – | 31,692 |
| Other financial liabilities | 1,676 | 13,414 | 2,947 | 1,221 | 226 | – | 19,484 |
| Total financial liabilities | 11,021 | 49,268 | 4,951 | 6,697 | 25,962 | – | 97,899 |
| Net liquidity gap | 18,833 | 9,002 | 43,558 | 175,677 | 79,438 | 74,102 | 400,610 |

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(2) Liquidity or funding risk (continued)*

#### Maturity profiles of reinsurance assets and insurance contract liabilities

For reinsurance assets and insurance contract liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims. These expected timing is made on various assumptions, including settlement speed of claims. Therefore, actual timing may deviate from the analysis presented below.

The table below summarises maturity profiles of reinsurance assets and insurance contract liabilities of the Group.

All amounts are based on undiscounted contractual cash flows.

| **31 December 2019** | **On demand/ past due** *RMB million* | **Within 3 months** *RMB million* | **3 to 12 months** *RMB million* | **1 to 5 years** *RMB million* | **More than 5 years** *RMB million* | **No maturity date** *RMB million* | **Total** *RMB million* |
|---|---|---|---|---|---|---|---|
| Reinsurance assets | **–** | **5,670** | **14,430** | **8,128** | **2,714** | **–** | **30,942** |
| Insurance contract liabilities | **–** | **53,483** | **180,414** | **52,961** | **19,692** | **–** | **306,550** |

| 31 December 2018 | On demand/ past due *RMB million* | Within 3 months *RMB million* | 3 to 12 months *RMB million* | 1 to 5 years *RMB million* | More than 5 years *RMB million* | No maturity date *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| Reinsurance assets | – | 5,909 | 12,569 | 7,962 | 2,596 | – | 29,036 |
| Insurance contract liabilities | – | 49,158 | 159,920 | 53,383 | 14,520 | – | 276,981 |

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(2) Liquidity or funding risk (continued)*

#### The expected utilisation or settlement of all assets and liabilities

The Group has no significant concentration of liquidity or funding risk.

The table below summarises the expected utilisation or settlement of all assets and liabilities:

| | **31 December 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Current*** *RMB million* | **Non-current** *RMB million* | **Total** *RMB million* | Current* *RMB million* | Non-current *RMB million* | Total *RMB million* |
| Cash and cash equivalents | **32,520** | **–** | **32,520** | 33,797 | – | 33,797 |
| Debt securities | **30,929** | **118,143** | **149,072** | 83,650 | 59,849 | 143,499 |
| Equity securities and mutual funds | **75,073** | **16,655** | **91,728** | 63,329 | 10,773 | 74,102 |
| Insurance receivables, net | **42,370** | **11,223** | **53,593** | 34,314 | 8,107 | 42,421 |
| Reinsurance assets | **19,744** | **10,577** | **30,321** | 18,210 | 10,355 | 28,565 |
| Term deposits | **21,432** | **42,966** | **64,398** | 577 | 73,386 | 73,963 |
| Investments classified as loans and receivables | **3,894** | **63,497** | **67,391** | 3,347 | 50,750 | 54,097 |
| Investments in associates and joint venture | **–** | **50,477** | **50,477** | – | 45,301 | 45,301 |
| Investment properties | **–** | **4,598** | **4,598** | – | 4,881 | 4,881 |
| Property and equipment | **–** | **18,086** | **18,086** | – | 17,235 | 17,235 |
| Right-of-use assets | **–** | **5,863** | **5,863** | – | – | – |
| Prepaid land premiums | **–** | **–** | **–** | – | 2,845 | 2,845 |
| Deferred tax assets | **–** | **5,121** | **5,121** | – | 6,779 | 6,779 |
| Prepayments and other assets | **15,685** | **7,228** | **22,913** | 15,004 | 8,130 | 23,134 |
| Total assets | **241,647** | **354,434** | **596,081** | 252,228 | 298,391 | 550,619 |
| Payables to reinsurers | **18,800** | **649** | **19,449** | 15,327 | 379 | 15,706 |
| Accrued insurance security fund | **1,076** | **–** | **1,076** | 1,026 | – | 1,026 |
| Securities sold under agreements to repurchase | **16,759** | **–** | **16,759** | 27,999 | – | 27,999 |
| Income tax payable | **96** | **–** | **96** | 3,109 | – | 3,109 |
| Insurance contract liabilities | **233,006** | **72,134** | **305,140** | 208,346 | 67,435 | 275,781 |
| Policyholders' deposits | **1,762** | **–** | **1,762** | 1,956 | – | 1,956 |
| Bonds payable | **–** | **15,198** | **15,198** | – | 23,420 | 23,420 |
| Lease Liabilities | **722** | **1,476** | **2,198** | – | – | – |
| Accruals and other liabilities | **61,191** | **3,258** | **64,449** | 57,304 | 2,815 | 60,119 |
| Total liabilities | **333,412** | **92,715** | **426,127** | 315,067 | 94,049 | 409,116 |

* Expected utilisation or settlement within 12 months from the end of each reporting period.

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(3) Market risk*

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

The Group uses multiple methods to manage market risk, including using sensitivity analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate is also approved by an investment committee to direct investment decisions.

##### (i) Currency risk

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried out in RMB. Certain insurance policies issued by the Group, however, in particular in respect of cargo, commercial properties and aviation insurance, were denominated in United States Dollars ("USD"). Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in USD.

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

| 31 December 2019 | RMB in million | USD in RMB million equivalent | HKD in RMB million equivalent | Other in RMB million equivalent | Total in RMB million equivalent |
|---|---|---|---|---|---|
| Cash and cash equivalents | 30,594 | 1,634 | 238 | 54 | 32,520 |
| Debt securities | 148,085 | 910 | 77 | – | 149,072 |
| Equity securities and mutual funds | 88,084 | 2,485 | 1,159 | – | 91,728 |
| Insurance receivables, net | 47,062 | 6,156 | 51 | 324 | 53,593 |
| Reinsurance assets | 28,656 | 1,617 | 14 | 34 | 30,321 |
| Term deposits | 63,188 | 1,210 | – | – | 64,398 |
| Investments classified as loans and receivables | 67,391 | – | – | – | 67,391 |
| Other financial assets | 15,061 | 97 | – | 3 | 15,161 |
| Total assets | 488,121 | 14,109 | 1,539 | 415 | 504,184 |

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(3) Market risk (continued)*

#### (i) Currency risk *(continued)*

| 31 December 2019 | RMB in million | USD in RMB million equivalent | HKD in RMB million equivalent | Other in RMB million equivalent | Total in RMB million equivalent |
|---|---|---|---|---|---|
| Payables to reinsurers | 16,902 | 2,438 | 11 | 98 | 19,449 |
| Accrued insurance security fund | 1,076 | – | – | – | 1,076 |
| Securities sold under agreements to repurchase | 16,759 | – | – | – | 16,759 |
| Insurance contract liabilities | 302,171 | 2,715 | 62 | 192 | 305,140 |
| Policyholders' deposits | 1,762 | – | – | – | 1,762 |
| Bonds payable | 15,198 | – | – | – | 15,198 |
| Other financial liabilities | 24,209 | 629 | 54 | 26 | 24,918 |
| Total liabilities | 378,077 | 5,782 | 127 | 316 | 384,302 |
| Net exposure | 110,044 | 8,327 | 1,412 | 99 | 119,882 |

# 45. RISK MANAGEMENT *(continued)*

## (b) Financial risks *(continued)*

### *(3) Market risk (continued)*

#### (i) Currency risk *(continued)*

| 31 December 2018 | *RMB in million* | USD *in RMB million equivalent* | HKD *in RMB million equivalent* | Other *in RMB million equivalent* | Total *in RMB million equivalent* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 30,972 | 2,301 | 495 | 29 | 33,797 |
| Debt securities | 143,151 | 348 | – | – | 143,499 |
| Equity securities and mutual funds | 71,649 | 1,940 | 513 | – | 74,102 |
| Insurance receivables, net | 37,661 | 4,431 | 124 | 205 | 42,421 |
| Reinsurance assets | 27,167 | 1,347 | 16 | 35 | 28,565 |
| Term deposits | 73,936 | 27 | – | – | 73,963 |
| Investments classified as loans and receivables | 54,097 | – | – | – | 54,097 |
| Other financial assets | 15,094 | 107 | 1 | 1 | 15,203 |
| Total assets | 453,727 | 10,501 | 1,149 | 270 | 465,647 |
| Payables to reinsurers | 13,648 | 1,962 | 26 | 70 | 15,706 |
| Accrued insurance security fund | 1,026 | – | – | – | 1,026 |
| Securities sold under agreements to repurchase | 27,999 | – | – | – | 27,999 |
| Insurance contract liabilities | 273,457 | 2,121 | 73 | 130 | 275,781 |
| Policyholders' deposits | 1,956 | – | – | – | 1,956 |
| Bonds payable | 23,420 | – | – | – | 23,420 |
| Other financial liabilities | 18,465 | 988 | 19 | 12 | 19,484 |
| Total liabilities | 359,971 | 5,071 | 118 | 212 | 365,372 |
| Net exposure | 93,756 | 5,430 | 1,031 | 58 | 100,275 |

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(3) Market risk (continued)*

##### (i) Currency risk *(continued)*

*Sensitivity analysis*

The analysis below is performed for reasonably possible movements in exchange rate with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency-sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in USD exchange rate, the correlations of these variables are ignored.

| | Appreciation/ (depreciation) against RMB | **31 December 2019** Impact on profit *RMB million* | Impact on equity *RMB million* | 31 December 2018 Impact on profit *RMB million* | Impact on equity *RMB million* |
|---|---|---|---|---|---|
| USD | 5% | **273** | **416** | 157 | 272 |
| USD | (5%) | **(273)** | **(416)** | (157) | (272) |

##### (ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days at a confidence level of 99% for bond investments measured at fair value. Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price behavior, which could differ substantially from the past behavior. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

## 45. RISK MANAGEMENT *(continued)*

### (b) Financial risks *(continued)*

#### *(3) Market risk (continued)*

##### (ii) Interest rate risk *(continued)*

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Interest rate VaR | **372** | 451 |

##### (iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to listed equity securities and mutual funds whose values will fluctuate as a result of changes in market prices.

The Group holds a diversified portfolio of equity instruments and therefore does not have significant concentration risk in any particular individual instrument. However, the Group principally invests in the stock markets in Hong Kong and Mainland China and is subject to price risk arising from volatilities of these two markets.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and carefully plan the use of derivative financial instruments.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and mutual fund investments measured at fair value (other than those measured at level 3 fair value) over a holding period of 10 trading days (2018: 10 trading days) at a confidence level of 99% (2018: 99%). Delta-Normal method is used in measuring VaR.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum loss could be underestimated. VaR also uses historical data to forecast future price behaviour, which could differ substantially from past behaviour. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged within 10 days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Equity price VaR | **1,568** | 2,384 |

## 46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Securities sold under agreements to repurchase** *RMB million* **(note 35)** | **Interest payable** *RMB million* **(note 40)** | **Bonds payable** *RMB million* **(note 38)** | **Lease liabilities** *RMB million* **(note 39)** | **Total** *RMB million* |
|---|---|---|---|---|---|
| At 31 December 2018 | 27,999 | 177 | 23,420 | – | 51,596 |
| Adjustment upon application of HKFRS 16 | – | – | – | 2,733 | 2,733 |
| As at 1 January 2019 (restated) | **27,999** | **177** | **23,420** | **2,733** | **54,329** |
| Financing cash flows | **(11,240)** | **(1,661)** | **(8,000)** | **(1,112)** | **(22,013)** |
| Finance costs | **–** | **1,557** | **(222)** | **89** | **1,424** |
| New leases entered/lease modified | **–** | **–** | **–** | **488** | **488** |
| At 31 December 2019 | **16,759** | **73** | **15,198** | **2,198** | **34,228** |

| | Securities sold under agreements to repurchase *RMB million* (note 35) | Interest payable *RMB million* (note 40) | Bonds payable *RMB million* (note 38) | Total *RMB million* |
|---|---|---|---|---|
| At 1 January 2018 | 23,121 | 164 | 23,262 | 46,547 |
| Financing cash flows | 4,878 | (1,904) | – | 2,974 |
| Finance costs | – | 1,916 | 158 | 2,074 |
| Interest expenses credited to policyholders' deposits | – | 1 | – | 1 |
| At 31 December 2018 | 27,999 | 177 | 23,420 | 51,596 |

## 47. CONTINGENCIES AND COMMITMENTS

### (1) Contingencies

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group for the years ended 31 December 2019 and 2018.

### (2) Capital commitments and leases

#### *(a) Capital commitments*

| | **31 December 2019** ***RMB million*** | 31 December 2018 *RMB million* |
|---|---|---|
| Property and equipment commitments: | | |
| Contracted, but not provided for: | **1,486** | 1,889 |

#### *(b) Leases*

As lessor

The Group leases its investment properties (note 26) under lease arrangements, with lease terms ranging from one to eleven years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2019, the undiscounted lease payments to be received under leases are as follows:

| | **31 December 2019** ***RMB million*** |
|---|---|
| Within one year, inclusive 1 year | **132** |
| One to two years, inclusive 2 years | **84** |
| Two to three years, inclusive 3 years | **57** |
| Three to four years, inclusive 4 years | **39** |
| Four to five years, inclusive 5 years | **20** |
| After five years | **42** |
| | **374** |

# 47. CONTINGENCIES AND COMMITMENTS *(continued)*

## (2) Capital commitments and leases *(continued)*

### *(b) Leases (continued)*

As lessor *(continued)*

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable leases with its tenants falling due as follows:

| | 31 December 2018 *RMB million* |
|---|---|
| Within one year | 222 |
| In the second to fifth year, inclusive | 259 |
| After five years | 37 |
| | 518 |

As lessee

The Group leases office premises and motor vehicles under various operating lease agreements. Future minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2018 *RMB million* |
|---|---|
| Within one year, inclusive | 366 |
| In the second to fifth year, inclusive | 1,009 |
| After five years | 245 |
| | 1,620 |

## 48. RELATED PARTY TRANSACTIONS

### (a) Related parties with control relationship

The Company is a state-owned enterprise and its controlling shareholder is PICC Group.

### (b) Other related parties without controlling relationship with the Company:

| Related parties' name | Relationship |
|---|---|
| PICC Asset Management Company Limited ("PICC AMC") | Fellow subsidiary |
| The People's Insurance Company of China (Hong Kong) Limited ("PICC HK") | Fellow subsidiary |
| PICC Capital Investment Management Company Limited ("PICC Capital") | Fellow subsidiary |
| PICC Investment Holding Company Limited ("PICC Investment") | Fellow subsidiary |
| PICC Capital Equity Investment Company Limited ("PICC Equity") | A subsidiary of a fellow subsidiary |
| PICC Life Insurance Company Limited ("PICC Life") | An associate of the Company and fellow subsidiary |
| PICC Health Insurance Company Limited ("PICC Health") | An associate of the Company and fellow subsidiary |
| PICC Reinsurance Company Limited ("PICC Re") | An associate of the Company and fellow subsidiary |
| PICC Financial Services Company Limited ("PICC Financial Services") | Fellow subsidiary |
| Prime Insurance Brokers Company Limited ("PIB") | A subsidiary of a fellow subsidiary |
| ZSIB | Fellow subsidiary/subsidiary (note) |
| China Insurance Brokers Co., Ltd. ("CIB") | A subsidiary of a fellow subsidiary/ Indirectly controlled subsidiary (note) |
| Hua Xia Bank | An associate of the Company |
| Industrial Bank Co., Ltd. ("IBC") | An associate of the controlling shareholder |
| China Merchants Securities Co. Ltd. ("China Merchant Securities") | An associate of the controlling shareholder |
| Bangbang Auto Sales & Service (Beijing) Co., Ltd. ("Bangbang") | A joint venture of the Company |

Note: The Company acquired ZSIB from PICC Group in December 2019. CIB is a subsidiary of ZSIB.

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Material transactions with related parties

| | *Notes* | **2019** **RMB million** | 2018 RMB million |
|---|---|---|---|
| Transactions with PICC Group: | | | |
| 2018 final dividend distribution | (i) | **4,173** | – |
| 2017 final dividend distribution | (i) | **–** | 3,457 |
| Addition to right-of-use assets | (ii) | **88** | – |
| Addition to lease liabilities | (ii) | **88** | – |
| Payment of lease liabilities | (ii) | **90** | – |
| Interest on lease liabilities | (ii) | **2** | – |
| Rental expense | (ii) | **–** | 95 |
| WAN service fees | (ii) | **21** | 20 |
| Transactions with fellow subsidiaries: | | | |
| Management fee | (iii) | **278** | 205 |
| Subscription amount of financial products set up and managed by fellow subsidiaries | (iii) | **7,227** | 5,127 |
| Premiums ceded | (iv) | **534** | 505 |
| Reinsurance commission income | (iv) | **165** | 209 |
| Paid losses recoverable from reinsurers | (iv) | **282** | 273 |
| Reinsurance premiums assumed | (iv) | **8** | 6 |
| Commission expenses – reinsurance | (iv) | **2** | 1 |
| Gross claims paid – reinsurance | (iv) | **20** | 3 |
| Brokerage commission expense | (v) | **378** | 316 |
| Service fee | (vi) | **146** | 287 |
| Addition to right-of-use assets | | **66** | – |
| Addition to lease liabilities | | **66** | – |
| Payment of lease liabilities | | **128** | – |
| Interest on lease liabilities | | **11** | – |
| Rental expense | | **–** | 138 |
| Transactions with associates of the Company: | | | |
| Agency services commission received | (vii), (viii) | **113** | 136 |
| Agency services commission paid | (vii), (viii) | **547** | 495 |
| Premiums paid | (ix) | **44** | 34 |
| Interest income | (xi) | **331** | 349 |
| Premium income | (xi) | **2** | 2 |
| Claims paid | (xi) | **370** | 169 |
| Commission expense | (xi) | **1** | 1 |
| Dividend income | (xi) | **446** | 387 |
| Premiums ceded | (xii) | **4,701** | 4,058 |
| Reinsurance commission income | (xii) | **1,520** | 1,378 |
| Paid losses recoverable from reinsurers | (xii) | **2,453** | 1,726 |
| Addition to right-of-use assets | | **8** | – |
| Addition to lease liabilities | | **8** | – |
| Payment of lease liabilities | | **17** | – |
| Interest on lease liabilities | | **1** | – |
| Rental expense | | **–** | 12 |

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Material transactions with related parties *(continued)*

| | *Notes* | **2019** **RMB million** | 2018 *RMB million* |
|---|---|---|---|
| Transactions with associates of PICC Group: | | | |
| Interest income | *(x)* | **377** | 499 |
| Dividend income | *(x)* | **885** | 836 |
| Interest expense | *(x)* | **15** | 31 |
| Premium income | *(x)* | **16** | 12 |
| Claims paid | *(x)* | **26** | 8 |
| Commission expense | *(x)* | **11** | 1 |
| Transactions with joint venture of the Company: | | | |
| Purchase of spare parts | *(xiii)* | **388** | 85 |

*Notes:*

(i) As PICC Group held 68.98% of the share capital of the Company, the Company distributed 2018 dividend with an amount of approximately RMB4,173 million to PICC Group during the year of 2019.

The Company distributed 2017 dividend with an amount of approximately RMB3,457 million to PICC Group during the year of 2018.

(ii) On 1 January 2018, the Company and PICC Group renewed the integrated service agreement for a term of two years effective from 1 January 2018. Pursuant to the agreement, the services include renting out, check-up and maintenance services on the office space, WAN equipment as well as the WAN technical support services agreed by the two parties. The Company paid the rent and WAN service fees to PICC Group. During 2019, the rental transaction was accounted for as right-of-use assets and lease liabilities.

(iii) On 23 June 2016, the Company and PICC AMC renewed the asset management agreement for 3 years, effective from 1 July 2016. On 28 August 2019, the Company and PICC AMC further renewed the asset management agreement and supplemental agreements for another 3 years, effective from 1 July 2019. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than management fees, performance bonuses were also paid to PICC AMC when the investment performance has satisfied certain conditions.

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Material transactions with related parties *(continued)*

*Notes: (continued)*

(iii) *(continued)*

On 7 August 2019, the Company and PICC AMC entered into a Marketisation Entrusted Portfolio Asset Management Agreement for 3 years, effective from 7 August 2019. Pursuant to the Marketisation Agreement, the Company agrees to entrust PICC AMC to manage some of its assets, and PICC AMC shall manage the entrusted assets in accordance with the Marketisation Agreement, relevant laws and regulations and regulatory rules in consideration of the entrusted asset management fees to be paid by the Company to PICC AMC.

On 28 August 2019, the Company entered into asset management agreements and supplemental agreements with PICC Investment and PICC Capital respectively for 3 years, effective from 28 August 2019. Pursuant to the asset management agreements and supplemental agreements, the Company entrusts some investment assets to PICC Investment and PICC Capital for their management, and PICC Investment and PICC Capital manage the entrusted assets in accordance with the asset management agreements and supplemental agreements, relevant laws and regulations and regulatory provisions and the investment guidelines formulated by the Company, and use the assets entrusted by the Company to subscribe for the debt financial products and equity financial products sponsored and managed by them. Meanwhile, the Company pays product management fees to PICC Investment and PICC Capital.

On 24 November 2016, the Company and PICC AMC entered into a memorandum, effective from 24 November 2016 to 30 June 2019, regarding the above asset management agreement. On 28 August 2019, the Company and PICC AMC entered into a memorandum on connected transaction (the “memorandum”) for a term of three years effective from 28 August 2019. Pursuant to the memorandum, in respect of the Company’s subscription of financial products set up and managed, either solely or jointly, by PICC AMC, PICC Capital, PICC Investment and PICC Equity, and when there are connected person(s) of the Company also subscribing for the same financial products, the aggregated annual subscription amount for such financial products should not exceed 5% of the total market capitalisation or the total revenue of the Company (whichever the lower).

(iv) On 18 February 2019, the Company and PICC HK renewed the Framework Agreement for one year, effective from 1 January 2019. Pursuant to the Framework Agreement, the Company agreed to cede insurance premiums to and receive commissions from PICC HK, and PICC HK agreed to cede insurance premiums to and receive commissions from the Company.

# 48. RELATED PARTY TRANSACTIONS *(continued)*

## (c) Material transactions with related parties *(continued)*

*Notes: (continued)*

(v) On 27 December 2018, the Company entered into an insurance business cooperation agreement with ZSIB and CIB, with a term commencing from 27 December 2018 and expiring on 16 June 2019. Pursuant to the agreement, the Company cooperated with ZSIB and CIB mainly in the field of insurance brokerage.

On 21 June 2019, the Company entered into business cooperation agreements with ZSIB, CIB and PIB respectively with a term of 3 years, effective from 17 June 2019. Pursuant to such agreements, ZSIB, CIB and PIB provide insurance brokerage services for the insurance contracts entered into between the insurance purchasers and the Company, and the Company pays brokerage commissions to them. In addition, ZSIB also provides services on disaster prevention, loss prevention, risk assessment and risk management consultation to the customers of the Company, and the Company pays service fees to ZSIB.

(vi) On 27 November 2017, the Company and PICC Financial Services entered into an internet insurance business cooperation agreement for a term of one year, effective from 27 November 2017. Pursuant to the agreement, PICC Financial Services provided the Company with services such as customer acquisition and promotion services, IT technical services and information technology platform services through its payment and financial service platform and other online and offline promotion channels, and the Company pays service fees to PICC Financial Services. The pricing policies and basis of the specific business were determined by both parties pursuant to the principles of compliance and fairness. The agreement had been automatically extended to 26 November 2019.

On 11 July 2019, the Company and PICC Financial Services entered into a supplemental agreement to the internet insurance business cooperation agreement to supplement the contents of cooperation and to reach an agreement in respect of the cap of service fees for the period from 1 January 2019 to 26 November 2019.

(vii) On 30 August 2016, the Company and PICC Health renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016. On 30 August 2019, the Company and PICC Health further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Health mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Health in consideration of the agency services provided by PICC Health on the Company's insurance products. The Company would receive an agency fee from PICC Health in consideration of the agency services provided by the Company on PICC Health's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Health on normal commercial terms.

PICC Health is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Health is included in "associates" and excluded from "fellow subsidiaries".

# 48. RELATED PARTY TRANSACTIONS *(continued)*

## (c) Material transactions with related parties *(continued)*

*Notes: (continued)*

(viii) On 30 August 2016, the Company and PICC Life renewed a mutual insurance agency agreement for a term of three years, effective from 31 August 2016. On 30 August 2019, the Company and PICC Life further renewed the mutual insurance agency agreement for a term of three years, effective from 31 August 2019. Pursuant to the mutual insurance agency agreement, the Company and PICC Life mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company would receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Life on normal commercial terms.

PICC Life is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Life is included in "associates" and excluded from "fellow subsidiaries".

(ix) The Company purchased life or health insurance products from PICC Life and PICC Health for the employees of the Company.

(x) The transactions with IBC are related party transactions as IBC is an associate of PICC Group since 2013. The transactions with China Merchant Securities are related party transactions as China Merchant Securities is an associate of PICC Group since 2017.

(xi) The transactions with Hua Xia Bank are related party transactions as Hua Xia Bank is an associate of the Company since 2016.

(xii) On 18 February 2019, the Company and PICC Re renewed the Framework Agreement on Reinsurance Business Cooperation for a term of one year, effective from 1 January 2019. Pursuant to the agreement, the Company agreed to cede insurance premiums to and receive commissions from PICC Re, and PICC Re agreed to cede insurance premiums to and receive commissions from the Company. On 18 December 2019, the Company entered into a Supplemental Agreement with PICC Re to increase the annual caps in relation to the premiums ceded by the Company to PICC Re and the commissions paid to the Company by PICC Re for the year ended 31 December 2019 as set under the Reinsurance Framework Agreement.

PICC Re is both an associate of the Company and a fellow subsidiary of the Company. In the above note, PICC Re is included in "associates" and excluded from "fellow subsidiaries".

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Material transactions with related parties *(continued)*

*Notes: (continued)*

(xiii) On 29 May 2019, the Company and Bangbang signed a Goods Procurement Contract for a term of two years, effective from 1 April 2019. Pursuant to the contract, the Company shall purchase spare parts for the maintenance of insured accident-damaged vehicles from BangBang, and BangBang shall supply spare parts for accident-damaged vehicles and provide services on development, operation and maintenance of relevant systems to the Company. The Company shall pay the cost of the auto spare parts to BangBang.

Under the Listing Rules, the items (ii), (iii), (iv), (v), (vi), (vii), (viii), (xii) and (xiii) above constitute continuing connected transactions.

### (d) Outstanding balances with related parties

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| Cash and cash equivalents: | | |
| An associate | **65** | 56 |
| An associate of PICC Group | **1,310** | 1,623 |
| Term deposits: | | |
| An associate | **6,010** | 6,550 |
| An associate of PICC Group | **18,266** | 20,673 |
| Debt securities: | | |
| An associate of PICC Group | **2,699** | 3,295 |
| Equity securities: | | |
| An associate of PICC Group | **25,057** | 19,061 |
| Receivables from reinsurers: | | |
| A fellow subsidiary (note 20) | **150** | 233 |
| An associate (note 20) | **1,690** | 931 |
| Due from related parties: | | |
| PICC Group (note 31) | **50** | 57 |
| Fellow subsidiaries (note 31) | **25** | 30 |
| Associates (note 31) | **35** | 314 |
| An associate of PICC Group | **376** | 326 |
| Payables to reinsurers: | | |
| A fellow subsidiary (note 33) | **203** | 237 |
| An associate (note 33) | **2,514** | 846 |

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (d) Outstanding balances with related parties *(continued)*

| | **31 December 2019** **_RMB million_** | 31 December 2018 *RMB million* |
|---|---|---|
| Due to related parties: | | |
| Fellow subsidiaries (note 40) | **123** | 109 |
| An associate of PICC Group | **18** | 5 |
| Bonds payable issued to: | | |
| An associate of PICC Group | **468** | 467 |
| Lease liabilities: | | |
| A fellow subsidiary | **318** | – |
| An associate | **30** | – |

PICC Life, PICC Health and PICC Re are both associates of the Company and fellow subsidiaries of the Company. In the above note, PICC Life, PICC Health and PICC Re are included in "associates" and excluded from "fellow subsidiaries".

The balances with PICC Group, fellow subsidiaries, associates and an associate of PICC Group are settled according to respective arrangements between the Company and the related parties.

### (e) Transactions with other government-related entities in the PRC

The Company is a state-owned enterprise which is subject to the indirect control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions paid to banks for insurance policies distributed.

The directors consider that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

## 48. RELATED PARTY TRANSACTIONS *(continued)*

### (f) Compensation of key management personnel

| | 2019<br>RMB'000 | 2018 (Restated)<br>RMB'000 |
|---|---|---|
| Fees, salaries, allowances and performance related bonuses | **12,398** | *20,553* |
| Retirement benefits | **2,552** | *2,776* |
| Housing fund and other benefits | **1,160** | *1,335* |
| | **16,110** | *24,664* |

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The total compensation packages for key management personnel for the year ended 31 December 2019 including performance related bonuses have not yet been finalised in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final remunerations and that disclosed above will not have significant impact on the consolidated financial statements.

The compensation amounts for certain key management personnel for the year ended 31 December 2018 were restated based on the finalised amounts determined during 2019. Additionally, pursuant to the PRC relevant regulations, a portion of the performance related bonuses for the year ended 31 December 2018 amounting to RMB9 million for key management personnel had been deferred contingent upon the future performance.

## 49. STRUCTURED ENTITIES

### (a) Interests in consolidated structured entities

To determine whether control exists in a structured entity, the Group uses the judgements as described in note 3.

The Group had consolidated certain structured entities during the year which are debt schemes. As at 31 December 2019, interests in these consolidated structured entities held by the Group represented by the investment cost amounted to RMB3,696 million (31 December 2018: RMB2,909 million).

The financial impact of these debt schemes on the Group's financial position as at 31 December 2019, and results and cash flows for the year then ended, though consolidated, are not significant individually and therefore not disclosed separately.

Interests held by other interest holders in consolidated structured entities are presented as finance costs in the consolidated income statement and as accruals and other liabilities in the consolidated statement of financial position respectively. The payables to interest holders of consolidated structured entities amounted to RMB153 million as at 31 December 2019 (31 December 2018: RMB353 million). The finance costs amounted to RMB12 million for the year ended 31 December 2019 (year ended 31 December 2018: RMB29 million).

## 49. STRUCTURED ENTITIES *(continued)*

### (b) Interests in unconsolidated structured entities

The Group invested in a variety of structured entities including asset management products sponsored by asset management companies, securities companies or insurance asset management companies, mutual funds sponsored by mutual fund management companies, trusts sponsored by trust companies and wealth management products sponsored by banks. Investments in these unconsolidated structured entities are disclosed in respective notes of “Equity securities and mutual funds” and “Investments classified as loans and receivables”. The corresponding investment income is recorded in profit or loss as changes in fair values, realised gains/(losses), dividend or interest income, net of any impairment loss.

The Group is not the investment manager, and has no power over changing any investment decisions and investment managers, as such, the Group does not control any of these structured entities and does not consolidate these structured entities.

The following table shows the Groups’ interests in unconsolidated structured entities. It also shows the Group’s maximum exposure to these unconsolidated structured entities, representing the Group’s maximum possible risk exposure that could occur. The Group does not provide any financial support to these unconsolidated structured entities.

## 49. STRUCTURED ENTITIES *(continued)*

### (b) Interests in unconsolidated structured entities *(continued)*

| | 31 December 2019 | | |
|---|---|---|---|
| | **Funding provided by the Group and carrying amount of the investment** *RMB million* | **The Group's maximum exposure** *RMB million* | **Interest held by the Group** |
| Managed by related parties: | | | |
| Long-term debt investment schemes | **27,548** | **27,548** | **Investment income** |
| Wealth management products and others | **4,000** | **4,000** | **Investment income** |
| Asset management products | **4,630** | **4,630** | **Investment income** |
| Equity schemes | **9,411** | **9,411** | **Investment income** |
| Managed by third parties: | | | |
| Mutual funds | **26,150** | **26,150** | **Investment income** |
| Trust plans | **26,320** | **26,320** | **Investment income** |
| Long-term debt investment schemes | **8,068** | **8,068** | **Investment income** |
| Wealth management products | **6,700** | **6,700** | **Investment income** |
| Asset management products | **2,155** | **2,155** | **Investment income** |
| Equity schemes | **5,489** | **5,489** | **Investment income** |
| Total | **120,471** | **120,471** | |

| | 31 December 2018 | | |
|---|---|---|---|
| | Funding provided by the Group and carrying amount of the investment *RMB million* | The Group's maximum exposure *RMB million* | Interest held by the Group |
| Managed by related parties: | | | |
| Long-term debt investment schemes | 23,631 | 23,631 | Investment income |
| Wealth management products and others | 5,000 | 5,000 | Investment income |
| Asset management products | 2,630 | 2,630 | Investment income |
| Equity schemes | 4,735 | 4,735 | Investment income |
| Managed by third parties: | | | |
| Long-term debt investment schemes | 9,944 | 9,944 | Investment income |
| Wealth management products | 13,200 | 13,200 | Investment income |
| Asset management products | 2,538 | 2,538 | Investment income |
| Equity schemes | 4,376 | 4,376 | Investment income |
| Mutual funds | 29,417 | 29,417 | Investment income |
| Trust plans | 11,580 | 11,580 | Investment income |
| Total | 107,051 | 107,051 | |

## 50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9

According to Amendments to HKFRS 4, the Group and the Company performed an assessment during the year ended 31 December 2016. The carrying amount of the Group's liabilities connected with insurance exceeded 90% of the carrying amount of the Group's total liabilities and, as such, the Group concluded that its activities were predominantly connected with insurance as at 31 December 2015, and is eligible to apply the temporary exemption from HKFRS 9. There had been no significant change in the activities of the Group and the Company since then that requires reassessment. The Group and the Company have decided to apply the temporary exemption in its reporting period commencing on 1 January 2018.

As disclosed in Note 24, the Group's material associate, Hua Xia Bank applied PRC new financial instrument accounting standards (which is equivalent to HKFRS 9) retrospectively from 1 January 2019, with the practical expedients permitted under the standard.

As permitted by Amendments to HKFRS 4, the Group elects not to apply uniform accounting policies when using the equity method for Hua Xia Bank. Except for Hua Xia Bank, the Group has applied uniform accounting policies accounting for subsidiaries, other associates and joint venture in these consolidated financial statements.

The additional disclosures about the temporary exemption from HKFRS 9 are as follows:

### (i) Fair value of financial assets

The table below presents the fair value of the following groups of financial assets (Note) under HKFRS 9 as at 31 December 2019 and 2018 and fair value changes for the year ended 31 December 2019 and 2018:

| | **Fair value as at 31 December 2019** *RMB million* | **Fair value changes for the year ended 31 December 2019** *RMB million* | Fair value as at 31 December 2018 *RMB million* | Fair value changes for the year ended 31 December 2018 *RMB million* |
|---|---|---|---|---|
| Held for trading financial assets (A) | **18,590** | **95** | 13,449 | 38 |
| Financial assets that are managed and whose performance are evaluated on a fair value basis (B) | **–** | **–** | – | – |
| Financial assets other than A and B | | | | |
| – Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") (C) | **180,537** | **3,531** | 169,065 | 8,068 |
| – Financial assets with contractual terms that do not meet SPPI terms (D) | **116,532** | **16,084** | 95,252 | (6,834) |
| Total | **315,659** | **19,710** | 277,766 | 1,272 |

## 50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9 *(continued)*

### (i) Fair value of financial assets *(continued)*

Note: The table above includes only debt securities, equity securities and mutual funds and investments classified as loans and receivables. As all other financial assets (including cash, term deposits, insurance receivables and other assets) held by the Group are financial assets that meet SPPI criterion, and their carrying amounts approximate their fair values. Accordingly, they have not been included in the table above.

### (ii) Credit risk exposure

For the financial assets that meet SPPI criterion (included in C above), the credit rating of financial assets are assessed by qualified rating agencies in the PRC except for overseas bonds. The credit risk exposure is listed below:

Credit rating of financial assets that meet SPPI criterion (other than overseas bonds)

| | **Carrying amount** (Note 1) | |
|---|---|---|
| | **31 December 2019** | 31 December 2018 |
| | ***RMB million*** | *RMB million* |
| AAA | **142,390** | 139,176 |
| AA+ | **4,043** | 2,431 |
| AA | **700** | – |
| A-1 | **30** | – |
| Not rated* | **26,216** | 21,758 |
| Total | **173,379** | 163,365 |

* Included in the not rated category, there is an aggregate carrying amount of RMB20,412 million (31 December 2018: RMB19,556 million) of government bonds and certain financial bonds issued by policy banks, with low credit risks and the remaining financial assets with carrying amount of RMB5,804 million (31 December 2018: RMB2,202 million) without any credit rating do not have low credit risk.

## 50. DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM HKFRS 9 *(continued)*

### (ii) Credit risk exposure *(continued)*

For the overseas bonds that meet SPPI criterion (included in C above), Moody's credit rating is used. The credit risk exposure is listed below:

Credit rating of overseas bonds that meet SPPI criterion

| | **Carrying amount** (Note 1) | |
|---|---|---|
| | **31 December 2019** ***RMB million*** | 31 December 2018 *RMB million* |
| Aaa | **207** | – |
| Aa1 | **6** | 131 |
| Aa2 | **20** | 6 |
| Aa3 | **8** | 17 |
| A1 | **14** | 87 |
| A2 | **29** | 34 |
| A3 | **46** | 8 |
| Baa1 | **34** | 54 |
| Baa2 | **9** | 11 |
| Total | **373** | 348 |

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **31 December 2019** ***RMB million*** | 31 December 2018 *RMB million* | **31 December 2019** ***RMB million*** | 31 December 2018 *RMB million* |
| Financial assets that do not have low credit risk (those that meet SPPI criterion (included in C above)) (Note 2) | **10,576** | 4,633 | **10,998** | 4,982 |

Note 1: For financial assets measured at amortised cost, carrying amount before adjusting impairment allowance is disclosed here.

Note 2: Financial assets that do not have low credit risk refer to financial assets with either credit rating for those assets rated by qualified rating agencies in the PRC below AAA or Moody's credit rating below Baa3.

## 51. EVENTS AFTER THE REPORTING PERIOD

### (1) Profit distribution

On 27 March 2020, the Board of Directors of the Company proposed a final dividend of RMB0.461 per ordinary share for the year ended 31 December 2019 totaling approximately RMB10,254 million.

The above are subject to the approval of the forthcoming shareholders' general meeting of the Company.

### (2) Issuance of capital supplementary bonds

On 23 March 2020, the Company issued capital supplementary bonds of RMB8,000 million in the national inter-bank bond market. Term of the capital supplementary bonds is 10 years. The coupon rate is 3.59% per annum for the first five years. The Company has the option to redeem the capital supplementary bonds at the end of the fifth year. If the Company does not exercise the redemption right, the coupon rate will be 4.59% per annum for the remaining five years.

### (3) The Assessment of the impact of the Coronavirus Disease 2019

With the strict prevention measures of Coronavirus disease ("COVID-19") being taken throughout the country, the pandemic has gradually been under control.

The outbreak of COVID-19 has had impact on the operation of the Group's customers, associates, joint venture and investees, which might in return negatively affect the Group's insurance risk and investment quality and yield. The Group monitors the claim quantity and amounts regularly to assess the impact that would have on the financial position and results of the Group.

As there were only a few reported cases of COVID-19 as at 31 December 2019, management is of the view that the impact is not material to the Group's financial position as at 31 December 2019. As the situation remains fluid as at the date of this report, the directors of the Company consider that the 2020 impact assessment is still in progress. Nevertheless, management has been and will continue to take mitigating measures actively to reduce the impact that may arise in 2020.

## 52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

### (a) The Company's statement of financial position

| | **31 December 2019** *RMB million* | 31 December 2018 *RMB million* |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **31,993** | 33,646 |
| Debt securities | **149,072** | 143,499 |
| Equity securities and mutual funds | **91,728** | 74,102 |
| Insurance receivables, net | **53,593** | 42,421 |
| Reinsurance assets | **30,321** | 28,565 |
| Term deposits | **64,398** | 73,963 |
| Investments classified as loans and receivables | **67,417** | 53,732 |
| Investments in associates and joint venture | **39,063** | 35,085 |
| Investments in subsidiaries | **218** | 96 |
| Investment properties | **4,767** | 5,049 |
| Property and equipment | **18,049** | 17,197 |
| Right-of-use assets | **5,863** | – |
| Prepaid land premiums | **–** | 2,844 |
| Deferred tax assets | **5,092** | 6,750 |
| Prepayments and other assets | **22,702** | 23,134 |
| **TOTAL ASSETS** | **584,276** | 540,083 |
| **LIABILITIES** | | |
| Payables to reinsurers | **19,449** | 15,706 |
| Accrued insurance security fund | **1,076** | 1,026 |
| Securities sold under agreements to repurchase | **16,759** | 27,999 |
| Income tax payable | **104** | 3,115 |
| Insurance contract liabilities | **305,109** | 275,757 |
| Policyholders' deposits | **1,762** | 1,956 |
| Bonds payable | **15,198** | 23,420 |
| Lease liabilities | **2,198** | – |
| Accruals and other liabilities | **64,023** | 59,763 |
| **TOTAL LIABILITIES** | **425,678** | 408,742 |
| **EQUITY** | | |
| Issued capital | **22,242** | 22,242 |
| Reserves | **136,356** | 109,099 |
| **TOTAL EQUITY** | **158,598** | 131,341 |
| **TOTAL EQUITY AND LIABILITIES** | **584,276** | 540,083 |

# 52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

## (b) Movement in the Company's reserves

The movements in reserves of the Company are set out below:

| | Share premium account *RMB million* | Asset revaluation reserve *RMB million* | Available for-sale investment revaluation reserve *RMB million* | Surplus reserve *RMB million* | General risk reserve *RMB million* | Agriculture catastrophic loss reserve *RMB million* | Retained profits *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 11,572 | 3,266 | 3,562 | 42,212 | 12,935 | 2,471 | 33,081 | 109,099 |
| Total comprehensive income for the year | – | 174 | 10,649 | – | – | – | 22,624 | 33,447 |
| Appropriations to statutory surplus reserve and general risk reserve | – | – | – | 2,491 | 2,491 | – | (4,982) | – |
| Appropriations to discretionary surplus reserve | – | – | – | 15,000 | – | – | (15,000) | – |
| Appropriations to agriculture catastrophic loss reserve | – | – | – | – | – | 313 | (313) | – |
| Utilisation of agriculture catastrophic loss reserve | – | – | – | – | – | (995) | 995 | – |
| 2018 final dividend | – | – | – | – | – | – | (6,050) | (6,050) |
| Others | (140) | – | – | – | – | – | – | (140) |
| At 31 December 2019 | 11,432 | 3,440 | 14,211 | 59,703 | 15,426 | 1,789 | 30,355 | 136,356 |

## 52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

### (b) Movement in the Company's reserves *(continued)*

| | Share premium account *RMB million* | Asset revaluation reserve *RMB million* | Available for-sale investment revaluation reserve *RMB million* | Surplus reserve *RMB million* | General risk reserve *RMB million* | Agriculture catastrophic loss reserve *RMB million* | Retained profits *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 18,986 | 3,081 | 6,191 | 34,585 | 11,308 | 2,471 | 34,903 | 111,525 |
| Total comprehensive income /(expense) for the year | – | 185 | (2,629) | – | – | – | 12,444 | 10,000 |
| Appropriations to statutory surplus reserve and general risk reserve | – | – | – | 1,627 | 1,627 | – | (3,254) | – |
| Appropriations to discretionary surplus reserve | – | – | – | 6,000 | – | – | (6,000) | – |
| Appropriations to agriculture catastrophic loss reserve | – | – | – | – | – | 279 | (279) | – |
| Utilisation of agriculture catastrophic loss reserve | – | – | – | – | – | (279) | 279 | – |
| Conversion from share premium account to issued capital | (7,414) | – | – | – | – | – | – | (7,414) |
| 2017 final dividend | – | – | – | – | – | – | (5,012) | (5,012) |
| At 31 December 2018 | 11,572 | 3,266 | 3,562 | 42,212 | 12,935 | 2,471 | 33,081 | 109,099 |

# Definitions

In this annual report, the following expressions shall have the following meanings unless the context otherwise requires:

| | |
|---|---|
| "Articles of Association" | the articles of association of the Company |
| "BangBang Auto Sales & Services" | BangBang Auto Sales & Service (Beijing) Co., Ltd. |
| "Board" or "Board of Directors" | the board of directors of the Company |
| "CBIRC" | China Banking and Insurance Regulatory Commission |
| "CIB" | China Insurance Brokers Co. Ltd |
| "Company" or "We" | PICC Property and Casualty Company Limited |
| "Company Law" | the Company Law of the People's Republic of China |
| "Corporate Governance Code" | the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules |
| "C-ROSS" | China Risk-oriented Solvency System |
| "Director(s)" | the director(s) of the Company |
| "Guidelines" | the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial) |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| "Hua Xia Bank" | Hua Xia Bank Co., Limited |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| "PIB" | Prime Insurance Brokers Company Limited |
| "PICC AMC" | PICC Asset Management Company Limited |
| "PICC Capital" | PICC Capital Investment Management Company Limited |
| "PICC Equity" | PICC Capital Equity Investment Company Limited |
| "PICC Financial Services" | PICC Financial Services Company Limited |
| "PICC Group" | The People's Insurance Company (Group) of China Limited |
| "PICC Health" | PICC Health Insurance Company Limited |
| "PICC HK" | The People's Insurance Company of China (Hong Kong), Limited |
| "PICC Investment" | PICC Investment Holding Company Limited |
| "PICC Life" | PICC Life Insurance Company Limited |

| | |
|---|---|
| "PICC Pension" | PICC Pension Company Limited |
| "PICC Re" | PICC Reinsurance Company Limited |
| "PRC" or "China" | the People's Republic of China |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Supervisor(s)" | the supervisor(s) of the Company |
| "Supervisory Committee" | the supervisory committee of the Company |
| "Year" | the year ended 31 December 2019 |
| "ZSIB" | Zhongsheng International Insurance Brokers Co., Ltd. |
| "%" | per cent |

# Corporate Information

## REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司(Abbreviation of Chinese name: 人保財險)

English name: PICC Property and Casualty Company Limited (Abbreviation of English name: PICC P&C)

## PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

## TYPE OF STOCK

H Share

## STOCK NAME

PICC P&C

## STOCK CODE

2328

## H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

## WEBSITE

www.epicc.com.cn

## LEGAL REPRESENTATIVE

Miao Jianmin

## SECRETARY OF THE BOARD OF DIRECTORS

Zou Zhihong

## COMPANY SECRETARY

Ko Mei Ying

## INFORMATION INQUIRY DEPARTMENT

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## AUDITORS

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Deloitte Touche Tohmatsu

*Domestic Auditor*
Deloitte Touche Tohmatsu Certified Public Accountants LLP

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