中国人民保险集团股份有限公司
THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED

Stock Code：1339

# Interim Report 2016

# Company Profile

Founded in October 1949, The People's Insurance Company (Group) of China Limited (the "Company") is the first nation-wide insurance company in the People's Republic of China (the "PRC"), and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking 119th on the Global 500 (2016) published by Fortune magazine.

The Company operates its property and casualty ("P&C") insurance business in the PRC through PICC Property and Casualty Company Limited ("PICC P&C", listed on the Stock Exchange of Hong Kong, with the stock code 02328) and in Hong Kong through The People's Insurance Company of China (Hong Kong), Limited ("PICC Hong Kong"), in which the Company holds approximately 68.98% and 75.0% equity interests, respectively. The Company operates its life and health insurance businesses through PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), in which the Company holds, directly and indirectly, 80.0% and approximately 95.45% equity interests, respectively. The Company consolidates and professionally manages most of its insurance assets through PICC Asset Management Company Limited ("PICC AMC"), in which the Company holds 100% equity interests, and holds a 100% equity interests in PICC Investment Holding Co., Ltd ("PICC Investment Holding") which is a professional investment company specializing in real estate investments. The Company also carries out non-transactional businesses such as equity and debt investments in insurance and non-insurance capital within and outside the Group through PICC Capital Investment Management Company Limited ("PICC Capital") in which it holds 100% equity interests. The Company has also made strategic plans for non-insurance financial businesses such as banking and trust.

The Company's principal competitive strengths include:

- We are the pioneer of the PRC insurance industry, possessing a well-recognized brand with the longest history in the industry.
- We are an integrated insurance financial group focusing on our core business, with a leading position in the rapidly developing Chinese insurance market.
- We have a strategically balanced business structure, an extensive nation-wide distribution and service network and a wide customer base, contributing to our ability to sustain rapid development in business and stable growth in profits.
- We proactively synchronize our business growth with the overall economic and social development of the PRC and develop innovative business models in response to such development.
- We have implemented efficient management at the group level to effectively improve synergies among different business lines and to improve our overall operational efficiency.
- We have a strong professional technical edge and product and service innovation capabilities.
- We have an industry-leading asset management platform and have undertaken strategic planning in the non-insurance financial areas.
- We have an experienced and insightful management team.

# Contents

# Financial Highlights

*Unit: RMB in millions, except for percentages*

| | **30 June 2016** | 31 December 2015 | (% of change) |
|---|---|---|---|
| Total assets | **902,276** | 843,468 | 7.0 |
| Total liabilities | **738,847** | 686,273 | 7.7 |
| Total equity | **163,429** | 157,195 | 4.0 |
| Net assets value per share (RMB) [(1)] | **2.85** | 2.74 | 4.2 |

*Unit: RMB in millions, except for percentages*

| | **For the six months ended 30 June** | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Gross written premiums | **264,578** | 226,928 | 16.6 |
| Net profit | **11,284** | 18,032 | (37.4) |
| Net profit attributable to equity holders of the Company | **7,725** | 12,821 | (39.7) |
| Earnings per share (RMB) – Basic and diluted [(1)] | **0.18** | 0.30 | (39.7) |
| Weighted average return on equity (annualised) (%) | **13.0** | 25.3 | Decrease of 12.3pt |

(1) As attributable to equity holders of the Company.

The Group divides its three principal business lines of P&C insurance, life and health insurance and asset management into four operating segments: the P&C insurance business constitutes the Group's P&C insurance segment, and includes PICC P&C and PICC Hong Kong, in which the Company holds 68.98% and 75.0% equity interest, respectively; the life and health insurance business constitutes two separate segments, including life insurance segment and health insurance segment, among which the life insurance segment includes PICC Life, in which the Company directly and indirectly holds 80.0% equity interest, and the health insurance segment includes PICC Health in which the Company directly and indirectly holds 95.45% equity interest; and the asset management business constitutes the asset management segment and primarily includes PICC AMC, PICC Investment Holding, PICC Capital and PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), in which the Company respectively holds 100% equity interest.

## KEY OPERATING INDICATORS

### (1) Key Operating Data

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Original Premiums Income | | | |
| PICC P&C | **161,562** | 145,926 | 10.7 |
| PICC Life | **81,899** | 67,156 | 22.0 |
| PICC Health | **20,320** | 12,848 | 58.2 |
| Combined ratio of PICC P&C (%) | **95.0** | 94.7 | Increase of 0.3 pt |
| Value of half year's new business of PICC Life[1] | **2,880** | 1,839 | 56.6 |
| Value of half year's new business of PICC Health[1] | **303** | 162 | 87.0 |
| Total investment yield (annualised) (%) | **5.0** | 8.8 | Decrease of 3.8 pt |

*Unit: RMB in millions, except for percentages*

| | **As of 30 June 2016** | As of 31 December 2015 | (% of change) |
|---|---|---|---|
| Market share[2] | | | |
| PICC P&C (%) | **34.9** | 33.4 | Increase of 1.5 pt |
| PICC Life (%) | **5.8** | 5.6 | Increase of 0.2 pt |
| PICC Health (%) | **1.5** | 1.0 | Increase of 0.5 pt |
| Embedded Value of PICC Life | **53,905** | 53,028 | 1.7 |
| Embedded Value of PICC Health | **6,924** | 4,473 | 54.8 |

| | As of 30 June 2016 | As of 31 December 2015 (unaudited)(3) | (% of change) |
|---|---|---|---|
| Comprehensive solvency margin ratio (%) | | | |
| PICC Group | 282 | 295 | Decrease of 13 pt |
| PICC P&C | 280 | 284 | Decrease of 4 pt |
| PICC Life | 176 | 216 | Decrease of 40 pt |
| PICC Health | 245 | 205 | Increase of 40 pt |
| Core solvency margin ratio (%) | | | |
| PICC Group | 230 | 235 | Decrease of 5 pt |
| PICC P&C | 251 | 245 | Increase of 6 pt |
| PICC Life | 147 | 183 | Decrease of 36 pt |
| PICC Health | 222 | 175 | Increase of 47 pt |

(1) Value of the first half year's new business of PICC Life and PICC Health for the six months ended 30 June 2015 was calculated based on the assumptions and capital requirements as of 31 December 2015.

(2) The market share was based on the statistics and measurement of the Original Premiums Income in the PRC (excluding Hong Kong, Macau and Taiwan) published by the China Insurance Regulatory Commission (the "CIRC"), and the market share of PICC P&C represents its market share among all P&C insurance companies, and the market share of PICC Life and PICC Health represents their respective market share among all life and health insurance companies.

(3) Comprehensive solvency margin ratios and core solvency margin ratios of the Group, PICC P&C, PICC Life and PICC Health as of 31 December 2015 are calculated in accordance with the regulatory requirements under "Solvency II" and are not audited.

For the six months ended 30 June 2016, adhering to its key aspiration of "Maintaining stable growth, focusing on reform and innovation and emphasizing value creation" with firm confidence, the Group grasped opportunities and overcame difficulties to lay a solid foundation. The Group has shown a steady growth in its business, while making an orderly advance in its reform and innovation. For the six months ended 30 June 2016, the market share of PICC P&C in the P&C insurance market was 34.9%, the market share of PICC Life in life and health insurance market was 5.8% and the market share of PICC Health in life and health insurance market was 1.5%. In terms of the total written premiums (the "TWPs"), for the six months ended 30 June 2016, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB161,562 million, RMB90,295 million, RMB24,665 million and HKD68 million, respectively. The Group proactively pushed for a transformation towards being "customer-oriented", and for a unification in the construction of the Group. The TWPs generated by cross-selling among the Group's business lines grew by 41.5% to RMB21,797 million for the six months ended 30 June 2016 from RMB15,406 million for the same period in 2015. As of 30 June 2016, the number of policyholders who purchased two or more types of property, life and health insurance products reached 4.4591 million, representing a 7.8% increase compared to the same period in 2015, and the number of policies purchased by such policyholders on average increased to 4.76 policies per person.

### (2) Key Financial Indicators

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Gross written premiums | **264,578** | 226,928 | 16.6 |
| P&C Insurance | **161,980** | 146,300 | 10.7 |
| Life Insurance | **82,278** | 67,780 | 21.4 |
| Health Insurance | **20,320** | 12,848 | 58.2 |
| Profit before tax | **14,570** | 22,367 | (34.9) |
| Net profit | **11,284** | 18,032 | (37.4) |
| Net profit attributable to equity holders of the Company | **7,725** | 12,821 | (39.7) |
| Earnings per share (RMB) | **0.18** | 0.30 | (39.7) |
| Weighted average return on equity (annualised) (%) | **13.0** | 25.3 | Decrease of 12.3 pt |

*Unit: RMB in millions, except for percentages*

| | **As of 30 June 2016** | As of 31 December 2015 | (% of change) |
|---|---|---|---|
| Total assets | **902,276** | 843,468 | 7.0 |
| Total liabilities | **738,847** | 686,273 | 7.7 |
| Total equity | **163,429** | 157,195 | 4.0 |
| Net assets per share (RMB) | **2.85** | 2.74 | 4.2 |
| Gearing ratio[1] (%) | **81.9** | 81.4 | Increase of 0.5 pt |

(1) The gearing ratio refers to the ratio of total liabilities to total assets.

The Group's capital base has been further strengthened, in which total equity grew by 4.0% to RMB163,429 million as of 30 June 2016 from RMB157,195 million as of 31 December 2015. The Group's gross written premiums ("GWPs") increased by 16.6% to RMB264,578 million for the six months ended 30 June 2016 from RMB226,928 million for the same period in 2015. In the circumstances of continuous capital market downturn, decline in investment income and frequent natural disaster, the Group's net profit decreased by 37.4% to RMB11,284 million for the six months ended 30 June 2016 from RMB18,032 million for the same period in 2015. Profit attributable to equity holders of the Company dropped by 39.7% to RMB7,725 million for the six months ended 30 June 2016 from RMB12,821 million for the same period in 2015. Given the scale of decrease in profits, the weighted average return on equity of the Group decreased by 12.3 percentage points to 13.0% for the six months ended 30 June 2016 from 25.3% for the same period in 2015.

Net assets per share of the Group increased by 4.2% to RMB2.85 as of 30 June 2016 from RMB2.74 as of 31 December 2015. The Group's earnings per share decreased by 39.7% to RMB0.18 for the six months ended 30 June 2016 from RMB0.30 for the same period in 2015. The Group's gearing ratio increased by 0.5 percentage points to 81.9% as of 30 June 2016 from 81.4% as of 31 December 2015.

## P&C INSURANCE BUSINESS

In the first half of 2016, the Group's P&C insurance segment overcame the downward pressure on macro-economy, rose to the market challenge and adapted to the adjustment arising from replacement of business tax with value added tax and took the initiative to reform the commercial motor vehicle insurance premium rate. PICC P&C achieved an Original Premiums Income of RMB161,562 million. Its incremental premium remained the top in the market and its market share were increasing. By continuously improving its professional capabilities, PICC P&C kept its market leading position with outstanding market development and underwriting profits exceeding market average.

### (1) Analysis by Product

The following table sets forth the GWPs by product from P&C insurance segment for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Year Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Motor vehicle insurance | **108,404** | 98,813 | 9.7 |
| Commercial property insurance | **7,843** | 8,232 | (4.7) |
| Liability insurance | **7,354** | 6,144 | 19.7 |
| Accidental injury and health insurance | **16,430** | 12,179 | 34.9 |
| Cargo insurance | **1,616** | 1,798 | (10.1) |
| Agricultural insurance | **12,777** | 12,588 | 1.5 |
| Other P&C insurance | **7,556** | 6,546 | 15.4 |
| Total | **161,980** | 146,300 | 10.7 |

GWPs for the P&C insurance segment increased by 10.7% to RMB161,980 million for the six months ended 30 June 2016 from RMB146,300 million for the same period in 2015. The overall steady growth was largely driven by the rapid development in motor vehicle insurance, accidental injury and health insurance, liability insurance and credit insurance.

GWPs for motor vehicle insurance increased by 9.7% to RMB108,404 million for the six months ended 30 June 2016 from RMB98,813 million for the same period in 2015. In the first half year of 2016, the growth rate in sales volume of new vehicles in the PRC recovered. The P&C insurance segment reacted positively to the deregulation of premium rate for commercial motor vehicle insurance. We adopted aggressive marketing strategy to enhance the management of new policy issuance, policy renewal and policy transfer, which led to a steady growth in the motor vehicle insurance business.

GWPs for commercial property insurance decreased by 4.7% to RMB7,843 million for the six months ended 30 June 2016 from RMB8,232 million for the same period in 2015. In the first half year of 2016, competition in commercial property insurance business became increasingly fierce under the sluggish market condition and there was a decline in comprehensive property insurance and equipment damage insurance business, which had higher premium rate.

GWPs for liability insurance increased by 19.7% to RMB7,354 million for the six months ended 30 June 2016 from RMB6,144 million for the same period in 2015. In the first half of 2016, the P&C insurance segment maintained a rapid growth in traditional businesses, including product, employer, public and medical liability insurance on one hand, and continued to reinforce marketing of innovative products and diversified business, including integrated insurance of the first major technological equipment, liability insurance of property preservation during the course of proceeding, motor vehicle extended maintenance liability insurance, family member liability insurance, online shopping shipment fee damage loss insurance and cloud computing liability insurance have become our new business growing point.

GWPs for accidental injury and health insurance increased by 34.9% to RMB16,430 million for the six months ended 30 June 2016 from RMB12,179 million for the same period in 2015. In the first half year of 2016, the construction and engineering, motor vehicle and borrower accident insurance achieved a faster growth; at the same time, the critical illness insurance business in the P&C insurance segment continually recorded surging growth, leading to a further increase in market share for the health insurance segment.

GWPs for cargo insurance decreased by 10.1% to RMB1,616 million for the six months ended 30 June 2016 from RMB1,798 million for the same period in 2015. In the first half of 2016, the international shipping market remained sluggish, domestic traditional industries had overcapacity, import and export trading declined and source from the cargo insurance market reduced and insurance premiums continued to decline.

GWPs for agricultural insurance increased by 1.5% to RMB12,777 million for the six months ended 30 June 2016 from RMB12,588 million for the same period in 2015. In the first half of 2016, with the full opening of agricultural insurance market, market competition became increasingly fiercer. Animal breeding insurance became the major growing point for the agricultural insurance division of P&C insurance segment.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 15.4% to RMB7,556 million for the six months ended 30 June 2016 from RMB6,546 million for the same period in 2015, of which short-term export credit insurance, personal loan credit insurance and financial institution loan credit loss insurance in P&C insurance segment recorded rapid growth.

### (2) Analysis by Channel

The following table sets forth a breakdown of Original Premiums Income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage. In the first half of 2016, PICC P&C implemented aggressive market strategy, upgraded the supply of insurance, accelerated new channel establishment, planned for internet strategic development, accelerated the transformation towards telemarketing and online sales and continuously optimized coordination between property, life and health insurance, which led to continuous fast growth in the business.

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2016 | | | 2015 | |
| | Amount | (% of total) | (% of change) | Amount | (% of total) |
| Insurance agents | 95,630 | 59.2 | 22.7 | 77,961 | 53.4 |
| Among which: | | | | | |
| Individual insurance agents | 52,271 | 32.4 | 24.2 | 42,080 | 28.8 |
| Ancillary insurance agents | 25,750 | 15.9 | 1.8 | 25,306 | 17.4 |
| Professional insurance agents | 17,609 | 10.9 | 66.5 | 10,575 | 7.2 |
| Direct sales | 57,460 | 35.6 | (3.9) | 59,783 | 41.0 |
| Insurance brokerage | 8,472 | 5.2 | 3.5 | 8,182 | 5.6 |
| Total | 161,562 | 100.0 | 10.7 | 145,926 | 100.0 |

## (3) Financial Analysis

The following table sets forth certain selected key financial data of the P&C insurance segment for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Net earned premiums | **129,467** | 116,015 | 11.6 |
| Investment income | **6,644** | 12,633 | (47.4) |
| Other income | **635** | 536 | 18.5 |
| Total income | **142,595** | 134,422 | 6.1 |
| Net claims and policyholders' benefits | **77,883** | 71,293 | 9.2 |
| Handling charges and commissions | **21,189** | 14,190 | 49.3 |
| Finance costs | **517** | 788 | (34.4) |
| Other operating and administrative expenses | **30,453** | 30,510 | (0.2) |
| Total benefits, claims and expenses | **129,905** | 116,799 | 11.2 |
| Profit before tax | **14,296** | 19,175 | (25.4) |
| Income tax expense | **(2,988)** | (4,116) | (27.4) |
| Net profit | **11,308** | 15,059 | (24.9) |

*Net earned premiums*

Benefiting from the rapid development in the motor vehicle insurance, accidental injury and health insurance, liability insurance, and credit insurance businesses, net earned premiums of the P&C insurance segment increased by 11.6% to RMB129,467 million for the six months ended 30 June 2016 from RMB116,015 million for the same period in 2015.

*Investment Income*

Investment income of the P&C insurance segment decreased by 47.4% to RMB6,644 million for the six months ended 30 June 2016 from RMB12,633 million for the same period in 2015. This was primary due to the adverse fluctuation in equity market and lower yield from new investment and reinvestment under the current low interest rate environment.

*Net claims and policyholders' benefits*

Net claims and policyholders' benefits for the P&C insurance segment increased by 9.2% to RMB77,883 million for the six months ended 30 June 2016 from RMB71,293 million for the same period in 2015, of which the loss ratio of PICC P&C reduced by 1.3 percentage points to 60.2% for the six months ended 30 June 2016 from 61.5% for the same period in 2015. The P&C insurance segment reinforced underwriting, improved claims handling, cost and pricing, procedure control, resources allocation and loss of professionals, kept strengthening issue identification capability and core competitiveness, continuously improved the quality of the motor vehicle insurance business, which led to the decrease in loss ratio.

*Handling charges and commissions*

Handling charges and commissions of the P&C insurance segment increased by 49.3% to RMB21,189 million for the six months ended 30 June 2016 from RMB14,190 million for the same period in 2015. The increase in handling charges and commissions were mainly due to faster growth of business scale, increased input into quality businesses, and the intensified market competition.

*Finance costs*

Finance costs of the P&C insurance segment decreased by 34.4% to RMB517 million for the six months ended 30 June 2016 from RMB788 million for the same period in 2015. Decrease in finance costs was mainly due to decrease in subordinated debts and decrease in interest expenses from securities sold under agreements to repurchase.

*Net profit*

As a result of the foregoing reasons, net profit of the P&C insurance segment decreased by 24.9% to RMB11,308 million for the six months ended 30 June 2016 from RMB15,059 million for the same period in 2015.

## LIFE AND HEALTH INSURANCE

### (1) Life insurance

In the first half of 2016, benefiting from guidance of national policy, accumulation of family wealth and increasing awareness of insurance, life insurance industry entered into a rapid development stage. The Group's life insurance segment proactively seized the opportunities of industry development, firmly implemented transformation and development strategy of "Stabilizing growth, Emphasizing value, Strengthening the foundation", which improved business structure, significantly boosted business value and further showed the result of transformation and development. As at the end of June 2016, the Original Premiums Income of the Group's life insurance segment increased 22.0% as compared to the same period last year. Our life insurance segment ranked fourth in the market, one place up from the end of last year.

1. *Analysis by Product*

According to the statistics of Original Premiums Income, income from various products of the life insurance segment during the relevant reporting periods is as follows:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| **Life insurance products** | **Amount** | **(% of total)** | Amount | (% of total) |
| Traditional life and health insurance | **70,285** | **85.8** | 58,355 | 86.9 |
| Participating life insurance | **10,098** | **12.3** | 7,014 | 10.4 |
| Universal life insurance | **44** | **0.1** | 41 | 0.1 |
| Accidental injury and short-term health insurance | **1,472** | **1.8** | 1,747 | 2.6 |
| Total | **81,899** | **100.0** | 67,156 | 100.0 |

In terms of TWPs, for the six months ended 30 June 2016, the TWPs of traditional life and health insurance, participating life insurance, universal life insurance, accidental injury and short-term health insurance amounted to RMB71,995 million, RMB11,180 million, RMB5,648 million, RMB1,472 million, respectively, of which traditional insurance business maintained strong growth momentum with an increase of 23.4% compared to the same period last year, first-year regular premiums increased 226.4% compared to the same period last year, which was mainly due to the growth in products with insurance protection and financial management function that are in line with market demand.

2. *Analysis by Channel*

According to statistics of the Original Premiums Income, income of life insurance segment by distribution channel during the relevant reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel, is as follows:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Bancassurance | **50,206** | 45,385 | 10.6 |
| First-year business of long-term insurance | **48,428** | 43,467 | 11.4 |
| Single premiums | **44,386** | 42,911 | 3.4 |
| First-year regular premiums | **4,042** | 556 | 626.8 |
| Renewal business | **1,697** | 1,817 | (6.6) |
| Short-term insurance | **82** | 101 | (19.1) |
| Individual Insurance | **24,267** | 15,729 | 54.3 |
| First-year business of long-term insurance | **19,670** | 12,657 | 55.4 |
| Single premiums | **14,103** | 10,249 | 37.6 |
| First-year regular premiums | **5,567** | 2,408 | 131.2 |
| Renewal business | **4,126** | 2,398 | 72.1 |
| Short-term insurance | **471** | 674 | (30.1) |
| Group Insurance | **7,426** | 6,042 | 22.9 |
| First-year business of long-term insurance | **6,500** | 5,010 | 29.8 |
| Single premiums | **6,426** | 5,009 | 28.3 |
| First-year regular premiums | **74** | 1 | 8,359.9 |
| Renewal business | **6** | 61 | (89.8) |
| Short-term insurance | **920** | 972 | (5.4) |
| Total | **81,899** | 67,156 | 22.0 |

In terms of TWPs, for the six months ended 30 June 2016, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB53,138 million, RMB26,589 million and RMB10,567 million, respectively.

In the life insurance segment, the sales capability of individual insurance channel stably improved and the number of sales improved significantly. Development was achieved with the growth of high value business and there was a significant increase in first-year regular premiums. As of 30 June 2016, the number of insurance agents for the life insurance segment was 155,917. In 2016, the first-year TWPs per capita from sales agent amounted to RMB7,902 per month, and the number of new life insurance policies per capita was 1.55 per month. Bancassurance channel achieved stable growth while focusing on value transformation and development of regular premiums business, and the TWPs of first-year regular premiums achieved six-times growth as compared to the same period in 2015. The group insurance channel focused on legal person business and government cooperative business and strived to increase the sales capability of group insurance, which led to a stable growth in premiums.

3. *Premium Persistency Ratios*

The following table sets forth the 13-month and 25-month premium persistency ratios for individual life insurance customers of the life insurance segment for the reporting periods indicated:

| | For the Six Months Ended 30 June | |
|---|---|---|
| **Item** | **2016** | 2015 |
| 13-month premium persistency ratio(1) (%) | **89.5** | 88.4 |
| 25-month premium persistency ratio(2) (%) | **84.3** | 83.4 |

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial data of the life insurance segment for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Net earned premiums | **82,133** | 67,468 | 21.7 |
| Investment income | **7,625** | 13,037 | (41.5) |
| Other income | **272** | 160 | 70.0 |
| Total income | **90,172** | 80,682 | 11.8 |
| Net claims and policyholders' benefits | **83,337** | 72,614 | 14.8 |
| Handling charges and commissions | **4,169** | 2,575 | 61.9 |
| Finance costs | **861** | 787 | 9.4 |
| Other operating and administrative expenses | **2,905** | 3,039 | (4.4) |
| Total benefits, claims and expenses | **91,214** | 78,995 | 15.5 |
| Profit before tax | **453** | 2,849 | (84.1) |
| Income tax expense | **(49)** | (194) | (74.7) |
| Net Profit | **404** | 2,655 | (84.8) |

*Net earned premiums*

Net earned premiums for the life insurance segment increased by 21.7% to RMB82,133 million for the six months ended 30 June 2016 from RMB67,468 million for the same period in 2015, mainly due to clear development philosophy, favorable business transformation measures, major products which meet the needs of market and customers and improving service quality.

*Investment income*

The investment income of the life insurance segment decreased by 41.5% to RMB7,625 million for the six months ended 30 June 2016 from RMB13,037 million for the same period in 2015, mainly due to adverse fluctuation in equity market and lower yield of new investment and reinvestment under low interest rate environment.

*Other income*

Other income of the life insurance segment increased by 70.0% to RMB272 million for the six months ended 30 June 2016 from RMB160 million from the same period in 2015. This was mainly attributable to increase in income from management fees for deposits of policyholders.

*Net claims and policyholders' benefits*

Net claims and policyholders' benefits for the life insurance segment increased by 14.8% to RMB83,337 million for the six months ended 30 June 2016 from RMB72,614 million for the same period in 2015. This was mainly due to increase in maturities and surrenders of policies.

*Handling charges and commissions*

Handling charges and commissions of the life insurance segment increased by 61.9% to RMB4,169 million for the six months ended 30 June 2016 from RMB2,575 million for the same period in 2015, mainly due to the increases in first-year regular premiums income, optimization of business structure and increase in product fees as compared to the same period in 2015.

*Finance costs*

Finance costs of the life insurance segment increased by 9.4% to RMB861 million for the six months ended 30 June 2016 from RMB787 million for the same period in 2015, which was mainly due to increase in interests credited to policyholders' deposits and investment amounts.

*Net profit*

Mainly attributable to the factors mentioned above, net profit of the life insurance segment decreased by 84.8% to RMB404 million for the six months ended 30 June 2016 from RMB2,655 million for the same period in 2015.

### (2) Health Insurance

In the first half year of 2016, under the guidance of "Speed up transformation and develop through innovation" and based on the operational direction of "Profession with feature, transformation with effectiveness, turnaround with results", the health insurance segment of the Group vigorously promoted coordinated development of the three major business segments, namely government commission business, business health insurance business and health management business. The Group's health insurance segment adjusted and optimized product portfolio. Business with high embedded value grew rapidly. First year regular premium of individual insurance premiums increased by 123.7% as compared to the same period in 2015. The group insurance and short-term insurance premiums increased by 31.6% as compared to the same period in 2015. The value of half year's new business increased by 87.0% as compared to same period in 2015. The embedded value increased by 54.8% as compared to 31 December 2015, continuously enhancing value creation capabilities.

1. *Analysis by Product*

According to the statistics of Original Premiums Income, income from various products of the health insurance segment for the relevant reporting periods is as follows:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| **Health insurance products** | **Amount** | **(% of total)** | Amount | (% of total) |
| Illness insurance | **290** | **1.4** | 183 | 1.4 |
| Medical insurance | **6,175** | **30.4** | 4,663 | 36.3 |
| Disability income losses insurance | **55** | **0.3** | 56 | 0.4 |
| Nursing care insurance | **13,293** | **65.4** | 7,466 | 58.1 |
| Accidental injury insurance | **326** | **1.6** | 259 | 2.0 |
| Participating endowment insurance | **181** | **0.9** | 222 | 1.7 |
| Total | **20,320** | **100.0** | 12,848 | 100.0 |

In terms of TWPs, for the six months ended 30 June 2016, the TWPs of illness insurance, medical insurance, disability income losses insurance, nursing care insurance, accidental injury insurance and participating endowment insurance amounted to RMB290 million, RMB10,045 million, RMB55 million, RMB13,768 million, RMB326 million and RMB181 million, respectively.

2. *Analysis by Channel*

According to the statistics of Original Premiums Income, income from various products of the health insurance segment by distribution channel during the relevant reporting periods, which are further divided into bancassurance channel, individual insurance agent channel and group insurance sales channel, is as follows:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Bancassurance | **10,777** | 6,525 | 65.2 |
| First-year business of long-term insurance | **10,634** | 6,379 | 66.7 |
| Single premiums | **10,577** | 6,324 | 67.3 |
| First-year regular premiums | **57** | 54 | 5.6 |
| Renewal business | **140** | 144 | (2.8) |
| Short-term insurance | **2** | 1 | 100.0 |
| Individual Insurance | **2,781** | 1,334 | 108.5 |
| First-year business of long-term insurance | **2,507** | 1,158 | 116.5 |
| Single premiums | **2,252** | 1,044 | 115.7 |
| First-year regular premiums | **255** | 114 | 123.7 |
| Renewal business | **224** | 137 | 63.5 |
| Short-term insurance | **50** | 39 | 28.2 |
| Group Insurance | **6,763** | 4,990 | 35.5 |
| First-year business of long-term insurance | **215** | 14 | 1,435.7 |
| Single premiums | **215** | 13 | 1,553.8 |
| First-year regular premiums | **1** | – | – |
| Renewal business | **2** | 2 | – |
| Short-term insurance | **6,546** | 4,974 | 31.6 |
| Total | **20,320** | 12,848 | 58.2 |

In terms of TWPs, for the six months ended 30 June 2016, the TWPs from the bancassurance, individual insurance and group insurance amounted to RMB10,820 million, RMB2,893 million and RMB10,953 million, respectively.

In the health insurance segment, individual insurance agent channel focused on developing its sales team to drive the development of regular premiums business. As of 30 June 2016, the number of sales agents for the health insurance segment was 23,654. First-year TWPs received per sales agent amounted to RMB4,768 per month and the number of new insurance policies sold per sales agent was 0.85 per month. The Bancassurance channel actively seized development opportunities, increased efforts in supervision and training, reinforced channel cooperation and continuously improved the professional skills, endeavored to business structure transformation, achieved good results for business development and stable growth in first-year regular premiums of new policies. With regard to the group insurance channel, government commission business had further development and basic medical insurance processing business achieved a breakthrough. With regard to the commercial group insurance business, it continued to strengthen its innovation and further extend business scale, which recorded a rapid growth in capacity per agent.

3. *Premium Persistency Ratios*

The following table sets forth the 13-month and 25-month policy and premium persistency ratios for individual health insurance customers of the health insurance segment for the reporting periods indicated:

| | For the Six Months Ended 30 June | |
|---|---|---|
| **Item** | **2016** | 2015 |
| 13-month premium persistency ratio(1) (%) | **79.5** | 77.9 |
| 25-month premium persistency ratio(2) (%) | **71.7** | 77.0 |

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial data of the health insurance segment for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Net earned premiums | **16,871** | 10,009 | 68.6 |
| Investment income | **725** | 1,269 | (42.9) |
| Other income | **40** | 46 | (13.0) |
| Total income | **17,733** | 11,275 | 57.3 |
| Net claims and policyholders' benefits | **16,630** | 9,913 | 67.8 |
| Handling charges and commissions | **432** | 242 | 78.5 |
| Finance costs | **206** | 227 | (9.3) |
| Other operating and administrative expenses | **617** | 805 | (23.4) |
| Total benefits, claims and expenses | **17,883** | 11,187 | 59.9 |
| Profit before tax | **(150)** | 88 | – |
| Income tax expense | **(52)** | – | – |
| Net profit | **(202)** | 88 | – |

*Net earned premiums*

Net earned premiums of the health insurance segment increased by 68.6% to RMB16,871 million for the six months ended 30 June 2016 from RMB10,009 million for the same period in 2015. This was mainly due to the rapid growth of business.

*Investment income*

Investment income from the health insurance segment decreased by 42.9% to RMB725 million for the six months ended 30 June 2016 from RMB1,269 million for the same period in 2015. This was primary due to the adverse fluctuation in equity market and lower yield of new investment and reinvestment under the low interest rate environment.

*Other income*

Other income from the health insurance segment decreased 13.0% to RMB40 million for the six months ended 30 June 2016 from RMB46 million for the same period in 2015. This was mainly due to the decrease in income from relevant charges of universal products.

*Net claims and policyholders' benefits*

Net claims and policyholders' benefits from the health insurance segment increased by 67.8% to RMB16,630 million for the six months ended 30 June 2016 from RMB9,913 million for the same period in 2015, mainly due to the rapid growth in business resulting in higher withdrawal of premium reserves.

*Handling charges and commissions*

Handling charges and commissions of the health insurance segment increased by 78.5% to RMB432 million for the six months ended 30 June 2016 from RMB242 million for the same period in 2015. This was mainly due to the rapid growth of business.

*Finance costs*

Finance costs from the health insurance segment decreased by 9.3% to RMB206 million for the six months ended 30 June 2016 from RMB227 million for the same period in 2015, primarily due to the decrease in the interests credited for universal products and the decrease in interest expenses of securities sold under the agreements to repurchase.

*Net profit*

Mainly attributable to the factors mentioned above, net loss from the health insurance segment amounted to RMB202 million for the six months ended 30 June 2016 compared to net profit of RMB88 million for the same period in 2015.

### Analysis of Original Premiums Income by Region

The following table sets forth the Original Premiums Income from the insurance business of the Group in the PRC by region for the reporting periods indicated:

*Unit: RMB in millions*

| | For the Six Months Ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| Jiangsu Province | **22,366** | 19,041 |
| Guangdong Province | **19,615** | 17,202 |
| Shandong Province | **17,520** | 14,193 |
| Zhejiang Province | **16,760** | 14,777 |
| Hebei Province | **15,482** | 12,508 |
| Sichuan Province | **14,417** | 12,139 |
| Beijing City | **14,178** | 10,794 |
| Liaoning Province | **10,256** | 8,777 |
| Anhui Province | **10,132** | 8,024 |
| Hubei Province | **9,895** | 8,287 |
| Other regions | **113,160** | 100,189 |
| Total | **263,781** | 225,931 |

### Asset management business

In the first half of 2016, the Group's asset management segment overcame certain adverse factors, such as unfavorable fluctuation of capital market, continuously low bond yield, frequent occurrence of credit risk and sharp decline in the issuance of asset management products in the industry. It seized market opportunities to invest in debt products and bank financial products, which helped maintain a stable investment return and effectively reduced investment risk. On the basis of developing traditional equity and debt products, the asset management segment enhanced development of the Group's strategic investment projects. It proactively developed inclusive finance segment, coordinated the development of major insurance business and extended new channel for utilisation of insurance fund. The equity linked products of the asset management segment had a registered scale of RMB2,000 million. The debt linked products had a registered scale of RMB5,210 million, ranking the sixth in the industry. The registered scale of asset-backed scheme was RMB800 million. As at 30 June 2016, the scale of entrusted third-party and the offered insurance assets management products of PICC AMC amounted to RMB183,522 million.

The investment income of the asset management segment of the Group does not include the investment income generated by the investment assets managed by our asset management segment on behalf of the Group's insurance segments. The investment income generated by the investment assets managed by our asset management segment on behalf of our other segments have already been included in the investment income of the relevant segments.

The following table sets forth the income statement data of the asset management segment for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Investment income | **191** | 439 | (56.5) |
| Other income | **555** | 457 | 21.4 |
| Total income | **746** | 896 | (16.7) |
| Finance costs | **1** | 7 | (85.7) |
| Other operating and administrative expenses | **343** | 326 | 5.2 |
| Total expenses | **344** | 333 | 3.3 |
| Profit before tax | **400** | 563 | (29.0) |
| Income tax expense | **(93)** | (147) | (36.7) |
| Net profit | **307** | 416 | (26.2) |

*Investment income*

Investment income from the asset management segment decreased by 56.5% to RMB191 million for the six months ended 30 June 2016 from RMB439 million for the same period in 2015, mainly due to the higher proportionate gains from investment in equities as a result of the capital market performing well in the first half year of 2015, but the influence of which was weaker for the same period in 2016.

*Other income*

Other income from the asset management segment increased by 21.4% to RMB555 million for the six months ended 30 June 2016 from RMB457 million for the same period in 2015, mainly due to the growth in asset management changes.

*Finance costs*

Finance costs for the asset management segment decreased by 85.7% to RMB1 million for the six months ended 30 June 2016 from RMB7 million for the same period in 2015. This is mainly due to the decrease in interest expenses of financial assets sold under the agreements to repurchase.

*Net profit*

Mainly attributable to the factors mentioned above, net profit of the asset management segment decreased by 26.2% to RMB307 million for the six months ended 30 June 2016 from RMB416 million for the same period in 2015.

## INVESTMENT PORTFOLIO AND INVESTMENT INCOME

### (1) Investment portfolio

The following table sets forth certain information regarding the investment portfolio of the Group as of the dates indicated:

*Unit: RMB in millions, except for percentages*

| Investment assets | As of 30 June 2016 Carrying amount | As of 30 June 2016 (% of total) | As of 31 December 2015 Carrying amount | As of 31 December 2015 (% of total) |
|---|---|---|---|---|
| Cash and cash equivalents | 39,882 | 5.2 | 49,884 | 6.7 |
| Fixed-income investments | 410,152 | 53.2 | 393,503 | 53.0 |
| Term deposits | 118,702 | 15.4 | 148,097 | 19.9 |
| Fixed-income securities | 279,157 | 36.2 | 232,147 | 31.3 |
| Government bonds | 13,192 | 1.7 | 12,942 | 1.7 |
| Financial bonds | 102,054 | 13.2 | 107,578 | 14.5 |
| Corporate bonds | 163,911 | 21.3 | 111,627 | 15.0 |
| Other fixed-income investments(1) | 12,293 | 1.6 | 13,259 | 1.8 |
| Equity and fund investments at fair value | 108,243 | 14.1 | 109,663 | 14.8 |
| Securities investment funds | 73,192 | 9.5 | 77,755 | 10.5 |
| Equity securities | 35,051 | 4.5 | 31,908 | 4.3 |
| Other investments | 212,096 | 27.5 | 189,771 | 25.5 |
| Subordinated debts and debt investment schemes | 105,256 | 13.7 | 100,355 | 13.5 |
| Investment in associates and joint ventures | 55,393 | 7.2 | 53,308 | 7.2 |
| Others(2) | 51,447 | 6.7 | 36,108 | 4.9 |
| Total investment assets | 770,373 | 100.0 | 742,821 | 100.0 |

(1) Primarily consist of restricted statutory deposits and policy loans.

(2) Primarily consist of investment properties, derivative financial assets, equity investments stated at cost and asset management products.

## (2) Investment income

The following table sets forth certain information relating to the investment income of the Group for the reporting periods indicated:

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | |
|---|---|---|
| **Items** | **2016** | 2015 |
| Cash and cash equivalents | **266** | 306 |
| Fixed-income investment | **9,997** | 10,725 |
| Interest income | **9,884** | 10,601 |
| Net realised gains/(losses) | **121** | 110 |
| Net unrealised gains/(losses) | **(8)** | 14 |
| Impairment | **–** | – |
| Equity and fund investments at fair value | **974** | 13,409 |
| Dividend income | **2,047** | 2,455 |
| Net realized gains/(losses) | **(809)** | 10,927 |
| Net unrealized gains/(losses) | **(79)** | 40 |
| Impairment | **(185)** | (13) |
| Other investment income/(loss) | **7,268** | 6,094 |
| Total investment income | **18,505** | 30,534 |
| Total investment yield (annualised)(1) (%) | **5.0** | 8.8 |
| Net investment yield (annualised)(2) (%) | **5.3** | 5.6 |

(1) Total investment yield = (total investment income – interest expenses on securities sold under agreements to repurchase)/(the average of total investment assets as of beginning and end of the period – the relevant liabilities of the securities sold under agreements to repurchase) × 2.

(2) Net investment yield = (total investment income – net realized financial assets income – net unrealized financial assets income – impairment loss of financial assets – interest expenses on securities sold under agreements to repurchase)/(the average of total investment assets as of beginning and end of the period – the relevant liabilities of the securities sold under agreements to repurchase) × 2.

## SPECIFIC ANALYSIS

### (1) Liquidity Analysis

1. *Liquidity Analysis*

The liquidity of the Group is mainly derived from premiums, net investment income, cash from sales or maturity of investment assets and its own financing activities. The demand for liquidity primarily arose from surrenders, withdrawals or other forms of early termination of insurance policies, insurance claims or benefits, payment of dividends to shareholders and cash required for payment of various ordinary expenses.

Since the Group generally collects premiums before the payment of insurance claims or benefits, the cash flow from operating activities of the Group generally records a net inflow. At the same time, the Group maintained a certain proportion of assets with high liquidity to meet liquidity requirements. In addition, the Group could also obtain additional liquidity from the disposal of securities sold under agreement to repurchase and other financing methods.

As a holding company, the Company derives its cash flow mainly from investment income arising from investment activities, cash flow generated by financing activities and the dividends from its subsidiaries. The Company believes that it has sufficient liquidity to meet the foreseeable liquidity needs of the Group and the Company.

2. *Statement of Cash Flows*

*Unit: RMB in millions, except for percentages*

| | For the Six Months Ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | (% of change) |
| Net cash flow from operating activities | **21,497** | 11,593 | 85.4 |
| Net cash flow used in investment activities | **(20,700)** | (10,702) | 93.4 |
| Net cash flow (used in)/from financing activities | **(10,859)** | 11,343 | – |

## (2) Solvency

The Group calculated and disclosed the actual capital, core capital, minimum capital, comprehensive solvency margin ratio and core solvency margin ratio in accordance with relevant CIRC requirements.

*Unit: RMB in millions, except for percentages*

| | As of 30 June 2016 | As of 31 December 2015 (Unaudited)[1] | (% of change) |
|---|---|---|---|
| **PICC Group** | | | |
| Actual capital | **197,766** | 198,150 | (0.2) |
| Core capital | **161,664** | 157,883 | 2.4 |
| Minimum capital | **70,242** | 67,143 | 4.6 |
| Comprehensive solvency margin ratio (%) | **282** | 295 | Decrease of 13 pt |
| Core solvency margin ratio (%) | **230** | 235 | Decrease of 5 pt |
| **PICC P&C** | | | |
| Actual capital | **119,676** | 121,478 | (1.5) |
| Core capital | **107,334** | 104,783 | 2.4 |
| Minimum capital | **42,805** | 42,824 | – |
| Comprehensive solvency margin ratio (%) | **280** | 284 | Decrease of 4 pt |
| Core solvency margin ratio (%) | **251** | 245 | Increase of 6 pt |
| **PICC Life** | | | |
| Actual capital | **43,051** | 45,314 | (5.0) |
| Core capital | **35,934** | 38,365 | (6.3) |
| Minimum capital | **24,475** | 20,935 | 16.9 |
| Comprehensive solvency margin ratio (%) | **176** | 216 | Decrease of 40 pt |
| Core solvency margin ratio (%) | **147** | 183 | Decrease of 36 pt |
| **PICC Health** | | | |
| Actual capital | **7,066** | 4,551 | 55.3 |
| Core capital | **6,402** | 3,883 | 64.9 |
| Minimum capital | **2,889** | 2,220 | 30.1 |
| Comprehensive solvency margin ratio (%) | **245** | 205 | Increase of 40 pt |
| Core solvency margin ratio (%) | **222** | 175 | Increase of 47 pt |

(1) Comprehensive solvency margin ratios and core solvency margin ratios of the Group, PICC P&C, PICC Life and PICC Health as of 31 December 2015 are calculated (unaudited) in accordance with the regulatory rules under "Solvency II System".

As of 30 June 2016, the comprehensive solvency margin ratio of the Group was 282%, representing a decrease of 13 percentage points as compared to that as of 31 December 2015; and the core solvency margin ratio was 230%, representing a decrease of 5 percentage points as compared to that as of 31 December 2015.

As of 30 June 2016, the comprehensive solvency margin ratio of PICC P&C was 280%, representing a decrease of 4 percentage points as compared to the ratio as of 31 December 2015; and the core solvency margin ratio was 251%, representing an increase of 6 percentage points as compared to the ratio as of 31 December 2015. The comprehensive solvency margin ratio of PICC Life was 176%, representing a decrease of 40 percentage points as compared to the ratio as of 31 December 2015; the core solvency margin ratio was 147%, representing a decrease of 36 percentage points as compared to the ratio as of 31 December 2015. The comprehensive solvency margin ratio of PICC Health was 245%, representing an increase of 40 percentage points as compared to the ratio as of 31 December 2015; the core solvency margin ratio was 222%, representing an increase of 47 percentage points as compared to the ratio as of 31 December 2015.

## BORROWINGS

As at 30 June 2016, the balance of subordinated debts issued by the Group was RMB34,054 million, decreased by 13.15%, and by RMB5,156 million as compared to 31 December 2015. As at 30 June 2016, the balance of securities sold with commitments to repurchase was RMB23,788 million, decreased by 15.74%, and by RMB4,443 million as compared to 31 December 2015. As at 30 June 2016, the amount of bank borrowings of the Group was RMB980 million.

## PROSPECTS

### (1) Market Environment

During the first half of 2016, China's insurance industry maintained a rapid development momentum. According to the information released by the CIRC, the Original Premiums Income of China's insurance industry amounted to about RMB1.9 trillion for the first half of 2016, representing an increase of 37.3% as compared to the same period last year. The Original Premiums Income of the P&C insurance companies and the life and health insurance companies recorded an increase of 8.5% and 50.3%, respectively, as compared to the same period last year; by the end of June 2016, total insurance assets of the insurance industry in China amounted to RMB14.3 trillion, representing an increase of 15.4% as compared to the beginning of 2016.

Since the beginning of the year, in order to adapt to the "new normal" economic development, the central government made effort to promote supply-side structure reform, firmly implemented the development philosophy of innovation, coordination, environmental protection, openness and sharing, launched a series of policies in order to stabilize growth, promote reform, adjust structure and improve people's well-being, which provide structural development opportunities for the innovative development of insurance business. Firstly, supply-side structure reform and innovation-driven development strategy provides support to the innovation of insurance industry, and opportunity to serve small and micro enterprises. Secondly, the central government focused on the full-fledged development by introducing aggressive anti-poverty strategy, which provided a favorable opportunity for innovation of related products and service in insurance industry, development of benefiting financial products in rural area and further establishment of service system of critical illness insurance. Thirdly, the government actively streamlined mechanism and delegated power, creating new opportunity for the rapid development of liability insurance. Fourthly, aging population fueled the development of insurance product for the elderly. Promotion of healthcare and elderly-care service industry provides new room for the development of "sliver economy".

### (2) Key Work

In the second half of 2016, the Company will firmly establish the philosophy in five major aspects, including innovation, coordination, environmental protection, openness and sharing. Under the guidance of the Group's 13th five-year plan, we will continue the transformation towards "customer-oriented business", keep following the working guidance of maintaining a stable growth, focusing its effort in reform and innovation, strengthening value creation, enhancing professional capability, deepening transformation and reinforcing risk control. Meanwhile, we will make overall consideration, strengthen our execution ability and ensure the achievement of our annual objectives and missions. Firstly, we will enhance the pertinence of work and practically focus on the major areas of each business. We will continue to consolidate the market position of PICC P&C, significantly advance the development transformation of PICC P&C, accelerate the establishment of profit model and health management model of PICC Health, adhere to prudent investment strategy and strengthen the matching of assets and liabilities in order to secure a stable investment income for the Group. Secondly, we will reinforce goals direction and achieve a balanced work coordination. Besides properly handling the relationship between targeted market and targeted plan, we also make plan for the long-term development during the "Thirteenth Five-year Plan" under existing work. Thirdly, we will strengthen our execution ability to finalize the Group's reform and deployment. We will arrange the schedule for the Group's major projects, focus on the critical part in the reform and improve the coordination in the reform. Fourthly, we will reinforce risk control with a bottom line of avoiding new systematic risk. We will prevent credit risk in investment aspect, improve measure for cash flow risk and strengthen the establishment of basic internal control. Fifthly, we will take responsibility in relation to fighting natural disaster and disaster relief. We will endeavour to fight natural disaster and practically take responsibility to protect the public interests.

## NO MATERIAL CHANGES

Saved as disclosed in this interim report, from 1 January 2016 to 30 June 2016, there are no material changes affecting the Company's performance that needs to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

# Embedded Value

Our consolidated financial statements set forth in our interim report are prepared in accordance with IFRS. These financial statements measure our results of operations for a specific time period. An alternative method of measuring the value and profitability of a life or health insurance company is the embedded value method. Embedded value is an estimate of the economic value of the life and health insurance businesses of an insurance company that is determined based on a particular set of assumptions and a valuation model-based forecast of future distributable profits, excluding any value attributable to any future new business. While, under IFRS, there is a time lag between the sale of policies and the recognition of profits, embedded value recognizes the contribution of future profits from existing policies as of the date of the embedded value calculation. Since life and health insurance policies usually extend over more than one fiscal year, embedded value is a technique that attempts to quantify the total financial impact of these policies, including the impact in future fiscal years, in order to provide an alternative assessment of potential shareholder value.

Embedded value does not include the economic value of future new business. The value of half year's new business provides an indication of the value created for investors by new business activity based on the assumptions used and hence the potential of the business.

Deloitte Consulting (Shanghai) Co. Ltd. Beijing Branch, independent consulting actuaries, have prepared actuarial consultants' review reports on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 30 June 2016, and the value of half year's new business of PICC Life and PICC Health, respectively, in respect of our new life and health insurance businesses written for the 6 months ended 30 June 2016, on a range of assumptions. Copies of consulting actuaries' review reports are included in our interim report. These reports do not constitute an audit opinion of the financial information used in the report.

The value of in-force business and the value of half year's new business in respect of new life and health insurance businesses have been calculated using a valuation model under a range of assumptions. Given the particular uncertainties associated with the future investment environment and future business operations, you should carefully consider the range of values arising from the sensitivity analysis, which reflect the impact of different assumptions on these values. Moreover, the values do not necessarily include the full range of potential outcomes.

The estimates of value of in-force business and the value of half year's new business necessarily make numerous assumptions with respect to industry performance, business and economic conditions, investment returns, reserving standards, taxation, life expectancy and other matters, many of which are beyond our control. As a result, actual future experience may vary from that assumed in the calculation, and these variations may be material. Calculated values will vary, possibly materially, as key assumptions are varied. Moreover, as actual market value is determined by investors based on a variety of information available to them, these calculated values should not be construed as a direct reflection of actual market value. Furthermore, in the current environment of the PRC market, material uncertainty exists with respect to asset valuations, which may have material impact on the embedded value.

## INDEPENDENT ACTUARIES REVIEW OPINION REPORT ON THE EMBEDDED VALUE OF PICC LIFE

PICC Life has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 30 June 2016. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

## SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and half year's new business value as of 30 June 2016;
- Review the assumptions of the embedded value and half year's new business value as of 30 June 2016;
- Review the various embedded value results as of 30 June 2016, including the embedded value, value of half year's new business, and the sensitivity tests of value of in-force business and value of half year's new business under alternative assumptions;
- Review the half year's new business value as of 30 June 2015 (based on the assumptions and required capital as of 31 December 2015); and
- Review the breakdown of value of half year's new business as of 30 June 2016 and 30 June 2015 by distribution channel.

## BASIS OF OPINION, RELIANCES AND LIMITATION

We carried out our review work based on "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC.

In carrying out our work, we have relied upon the accuracy and completeness of the audited and unaudited data and information provided by PICC Life.

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Many of these assumptions are not entirely controlled by PICC Life. They are affected by internal and external factors. Hence the actual experience may deviate from these assumptions.

This report is addressed solely to PICC Life in accordance with the terms of our engagement letter. We have agreed that PICC Life can provide this review report to the People's Insurance Company (Group) of China Limited to be disclosed in its interim report. To the fullest extent permitted by applicable law, we do not accept or assume any responsibility, duty of care or liability to anyone other than PICC Life for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

## OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Life to determine the embedded value results is in line with the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC. This method is one that is commonly used by life and health insurance companies in China;

- The economic assumptions used by PICC Life have been taken into account the current investment market conditions and the investment strategy of PICC Life;

- The operating assumptions used by PICC Life have been taken into account the past experiences and the expectation of future experiences; and

- The embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

**For Deloitte Consulting (Shanghai) Co. Ltd., Beijing Branch**

**Eric Lu**
FIAA, FCAA

## 30 JUNE 2016 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED

### 1. Definition and Methodology

#### *1.1 Definition*

A number of specific terms are used in this report. They are defined as follows:

- **Embedded Value ("EV"):** this is the sum of the Adjusted Net Worth and Value of In-Force Business as at the valuation date;

- **Adjusted Net Worth ("ANW"):** this is the market value of the assets in excess of the assets supporting the policy reserve and other liabilities as at the valuation date attributable to shareholders. This is equal to the shareholder equity on accounting report basis plus reserve differences between accounting report basis and solvency basis, market value adjustments and tax adjustments;

- **Value of In-Force Business ("VIF"):** this is equal to the present value as at valuation date of future net of tax statutory profits from the business in force as at the valuation date, less the Cost of Capital associated with such business;

- **Statutory Profits:** this is the profit determined based on regulatory solvency reporting basis. The key difference between this profit and the profit reported under accounting report basis is that the policy reserve is determined based on CIRC's actuarial requirement instead of the accounting report basis;

- **Cost of Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date less (1) the present value of future releases of such capital; and (2) the present values of the after-tax investment earnings on the assets backing such required capital. The level of total capital required depends on the Company's internal target of capital level and is subject to the minimum of statutory requirement;

- **Value of Half Year's New Business ("VHNB"):** this is equal to the present value as at the policy issue dates of the future net of tax statutory profits from the policies sold in the specified half year period less the Cost of Capital associated with such business. The value associated with top-up premium not expected from the in-force business is included in Value of Half Year's New Business; and

- **Expense Overrun:** the amount of actual expenses in excess of the assumed expenses.

### 1.2 *Methodology*

Mainland China has launched China Risk Oriented Solvency System ("C-ROSS") since 2016. As the guidance on Embedded Value report preparation under C-ROSS has not been released as of 30 June 2016, PICC Life has determined the Embedded Value and Value of Half Year's New Business based on the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC.

PICC Life has used the traditional embedded value approach. Both Value of In-Force Business and Value of Half Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of Half Year's New Business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

## 2. Results Summary

In this section we have shown the results of first half of this year as well as those of last year for comparison purpose. All figures shown in this section are based on discount rate of 10%.

### 2.1 *Overall Results*

**Table 2.1.1 Embedded Value of PICC Life as of 30 June 2016** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of In-Force Business before CoC | 21,198 |
| Cost of Capital | (1,702) |
| Value of In-Force Business after CoC | 19,496 |
| Adjusted Net Worth | 34,409 |
| **Embedded Value** | **53,905** |

Note: Figures may not add up to total due to rounding.

**Table 2.1.2 Value of Half Year's New Business of PICC Life for the 6 months up to 30 June 2016** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of Half Year's New Business before CoC | 3,448 |
| Cost of Capital | (567) |
| **Value of Half Year's New Business after CoC** | **2,880** |

Note: Figures may not add up to total due to rounding.

**Table 2.1.3 Value of Half Year's New Business of PICC Life for the 6 months up to 30 June 2015** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of Half Year's New Business before CoC | 2,239 |
| Cost of Capital | (400) |
| **Value of Half Year's New Business after CoC** | 1,839 |

Note:

1. Figures may not add up to total due to rounding.

2. Value of Half Year's New Business for the 6 months up to 30 June 2015 is based on the assumption and capital requirement as of 31 December 2015.

### 2.2 *Results by Distribution Channels*

PICC Life split the Value of Half Year's New Business by distribution channel. The results of the Value of Half Year's New Business by distribution channel as of 30 June 2016 and 30 June 2015 are summarized in the tables below.

**Table 2.2.1 Value of Half Year's New Business of PICC Life for the 6 months up to 30 June 2016 by Distribution Channel** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% | | | | |
|---|---|---|---|---|---|
| Distribution Channel | Bancassu-rance | Individual insurance agent | Group sales | Reinsur-ance | Total |
| Value of Half Year's New Business after CoC | 472 | 2,083 | 324 | 2 | 2,880 |

Note: Figures may not add up to total due to rounding.

**Table 2.2.2 Value of Half Year's New Business of PICC Life for the 6 months up to 30 June 2015 by Distribution Channel** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% | | | | |
|---|---|---|---|---|---|
| Distribution Channel | Bancassu-rance | Individual insurance agent | Group sales | Reinsur-ance | Total |
| Value of Half Year's New Business after CoC | 462 | 1,088 | 270 | 19 | 1,839 |

Note:

1. Figures may not add up to total due to rounding.

2. Value of Half Year's New Business for the 6 months up to 30 June 2015 is based on the assumption and capital requirement as of 31 December 2015.

When calculating the Value of In-Force Business and Value of Half Year's New Business, the expense assumptions used by PICC Life represent the expected long-term expense level in the future. As the operating history of PICC Life is not long, the business scale has not reached the expected level. Hence the expenses to be incurred in the near future will exceed the expected long-term expense level. The present value of future maintenance expense overrun has been deducted from the value of in-force business in accordance with the guidelines of CIRC. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

## 3. Assumptions

The assumptions below are used for the valuation of the Embedded Value and Value of Half Year's New Business as of 30 June 2016.

### *3.1 Risk Discount Rate*

A 10% risk discount rates has been used to calculate the Embedded Value and Value of Half Year's New Business.

### *3.2 Rate of Investment Return*

A 5.5% p.a. investment return assumption has been used.

### *3.3 Policy Dividend*

The expected level of participating policy dividend is derived based on the participating policy of PICC Life. The impact on the Value of In-Force Business and Value of Half Year's New Business that may be caused by the change in the level of participating policy dividend is illustrated in the sensitivity tests.

### *3.4 Mortality and Morbidity*

The assumptions on mortality and morbidity are set with due consideration of the prevailing experience of the industry, PICC Life's own experience and the reinsurance rates obtained by PICC Life.

### *3.5 Claim Ratio*

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on actual experience. They are in the range from 32% to 55% of gross premium depending on the lines of business.

### *3.6 Lapse Rates*

Lapse rate assumptions are based on the lapse experience and expectation of future experience. These assumptions vary by product line, payment mode and policy year. As the terms and conditions of the universal life business allow flexibility in premium payment, premium holiday assumptions are also set for regular premium universal life business.

### 3.7 Expenses and Commissions

Expense assumptions are set based on the operating experience, expense management approach and the expected future expense level of PICC Life. It is assumed that the future inflation rate is 2.5% p.a.

Commission assumptions are set based on overall commission level of PICC Life and vary by business lines.

### 3.8 Tax

The corporate income tax rate is assumed to be 25% of the taxable income. Income on government bonds (other than capital gains/losses), dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

The short-term accidental insurance business is subject to 5.5% business tax.

## 4. Sensitivity Tests

PICC Life has conducted sensitivity tests on the Embedded Value and Value of Half Year's New Business. In each of these tests, only the assumption referred to is changed, while the other assumptions are kept unchanged. For the investment return assumption scenario, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

**Table 4.1 Value of In-Force Business of PICC Life as of 30 June 2016 under Alternative Assumptions** *(Unit: RMB Million)*

| Scenarios | Before CoC | After CoC |
|---|---|---|
| Base Scenario | 21,198 | 19,496 |
| Risk Discount Rate at 9% | 22,881 | 21,298 |
| Risk Discount Rate at 11% | 19,766 | 17,970 |
| Rate of investment return plus 50 bps | 25,497 | 23,992 |
| Rate of investment return less 50 bps | 16,946 | 15,046 |
| Expenses increased by 10% | 20,938 | 19,236 |
| Expenses reduced by 10% | 21,458 | 19,756 |
| Lapse rates increased by 10% | 20,061 | 18,596 |
| Lapse rates reduced by 10% | 22,211 | 20,293 |
| Mortality increased by 10% | 21,000 | 19,303 |
| Mortality reduced by 10% | 21,397 | 19,691 |
| Morbidity increased by 10% | 21,084 | 19,383 |
| Morbidity reduced by 10% | 21,312 | 19,609 |
| Short-term business claim ratio increased by 10% | 21,149 | 19,448 |
| Short-term business claim ratio reduced by 10% | 21,246 | 19,544 |
| Participating Ratio (80/20) | 20,457 | 18,755 |
| 150% of Minimum Solvency Requirement | 21,198 | 18,122 |
| Taxable Income Based on China Accounting Standards | 20,089 | 18,387 |

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

**Table 4.2 Value of Half Year's New Business for the 6 months up to 30 June 2016 of PICC Life under Alternative Assumptions**

*(Unit: RMB Million)*

| Scenarios | Before CoC | After CoC |
|---|---|---|
| Base Scenario | 3,448 | 2,880 |
| Risk Discount Rate at 9% | 3,927 | 3,406 |
| Risk Discount Rate at 11% | 3,043 | 2,436 |
| Rate of investment return plus 50 bps | 4,944 | 4,441 |
| Rate of investment return less 50 bps | 1,969 | 1,337 |
| Expenses increased by 10% | 3,036 | 2,468 |
| Expenses reduced by 10% | 3,860 | 3,292 |
| Lapse rates increased by 10% | 2,988 | 2,518 |
| Lapse rates reduced by 10% | 3,856 | 3,200 |
| Mortality increased by 10% | 3,404 | 2,838 |
| Mortality reduced by 10% | 3,492 | 2,923 |
| Morbidity increased by 10% | 3,410 | 2,843 |
| Morbidity reduced by 10% | 3,486 | 2,918 |
| Short-term business claim ratio increased by 10% | 3,400 | 2,832 |
| Short-term business claim ratio reduced by 10% | 3,496 | 2,929 |
| Participating Ratio (80/20) | 3,315 | 2,747 |
| 150% of Minimum Solvency Requirement | 3,448 | 2,434 |
| Taxable Income Based on China Accounting Standards | 2,824 | 2,256 |

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

## INDEPENDENT ACTUARIES REVIEW OPINION REPORT ON THE EMBEDDED VALUE OF PICC HEALTH

PICC Health has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 30 June 2016. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

## SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and half year's new business value as of 30 June 2016;
- Review the assumptions of the embedded value and half year's new business value as of 30 June 2016;
- Review the various embedded value results as of 30 June 2016, including the embedded value, value of half year's new business, and the sensitivity tests of value of in-force business and value of half year's new business under alternative assumptions;
- Review the half year's new business value as of 30 June 2015 (based on the assumptions and required capital as of 31 December 2015); and
- Review the breakdown of value of half year's new business as of 30 June 2016 and 30 June 2015 by distribution channel.

## BASIS OF OPINION, RELIANCES AND LIMITATION

We carried out our review work based on "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC.

In carrying out our work, we have relied upon the accuracy and completeness of the audited and unaudited data and information provided by PICC Health.

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Many of these assumptions are not entirely controlled by PICC Health. They are affected by internal and external factors. Hence the actual experience may deviate from these assumptions.

This report is addressed solely to PICC Health in accordance with the terms of our engagement letter. We have agreed that PICC Health can provide this review report to the People's Insurance Company (Group) of China Limited to be disclosed in its interim report. To the fullest extent permitted by applicable law, we do not accept or assume any responsibility, duty of care or liability to anyone other than PICC Health for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

## OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Health to determine the embedded value results is in line with the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC. This method is one that is commonly used by life and health insurance companies in China;

- The economic assumptions used by PICC Health have been taken into account the current investment market conditions and the investment strategy of PICC Health;

- The operating assumptions used by PICC Health have been taken into account the past experiences and the expectation of future experiences; and

- The embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

**For Deloitte Consulting (Shanghai) Co. Ltd., Beijing Branch**

**Eric Lu**
FIAA, FCAA

## 30 JUNE 2016 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED

### 1. Definition and Methodology

#### *1.1 Definition*

A number of specific terms are used in this report. They are defined as follows:

- **Embedded Value ("EV"):** this is the sum of the Adjusted Net Worth and Value of In-Force Business as at the valuation date;

- **Adjusted Net Worth ("ANW"):** this is the market value of the assets in excess of the assets supporting the policy reserve and other liabilities as at the valuation date attributable to shareholders. This is equal to the shareholder equity on accounting report basis plus reserve differences between accounting report basis and solvency basis, market value adjustments and tax adjustments;

- **Value of In-Force Business ("VIF"):** this is equal to the present value as at valuation date of future net of tax statutory profits from the business in force as at the valuation date, less the Cost of Capital associated with such business;

- **Statutory Profits:** this is the profit determined based on regulatory solvency reporting basis. The key difference between this profit and the profit reported under accounting report basis is that the policy reserve is determined based on CIRC's actuarial requirement instead of the accounting report basis;

- **Cost of Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date less (1) the present value of future releases of such capital; and (2) the present values of the after-tax investment earnings on the assets backing such required capital. The level of total capital required depends on the Company's internal target of capital level and is subject to the minimum of statutory requirement;

- **Value of Half Year's New Business ("VHNB"):** this is equal to the present value as at the policy issue dates of the future net of tax statutory profits from the policies sold in the specified half year period less the Cost of Capital associated with such business. The value associated with top-up premium not expected from the in-force business is included in Value of Half Year's New Business; and

- **Expense Overrun:** the amount of actual expenses in excess of the assumed expenses.

### 1.2 *Methodology*

Mainland China has launched China Risk Oriented Solvency System ("C-ROSS") since 2016. As the guidance on Embedded Value report preparation under C-ROSS has not been released as of 30 June 2016, PICC Health has determined the Embedded Value and Value of Half Year's New Business based on the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) issued by CIRC.

PICC Health has used the traditional embedded value approach. Both Value of In-Force Business and Value of Half Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of Half Year's New Business disclosed by the insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate.

## 2. Results Summary

In this section we have shown the results of first half of this year as well as those of last year for comparison purpose. All figures shown in this section are based on discount rate of 10%.

### 2.1 *Overall Results*

**Table 2.1.1 Embedded Value of PICC Health as of 30 June 2016** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of In-Force Business before CoC | 1,706 |
| Cost of Capital | (287) |
| Value of In-Force Business after CoC | 1,419 |
| Adjusted Net Worth | 5,505 |
| **Embedded Value** | **6,924** |

Note: Figures may not add up to total due to rounding.

**Table 2.1.2 Value of Half Year's New Business of PICC Health for the 6 months up to 30 June 2016** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of Half Year's New Business before CoC | 385 |
| Cost of Capital | (82) |
| **Value of Half Year's New Business after CoC** | **303** |

Note: Figures may not add up to total due to rounding.

**Table 2.1.3 Value of Half Year's New Business of PICC Health for the 6 months up to 30 June 2015** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% |
|---|---|
| Value of Half Year's New Business before CoC | 199 |
| Cost of Capital | (36) |
| Value of Half Year's New Business after CoC | 162 |

Note:

1. Figures may not add up to total due to rounding.

2. Value of Half Year's New Business for the 6 months up to 30 June 2015 is based on the assumption and capital requirement as of 31 December 2015.

### 2.2 *Results by Distribution Channels*

PICC Health split the Value of Half Year's New Business by distribution channel. The results of the Value of Half Year's New Business by distribution channel as of 30 June 2016 and 30 June 2015 are summarized in the table below.

**Table 2.2.1 Value of Half Year's New Business of PICC Health for the 6 months up to 30 June 2016 by Distribution Channel** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% | | | | |
|---|---|---|---|---|---|
| Distribution Channel | Bancassu -rance | Individual insurance agent | Group sales | Reinsur -ance | Total |
| Value of Half Year's New Business after CoC | 31 | 185 | 87 | – | 303 |

Note: Figures may not add up to total due to rounding.

**Table 2.2.2 Value of Half Year's New Business of PICC Health for the 6 months up to 30 June 2015 by Distribution Channel** *(Unit: RMB Million)*

| Risk Discount Rate | 10.0% | | | | |
|---|---|---|---|---|---|
| Distribution Channel | Bancassu -rance | Individual insurance agent | Group sales | Reinsur -ance | Total |
| Value of Half Year's New Business after CoC | 36 | 88 | 38 | – | 162 |

Note:

1. Figures may not add up to total due to rounding.

2. Value of Half Year's New Business for the 6 months up to 30 June 2015 is based on the assumption and capital requirement as of 31 December 2015.

When calculating the Value of In-Force Business and Value of Half Year's New Business, the expense assumptions used by PICC Health represent the expected long-term expense level in the future. As the operating history of PICC Health is not long, the business scale has not reached the expected level. Hence the expenses to be incurred in the near future will exceed the expected long-term expense level. The present value of future maintenance expense overrun has been deducted from the value of in-force business in accordance with the guidelines of CIRC. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

## 3. Assumptions

The assumptions below are used for the valuation of the Embedded Value and Value of Half Year's New Business as of 30 June 2016.

### *3.1 Risk Discount Rate*

A 10% risk discount rates has been used to calculate the Embedded Value and Value of Half Year's New Business.

### *3.2 Rate of Investment Return*

A 5.5% p.a. investment return assumption has been used.

### *3.3 Policy Dividend*

The expected level of participating policy dividend is derived based on the participating policy of PICC Health. The impact on the Value of In-Force Business and Value of Half Year's New Business that may be caused by the change in the level of participating policy dividend is illustrated in the sensitivity tests.

### *3.4 Mortality and Morbidity*

The assumptions on mortality and morbidity are set with due consideration of the prevailing experience of the industry, PICC Health's own experience and the reinsurance rates obtained by PICC Health.

### *3.5 Claim Ratio*

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on actual experience. They are in the range from 7% to 95% of gross premium depending on the lines of business.

### *3.6 Lapse Rates*

Lapse rate assumptions are based on the lapse experience and expectation of future experience. These assumptions vary by product line, payment mode and policy year. As the terms and conditions of the universal life business allow flexibility in premium payment, premium holiday assumptions are also set for regular premium universal life business.

### 3.7 *Expenses and Commissions*

Expense assumptions are set based on the operating experience, expense management approach and the expected future expense level of PICC Health. It is assumed that the future inflation rate is 2.5% p.a.

Commission assumptions are set based on overall commission level of PICC Health and vary by business lines.

### 3.8 *Tax*

The corporate income tax rate is assumed to be 25% of the taxable income. Income on government bonds (other than capital gains/losses), dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

The short-term accidental insurance business is subject to 5.5% business tax.

## 4. Sensitivity Tests

PICC Health has conducted sensitivity tests on the Embedded Value and Value of Half Year's New Business. In each of these tests, only the assumption referred to is changed, while the other assumptions are kept unchanged. For the investment return assumption scenario, the expected participating policyholder dividend will also change. The results of sensitivity tests are summarized in Table 4.1 and 4.2.

**Table 4.1 Value of In-Force Business of PICC Health as of 30 June 2016 under Alternative Assumptions** *(Unit: RMB Million)*

| Scenarios | Before CoC | After CoC |
|---|---|---|
| Base Scenario | 1,706 | 1,419 |
| Risk Discount Rate at 9% | 1,827 | 1,573 |
| Risk Discount Rate at 11% | 1,602 | 1,284 |
| Rate of investment return plus 50 bps | 2,046 | 1,784 |
| Rate of investment return less 50 bps | 1,388 | 1,076 |
| Expenses increased by 10% | 1,616 | 1,329 |
| Expenses reduced by 10% | 1,816 | 1,528 |
| Lapse rates increased by 10% | 1,668 | 1,399 |
| Lapse rates reduced by 10% | 1,795 | 1,485 |
| Mortality increased by 10% | 1,698 | 1,411 |
| Mortality reduced by 10% | 1,714 | 1,427 |
| Morbidity increased by 10% | 1,684 | 1,397 |
| Morbidity reduced by 10% | 1,728 | 1,441 |
| Short-term business claim ratio increased by 10% | 946 | 659 |
| Short-term business claim ratio reduced by 10% | 2,624 | 2,337 |
| Participating Ratio (80/20) | 1,686 | 1,398 |
| 150% of Minimum Solvency Requirement | 1,706 | 1,244 |
| Taxable Income Based on China Accounting Standards | 1,671 | 1,383 |

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

**Table 4.2 Value of Half Year's New Business for the 6 months up to 30 June 2016 of PICC Health under Alternative Assumptions** *(Unit: RMB Million)*

| Scenarios | Before CoC | After CoC |
|---|---|---|
| Base Scenario | 385 | 303 |
| Risk Discount Rate at 9% | 418 | 346 |
| Risk Discount Rate at 11% | 356 | 265 |
| Rate of investment return plus 50 bps | 498 | 424 |
| Rate of investment return less 50 bps | 271 | 182 |
| Expenses increased by 10% | 355 | 273 |
| Expenses reduced by 10% | 415 | 333 |
| Lapse rates increased by 10% | 360 | 284 |
| Lapse rates reduced by 10% | 430 | 340 |
| Mortality increased by 10% | 384 | 302 |
| Mortality reduced by 10% | 386 | 304 |
| Morbidity increased by 10% | 381 | 300 |
| Morbidity reduced by 10% | 388 | 307 |
| Short-term business claim ratio increased by 10% | 118 | 36 |
| Short-term business claim ratio reduced by 10% | 651 | 570 |
| Participating Ratio (80/20) | 384 | 302 |
| 150% of Minimum Solvency Requirement | 385 | 254 |
| Taxable Income Based on China Accounting Standards | 382 | 301 |

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

# Report on Review of Condensed Consolidated Financial Statements

**TO THE BOARD OF DIRECTORS OF THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED**
*(Incorporated in the People's Republic of China with limited liability)*

## Introduction

We have reviewed the condensed consolidated financial statements of The People's Insurance Company (Group) of China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 80, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
26 August 2016

# Condensed Consolidated Income Statement

*For the six months ended 30 June 2016*
*(Amounts in millions of Renminbi, unless otherwise stated)*

| | *Notes* | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|---|
| Gross written premiums | 4 | **264,578** | 226,928 |
| Less: premiums ceded to reinsurers | 4 | **(18,159)** | (17,192) |
| Net written premiums | 4 | **246,419** | 209,736 |
| Change in unearned premium reserves | | **(17,948)** | (16,244) |
| Net earned premiums | | **228,471** | 193,492 |
| Reinsurance commission income | | **6,088** | 5,206 |
| Investment income | 5 | **15,079** | 27,605 |
| Other income | 6 | **1,154** | 1,013 |
| **TOTAL INCOME** | | **250,792** | 227,316 |
| Life insurance death and other benefits paid | | **73,925** | 63,427 |
| Claims incurred | | **90,164** | 82,075 |
| Changes in long-term life insurance contract liabilities | | **20,755** | 14,128 |
| Policyholder dividends | | **1,928** | 2,534 |
| Claims and policyholders' benefits: | 7 | **186,772** | 162,164 |
| Less: claims and policyholders' benefits ceded to reinsurers | 7 | **(8,922)** | (8,344) |
| Net claims and policyholders' benefits | 7 | **177,850** | 153,820 |
| Handling charges and commissions | | **25,570** | 16,821 |
| Finance costs | 8 | **2,039** | 2,276 |
| Exchange gains | | **(233)** | – |
| Other operating and administrative expenses | 9 | **34,422** | 34,961 |
| **TOTAL BENEFITS, CLAIMS AND EXPENSES** | | **239,648** | 207,878 |
| Share of profits and losses of associates and joint ventures | | **3,426** | 2,929 |
| **PROFIT BEFORE TAX** | 10 | **14,570** | 22,367 |
| Income tax expense | 11 | **(3,286)** | (4,335) |
| **PROFIT FOR THE PERIOD** | | **11,284** | 18,032 |
| Attributable to: | | | |
| Equity holders of the parent | | **7,725** | 12,821 |
| Non-controlling interests | | **3,559** | 5,211 |
| | | **11,284** | 18,032 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| – Basic (in RMB) | 13 | **0.18** | 0.30 |

# Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2016*
*(Amounts in millions of Renminbi, unless otherwise stated)*

| | *Notes* | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) (Restated) |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **11,284** | 18,032 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Available-for-sale financial assets | | | |
| – Fair value (losses)/gains | | **(4,980)** | 18,371 |
| – Reclassification of losses/(gains) to profit on disposals | 5(b) | **548** | (10,742) |
| – Impairment losses | 5(d) | **185** | 13 |
| Income tax effect | | **1,062** | (1,837) |
| | | **(3,185)** | 5,805 |
| Net losses on cash flow hedges | | **(4)** | (1) |
| Income tax effect | | **1** | – |
| | | **(3)** | (1) |
| Share of other comprehensive income of associates and joint ventures | | **435** | 352 |
| Exchange differences on translating foreign operations | | **22** | 8 |
| **NET OTHER COMPREHENSIVE (EXPENSE)/INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | **(2,731)** | 6,164 |
| Items that will not be reclassified to profit or loss: | | | |
| Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties | 22 | **145** | 101 |
| Income tax effect | | **(36)** | (25) |
| | | **109** | 76 |
| Actuarial gains/(losses) on pension benefit obligation | | **102** | (46) |
| Share of other comprehensive expense of associates and joint ventures | | **(51)** | – |
| **NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | **160** | 30 |
| **OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, NET OF TAX** | | **(2,571)** | 6,194 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **8,713** | 24,226 |
| Attributable to: | | | |
| – Equity holders of the parent | | **5,806** | 17,586 |
| – Non-controlling interests | | **2,907** | 6,640 |
| | | **8,713** | 24,226 |

# Condensed Consolidated Statement of Financial Position

*As at 30 June 2016*
*(Amounts in millions of Renminbi, unless otherwise stated)*

| | *Notes* | **30 June 2016 (Unaudited)** | 31 December 2015 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 14 | **39,882** | 49,884 |
| Derivative financial assets | 15 | **4** | 8 |
| Debt securities | 16 | **279,157** | 232,147 |
| Equity securities, mutual funds and trust schemes | 17 | **123,917** | 125,275 |
| Insurance receivables, net | 18 | **48,820** | 21,558 |
| Reinsurance assets | 19, 27 | **28,642** | 26,542 |
| Term deposits | | **118,702** | 148,097 |
| Restricted statutory deposits | | **9,412** | 9,914 |
| Investments classified as loans and receivables | 20 | **130,567** | 110,485 |
| Investments in associates and joint ventures | 21 | **55,393** | 53,308 |
| Investment properties | 22 | **10,458** | 10,358 |
| Property and equipment | 23 | **23,182** | 23,095 |
| Intangible assets | | **933** | 1,005 |
| Prepaid land premiums | | **3,869** | 3,941 |
| Deferred tax assets | | **5,540** | 2,251 |
| Other assets | 24 | **23,798** | 25,600 |
| **TOTAL ASSETS** | | **902,276** | 843,468 |
| **LIABILITIES** | | | |
| Securities sold under agreements to repurchase | | **23,788** | 28,231 |
| Income tax payable | | **3,627** | 3,117 |
| Due to banks and other financial institutions | 25 | **980** | 980 |
| Subordinated debts | 26 | **34,054** | 39,210 |
| Insurance contract liabilities | 27 | **554,160** | 507,686 |
| Investment contract liabilities for policyholders | 28 | **36,556** | 27,601 |
| Policyholder dividends payable | | **7,531** | 8,114 |
| Pension benefit obligation | | **2,810** | 2,990 |
| Deferred tax liabilities | | **1,054** | 1,455 |
| Other liabilities | 29 | **74,287** | 66,889 |
| **TOTAL LIABILITIES** | | **738,847** | 686,273 |
| **EQUITY** | | | |
| Issued capital | 30 | **42,424** | 42,424 |
| Reserves | | **78,515** | 73,677 |
| Equity attributable to equity holders of the parent | | **120,939** | 116,101 |
| Non-controlling interests | | **42,490** | 41,094 |
| **TOTAL EQUITY** | | **163,429** | 157,195 |
| **TOTAL EQUITY AND LIABILITIES** | | **902,276** | 843,468 |

*DIRECTOR* *DIRECTOR*

# Condensed Consolidated Statement of Changes In Equity

*For the six months ended 30 June 2016*
*(Amounts in millions of Renminbi, unless otherwise stated)*

| | Attributable to equity holders of the parent | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *(note 30)* | Share premium account | Available-for-sale investment revaluation reserve (Restated) | General risk reserve | Agriculture catastrophic loss reserve | Asset revaluation | Cash flow hedge | Share of other comprehensive income of associates and joint ventures (Restated) | Foreign currency translation reserve | Surplus reserve fund* | Other reserves** | Actuarial gains/(losses) on pension benefit obligation | Retained profits | Subtotal | Non-controlling interests | Total equity |
| Balance at 1 January 2016 (Audited) | 42,424 | 19,925 | 5,840 | 5,770 | 1,300 | 2,232 | (3) | 594 | (49) | 1,101 | (15,010) | (693) | 52,670 | 116,101 | 41,094 | 157,195 |
| Profit for the period | – | – | – | – | – | – | – | – | – | – | – | – | 7,725 | 7,725 | 3,559 | 11,284 |
| Other comprehensive (expense)/income | – | – | (2,407) | – | – | 75 | (3) | 298 | 16 | – | – | 102 | – | (1,919) | (652) | (2,571) |
| Total comprehensive (expense)/income | – | – | (2,407) | – | – | 75 | (3) | 298 | 16 | – | – | 102 | 7,725 | 5,806 | 2,907 | 8,713 |
| Dividends paid to shareholders *(note 12)* | – | – | – | – | – | – | – | – | – | – | – | – | (959) | (959) | (1,574) | (2,533) |
| Change in ownership interest in subsidiaries | – | – | – | – | – | – | – | – | – | – | (9) | – | – | (9) | 63 | 54 |
| Balance as at 30 June 2016 (Unaudited) | 42,424 | 19,925 | 3,433 | 5,770 | 1,300 | 2,307 | (6) | 892 | (33) | 1,101 | (15,019) | (591) | 59,436 | 120,939 | 42,490 | 163,429 |

* This reserve contains both statutory and discretionary surplus reserves.

** Other reserves contain an amount of RMB76 million (31 December 2015: RMB85 million) arising from transactions with non-controlling interests, a negative amount of RMB17,942 million (31 December 2015: a negative amount of RMB17,942 million) arising from elimination of asset revaluation of the Company when it was converted to a joint stock company and an amount of RMB2,847 million (31 December 2015: RMB2,847 million) arising from a major shareholder's undertaking to post-employment benefit obligations of the Company.

*(Amounts in millions of Renminbi, unless otherwise stated)*

| | Attributable to equity holders of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *(note 30)* | Share premium account | Available-for-sale investment revaluation reserve (Restated) | General risk reserve | Agriculture catastrophic loss reserve | Asset revaluation | Cash flow hedge | Share of other comprehensive income of associates and joint ventures (Restated) | Foreign currency translation reserve | Surplus reserve fund | Other reserves | Retained profits | Subtotal | Non-controlling interests | Total equity |
| Balance as at 1 January 2015 (Audited) | 42,424 | 19,925 | 1,951 | 4,011 | 497 | 1,966 | 5 | 191 | (96) | 802 | (15,065) | 35,970 | 92,581 | 32,996 | 125,577 |
| Profit for the period | – | – | – | – | – | – | – | – | – | – | – | 12,821 | 12,821 | 5,211 | 18,032 |
| Other comprehensive income/(expense) | – | – | 4,487 | – | – | 52 | (1) | 266 | 7 | – | – | (46) | 4,765 | 1,429 | 6,194 |
| Total comprehensive income/(expense) | – | – | 4,487 | – | – | 52 | (1) | 266 | 7 | – | – | 12,775 | 17,586 | 6,640 | 24,226 |
| Dividends paid to shareholders *(note 12)* | – | – | – | – | – | – | – | – | – | – | – | (402) | (402) | (1,345) | (1,747) |
| Change in ownership interest in subsidiaries | – | – | – | – | – | – | – | – | – | – | 35 | – | 35 | (265) | (230) |
| Balance as at 30 June 2015 (Unaudited) | 42,424 | 19,925 | 6,438 | 4,011 | 497 | 2,018 | 4 | 457 | (89) | 802 | (15,030) | 48,343 | 109,800 | 38,026 | 147,826 |

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2016*
*(Amounts in millions of Renminbi, unless otherwise stated)*

| | *Note* | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | | **26,936** | 15,683 |
| Income tax paid | | **(5,439)** | (4,090) |
| Net cash from operating activities | | **21,497** | 11,593 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditures | | **(994)** | (1,146) |
| Proceeds from disposals of investment properties, property and equipment, intangible assets and prepaid land premiums | | **140** | 204 |
| Purchases of investments, associates and joint ventures | | **(217,500)** | (141,157) |
| Proceeds from sale of investments | | **150,439** | 118,751 |
| Interests received | | **13,318** | 13,512 |
| Dividends received | | **3,748** | 3,800 |
| Rentals received | | **224** | 191 |
| Decrease/(increase) in term deposits, net | | **29,465** | (5,339) |
| Others | | **460** | 482 |
| Net cash used in investing activities | | **(20,700)** | (10,702) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| (Decrease)/increase in securities sold under agreements to repurchase | | **(4,443)** | 19,167 |
| Proceeds from banks and other financial institutions | | **–** | 199 |
| Repayment of subordinated debts | | **(5,000)** | (6,000) |
| Interests paid | | **(1,416)** | (1,979) |
| Dividends paid | | **–** | (44) |
| Net cash (used in)/from financing activities | | **(10,859)** | 11,343 |
| Net (decrease)/increase in cash and cash equivalents | | **(10,062)** | 12,234 |
| Cash and cash equivalents at the beginning of the period | | **49,884** | 39,307 |
| Effects of exchange rate changes on cash and cash equivalents | | **60** | (1) |
| Cash and cash equivalents at the end of the period | | **39,882** | 51,540 |
| Analysis of balances of cash and cash equivalents: | | | |
| Cash on hand | 14 | **1** | 2 |
| Securities purchased under resale agreements with original maturity of less than three months | 14 | **5,497** | 6,607 |
| Demand deposits and deposits with banks with original maturity of less than three months | | **34,384** | 44,931 |
| Cash and cash equivalents at end of the period | 14 | **39,882** | 51,540 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 1. CORPORATE INFORMATION

The People's Insurance Company (Group) of China Limited (the "Company") was established on 22 August 1996 in the People's Republic of China (the "PRC") and its registered office is located at No. 69, Dongheyan Street, Xuanwu District, Beijing 100052, PRC. The Company's predecessor, the People's Insurance Company of China, is a state-owned enterprise established on 20 October 1949 by the PRC government. The ultimate controlling party of the Company is the Ministry of Finance of the PRC ("MOF").

The Company is an investment holding company. During the six months ended 30 June 2016, the Company's subsidiaries mainly provide integrated financial products and services and are engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses. The Company and its subsidiaries are collectively referred to as the "Group".

## 2.1 BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board, and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015.

## 2.2 SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments and insurance contract liabilities. The condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

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

The following amendments to International Financial Reporting Standards ("IFRS") became effective for the current accounting period:

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |

## 2.2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Amendments to IAS 1-Disclosure Initiative

In the past, share of items of other comprehensive income ("OCI") arising from associates and joint ventures were grouped by nature into OCI of the Company and its subsidiaries.

Commencing from 1 January 2016, share of OCI from associates or joint ventures accounted for using the equity method, in aggregate, are separated into two items for OCI that:

- will not be reclassified subsequently to profit or loss; and
- will be reclassified subsequently to profit or loss when specific conditions are met.

As a result of these changes, certain items of OCI in the condensed consolidated statement of comprehensive income were reclassified to conform to these new requirements. A reserve is also separately established to record the cumulative share of OCI arising from associates and joint ventures in the condensed consolidated statement of changes in equity.

Apart from this, none of the above amendments to IFRSs have had a material impact on the financial position or performance of the Group for the six months ended 30 June 2016.

## 3. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the management 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 the following operating and reportable segments:

- The non-life insurance segment offers a wide variety of insurance products to both personal and corporate customers including automobile insurance, agricultural, property and liabilities insurance.
- The life insurance segment offers a wide range of participating, endowments, annuity and universal life insurance products.
- The health insurance segment offers a wide range of health and medical insurance products.
- The asset management segment comprises asset management services.
- The headquarters segment provides management and support for the Group's business through its strategy, risk management, treasury, finance, legal, and human resources functions.
- The "others" segment comprises other operating and insurance agent business of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the segment's profit/(loss).

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 3. OPERATING SEGMENT INFORMATION *(continued)*

As the revenue, net profit, assets and liabilities of operations outside Mainland China constitutes less than 1% of the consolidated amounts in these financial statements, geographical segmental information is not presented.

Intersegment sales are transacted according to terms and conditions agreed by the relevant parties within the Group.

During the reporting period, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

Segment revenue and results for the six months ended 30 June 2016:

| (Unaudited) | Non-life insurance | Life insurance | Health insurance | Asset management | Head-quarters | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net earned premiums | 129,467 | 82,133 | 16,871 | – | – | – | – | 228,471 |
| Reinsurance commission income | 5,849 | 142 | 97 | – | – | – | – | 6,088 |
| Investment income | 6,644 | 7,625 | 725 | 191 | 3,873 | 58 | (4,037) | 15,079 |
| Other income | 635 | 272 | 40 | 555 | 14 | 148 | (510) | 1,154 |
| TOTAL INCOME – SEGMENT REVENUE | 142,595 | 90,172 | 17,733 | 746 | 3,887 | 206 | (4,547) | 250,792 |
| – External income | 142,438 | 90,036 | 17,725 | 505 | (11) | 99 | – | 250,792 |
| – Intersegment income | 157 | 136 | 8 | 241 | 3,898 | 107 | (4,547) | – |
| Net claims and policyholders' benefits | 77,883 | 83,337 | 16,630 | – | – | – | – | 177,850 |
| Handling charges and commissions | 21,189 | 4,169 | 432 | – | – | – | (220) | 25,570 |
| Finance costs | 517 | 861 | 206 | 1 | 442 | 12 | – | 2,039 |
| Exchange gains | (137) | (58) | (2) | – | (36) | – | – | (233) |
| Other operating and administrative expenses | 30,453 | 2,905 | 617 | 343 | 273 | 192 | (361) | 34,422 |
| TOTAL BENEFITS, CLAIMS AND EXPENSES | 129,905 | 91,214 | 17,883 | 344 | 679 | 204 | (581) | 239,648 |
| Share of profits and losses of associates and joint ventures | 1,606 | 1,495 | – | (2) | 310 | – | 17 | 3,426 |
| PROFIT/(LOSS) BEFORE TAX | 14,296 | 453 | (150) | 400 | 3,518 | 2 | (3,949) | 14,570 |
| Income tax (expense)/credit | (2,988) | (49) | (52) | (93) | (111) | – | 7 | (3,286) |
| PROFIT/(LOSS) FOR THE PERIOD – SEGMENT RESULTS | 11,308 | 404 | (202) | 307 | 3,407 | 2 | (3,942) | 11,284 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 3. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the six months ended 30 June 2015:

| (Unaudited) | Non-life insurance | Life insurance | Health insurance | Asset management | Head–quarters | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net earned premiums | 116,015 | 67,468 | 10,009 | – | – | – | – | 193,492 |
| Reinsurance commission income | 5,238 | 17 | (49) | – | – | – | – | 5,206 |
| Investment income | 12,633 | 13,037 | 1,269 | 439 | 3,579 | 2 | (3,354) | 27,605 |
| Other income | 536 | 160 | 46 | 457 | 18 | 184 | (388) | 1,013 |
| TOTAL INCOME – SEGMENT REVENUE | 134,422 | 80,682 | 11,275 | 896 | 3,597 | 186 | (3,742) | 227,316 |
| – External income | 134,364 | 80,640 | 11,273 | 672 | 306 | 61 | – | 227,316 |
| – Intersegment income | 58 | 42 | 2 | 224 | 3,291 | 125 | (3,742) | – |
| Net claims and policyholders' benefits | 71,293 | 72,614 | 9,913 | – | – | – | – | 153,820 |
| Handling charges and commissions | 14,190 | 2,575 | 242 | – | – | – | (186) | 16,821 |
| Finance costs | 788 | 787 | 227 | 7 | 452 | 15 | – | 2,276 |
| Exchange (gains)/losses, net | 18 | (20) | – | – | 2 | – | – | – |
| Other operating and administrative expenses | 30,510 | 3,039 | 805 | 326 | 297 | 224 | (240) | 34,961 |
| TOTAL BENEFITS, CLAIMS AND EXPENSES | 116,799 | 78,995 | 11,187 | 333 | 751 | 239 | (426) | 207,878 |
| Share of profits and losses of associates and joint ventures | 1,552 | 1,162 | – | – | 441 | – | (226) | 2,929 |
| PROFIT/(LOSS) BEFORE TAX | 19,175 | 2,849 | 88 | 563 | 3,287 | (53) | (3,542) | 22,367 |
| Income tax (expense)/credit | (4,116) | (194) | – | (147) | 103 | – | 19 | (4,335) |
| PROFIT/(LOSS) FOR THE PERIOD – SEGMENT RESULTS | 15,059 | 2,655 | 88 | 416 | 3,390 | (53) | (3,523) | 18,032 |

(Amounts in millions of Renminbi, unless otherwise stated)

## 3. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 30 June 2016 and 31 December 2015 are as follows:

| | Non-life insurance | Life insurance | Health insurance | Asset management | Head–quarters | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| 30 June 2016 (Unaudited) | | | | | | | | |
| Segment assets | **455,374** | **372,560** | **46,241** | **9,195** | **108,606** | **5,652** | **(95,352)** | **902,276** |
| Segment liabilities | **340,588** | **339,127** | **40,691** | **1,699** | **20,726** | **2,710** | **(6,694)** | **738,847** |
| 31 December 2015 (Audited) | | | | | | | | |
| Segment assets | 421,793 | 357,560 | 32,831 | 9,087 | 105,728 | 5,588 | (89,119) | 843,468 |
| Segment liabilities | 312,499 | 322,467 | 29,421 | 1,717 | 20,369 | 2,647 | (2,847) | 686,273 |

The headquarters, non-life and life segments hold equity interests of 0.91%, 6.45% and 6.70%, respectively, in the Industrial Bank Co., Ltd. ("Industrial Bank"), an associate of the Group. These interests are accounted for as available-for-sale financial assets in the financial statements of the Company and of other principal subsidiaries. On consolidation, these interests in aggregate are accounted for as an associate and the impacts of relevant adjustments to the condensed consolidated financial statements are allocated to the respective segments according to their respective equity interest holding.

## 4. GROSS AND NET WRITTEN PREMIUMS

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| (a) Gross written premiums | | |
| Long-term life insurance premiums | **94,528** | 73,867 |
| Short-term life insurance premiums | **8,070** | 6,761 |
| Non-life insurance premiums | **161,980** | 146,300 |
| Total | **264,578** | 226,928 |
| (b) Premiums ceded to reinsurers | | |
| Long-term life insurance premiums ceded to reinsurers | **(329)** | (176) |
| Short-term life insurance premiums ceded to reinsurers | **(1,524)** | (1,323) |
| Non-life insurance premiums ceded to reinsurers | **(16,306)** | (15,693) |
| Total | **(18,159)** | (17,192) |
| Net written premiums | **246,419** | 209,736 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 5. INVESTMENT INCOME

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Dividend, interest and rental income (a) | **15,929** | 16,454 |
| Realised (losses)/gains (b) | **(688)** | 11,037 |
| Fair value gains (c) | **23** | 127 |
| Impairment losses (d) | **(185)** | (13) |
| Total | **15,079** | 27,605 |

### (a) Dividend, interest and rental income

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Operating lease income from investment properties | **224** | 191 |
| Interest income | | |
| Current and term deposits | **4,070** | 4,874 |
| Debt securities | | |
| – Held-to-maturity | **2,970** | 3,017 |
| – Available-for-sale | **2,845** | 2,637 |
| – Held for trading | **23** | 52 |
| Derivative financial assets | **14** | 16 |
| Loans and receivables | **3,736** | 3,212 |
| Subtotal | **13,658** | 13,808 |
| Dividend income | | |
| Equity securities and mutual funds | | |
| – Available-for-sale | **1,686** | 2,152 |
| – Held for trading | **361** | 303 |
| Subtotal | **2,047** | 2,455 |
| Total | **15,929** | 16,454 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 5. INVESTMENT INCOME *(continued)*

### (b) Realised (losses)/gains

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Debt securities | | |
| – Available-for-sale | **98** | 90 |
| – Held for trading | **23** | 20 |
| Equity securities and mutual funds | | |
| – Available-for-sale | **(646)** | 10,652 |
| – Held for trading | **(163)** | 275 |
| Total | **(688)** | 11,037 |

### (c) Fair value gains

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Debt securities | | |
| – Held for trading | **(8)** | 14 |
| Equity securities and mutual funds | | |
| – Held for trading | **(79)** | 40 |
| Investment properties *(note 22)* | **110** | 73 |
| Total | **23** | 127 |

### (d) Impairment losses

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Equity securities and mutual funds | | |
| – Available-for-sale | **(185)** | (13) |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 6. OTHER INCOME

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Commission income arising from the tax collection of motor vehicles and vessels | 328 | 282 |
| Management fee charged to policyholders | 176 | 117 |
| Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums *(note 23)* | 65 | 72 |
| Government grants | 80 | 61 |
| Others | 505 | 481 |
| Total | 1,154 | 1,013 |

## 7. CLAIMS AND POLICYHOLDERS' BENEFITS

| | Six months ended 30 June 2016 | | |
|---|---|---|---|
| (Unaudited) | Gross | Ceded | Net |
| Life insurance death and other benefits paid | 73,925 | 177 | 73,748 |
| Claims incurred | 90,164 | 8,734 | 81,430 |
| – Short-term life insurance | 4,363 | 816 | 3,547 |
| – Non-life insurance | 85,801 | 7,918 | 77,883 |
| Changes in long-term life insurance contract liabilities | 20,755 | 11 | 20,744 |
| Policyholder dividends | 1,928 | – | 1,928 |
| Total | 186,772 | 8,922 | 177,850 |

| | Six months ended 30 June 2015 | | |
|---|---|---|---|
| (Unaudited) | Gross | Ceded | Net |
| Life insurance death and other benefits paid | 63,427 | 9 | 63,418 |
| Claims incurred | 82,075 | 8,326 | 73,749 |
| – Short-term life insurance | 3,339 | 884 | 2,455 |
| – Non-life insurance | 78,736 | 7,442 | 71,294 |
| Changes in long-term life insurance contract liabilities | 14,128 | 9 | 14,119 |
| Policyholder dividends | 2,534 | – | 2,534 |
| Total | 162,164 | 8,344 | 153,820 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 8. FINANCE COSTS

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Interest expenses | | |
| Subordinated debts | **886** | 975 |
| Interest credited to policyholders *(note 28)* | **753** | 605 |
| Securities sold under agreements to repurchase | **286** | 629 |
| Pension benefit obligation unwound | **43** | 52 |
| Due to banks and other financial institutions | **26** | 24 |
| Others | **59** | – |
| Less: amounts capitalised in qualifying assets | **(14)** | (9) |
| Total | **2,039** | 2,276 |

## 9. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Employee costs | **14,340** | 13,731 |
| Business taxes and surcharges | **5,500** | 7,592 |
| Depreciation and amortisation | **1,011** | 1,060 |
| Insurance guarantee fund | **1,413** | 1,342 |
| Impairment losses *(note 10)* | **544** | 548 |
| Others | **11,614** | 10,688 |
| Total | **34,422** | 34,961 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 10. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting) the following items:

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Employee costs *(note)* | **16,974** | 16,614 |
| Depreciation of property and equipment *(note)* | **970** | 1,060 |
| Impairment losses recognised on insurance receivables *(note 18)* | **364** | 544 |
| Impairment losses recognised on other assets | **180** | 4 |
| Minimum lease payments under operating leases in respect of land and buildings | **496** | 374 |
| Amortisation of intangible assets and prepaid land premiums *(note)* | **161** | 146 |

*Note:* Certain employee costs, depreciation and amortisation are recorded as claim handling expenses and are not included in other operating and administrative expenses.

## 11. INCOME TAX EXPENSE

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Current income tax | | |
| – Charge for the period | **5,949** | 6,660 |
| – Adjustments in respect of current tax of previous periods | **–** | 13 |
| Deferred income tax | **(2,663)** | (2,338) |
| Total | **3,286** | 4,335 |

In accordance with the relevant PRC enterprise income tax rules and regulations, the Company and the Company's subsidiaries registered in the PRC are subject to corporate income tax at the statutory rate of 25% (six months ended 30 June 2015: 25%) on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 12. DIVIDENDS

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Final dividends recognised as distribution during the period: | | |
| Year 2014 Final-RMB 0.94671 cent per share | **–** | 402 |
| Year 2015 Final-RMB 2.26005 cent per share | **959** | – |

The Company has determined that no interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil) will be paid.

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2016 and the six months ended 30 June 2015 is based on the profit attributable to equity holders of the parent and the number of ordinary shares in issue during the periods.

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Profit attributable to equity holders of the parent for the period | **7,725** | 12,821 |
| Number of ordinary shares (in million shares) | **42,424** | 42,424 |
| Basic earnings per share (in RMB) | **0.18** | 0.30 |

No diluted earnings per share has been presented for the six months ended 30 June 2016 and 2015 as the Group had no potential ordinary shares in issue during the periods.

## 14. CASH AND CASH EQUIVALENTS

| | **30 June 2016 (Unaudited)** | 31 December 2015 (Audited) |
|---|---|---|
| Cash on hand | **1** | 1 |
| Money at call and short notice | **26,369** | 30,967 |
| Securities purchased under resale agreements with original maturity of less than three months | **5,497** | 15,861 |
| Deposits with banks with original maturity of less than three months | **8,015** | 3,055 |
| Total | **39,882** | 49,884 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 15. DERIVATIVE FINANCIAL ASSETS

| (Unaudited) | 30 June 2016<br>Notional amount | 30 June 2016<br>Derivative financial assets |
|---|---|---|
| Interest rate swaps | | |
| – Hedging instruments | **100** | **4** |

| (Audited) | 31 December 2015<br>Notional amount | 31 December 2015<br>Derivative financial assets |
|---|---|---|
| Interest rate swaps | | |
| – Hedging instruments | 1,050 | 8 |

Interest rate swaps are stated at fair values.

The Group is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to manage its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate.

## 16. DEBT SECURITIES

| | **30 June 2016 (Unaudited)** | 31 December 2015 (Audited) |
|---|---|---|
| Classification of debt securities | | |
| Held for trading, at fair value | **3,629** | 768 |
| Available-for-sale, at fair value | **154,056** | 106,348 |
| Held-to-maturity, at amortised cost | **121,472** | 125,031 |
| Total debt securities | **279,157** | 232,147 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 17. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| At fair value | | |
| Mutual funds | 73,192 | 77,755 |
| Shares | 25,817 | 22,867 |
| Preference shares | 9,234 | 9,041 |
| Equity Schemes | 6,505 | 4,748 |
| Subtotal | 114,748 | 114,411 |
| At cost less impairment | | |
| Shares | 503 | 503 |
| Total equity securities and mutual funds | 115,251 | 114,914 |
| Trust scheme, at fair value | 8,666 | 10,361 |

Equity Schemes are structured entities which are created 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. Some of these schemes are launched and managed by the Group.

The Group did not guarantee or provide any financial support for these Equity Schemes, and considers that the carrying amount of these Equity Schemes represents the Group's maximum risk exposure.

As at 30 June 2016, the Group is the sole funding provider of a trust investment of carrying value of RMB8,666 million (31 December 2015: RMB10,361 million). The Group concludes it does not control this trust as investment decisions are made by a trust manager, which can only be removed in limited situations.

The trust invests in predominantly debt instruments and it offers the Group an expected return of not more than 6.3% (31 December 2015: 7.5%) per annum. Its actual returns and eventual repayment of initial investments, however, depend on the performance of the underlying investments, which are predominantly debts in nature. The life of this trust arrangement is 5 years but can be extended for another 2 years upon mutual consent of the Group and the trust manager. The Group's maximum loss is limited to its investments and has no contractual obligations or intention to provide any financial support to the trust.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 17. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES *(continued)*

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Classification of equity securities and mutual funds | | |
| Held for trading, at fair value | 21,713 | 28,734 |
| Available-for-sale, at fair value | 93,035 | 85,677 |
| Available-for-sale, at cost less impairment | 503 | 503 |
| Total equity securities and mutual funds | 115,251 | 114,914 |
| Classification of trust scheme | | |
| Available-for-sale, at fair value | 8,666 | 10,361 |
| Total equity securities, mutual funds and trust schemes | 123,917 | 125,275 |

## 18. INSURANCE RECEIVABLES, NET

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Insurance receivables | 52,051 | 24,427 |
| Less: impairment provision on insurance receivables | (3,231) | (2,869) |
| Total | 48,820 | 21,558 |

(a) The movements of provision for impairment of insurance receivables are as follows:

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| At the beginning of the period | 2,869 | 2,689 |
| Impairment losses recognised *(note 10)* | 364 | 544 |
| Amount written off as uncollectible | (2) | (71) |
| At the end of the period | 3,231 | 3,162 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 18. INSURANCE RECEIVABLES, NET *(continued)*

(b) An aged analysis of insurance receivables as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Not yet due and within 3 months | 37,264 | 18,769 |
| 3 to 6 months | 9,468 | 1,136 |
| 6 to 12 months | 1,068 | 1,321 |
| 1 to 2 years | 920 | 241 |
| Over 2 years | 100 | 91 |
| Total | 48,820 | 21,558 |

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which 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.

## 19. REINSURANCE ASSETS

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Reinsurers' share of | | |
| Unearned premium reserves | 11,532 | 9,276 |
| Claim reserves | 17,010 | 17,177 |
| Long-term life insurance reserves | 100 | 89 |
| Total | 28,642 | 26,542 |

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 and Moody's) or above. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

(Amounts in millions of Renminbi, unless otherwise stated)

## 20. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Long-term debt investment schemes | 104,556 | 99,655 |
| Asset management products | 23,311 | 8,130 |
| Reinsurance arrangement classified as investment contract | 2,000 | 2,000 |
| Subordinated debts held | 700 | 700 |
| Total | 130,567 | 110,485 |

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 proportion of funds lent to these Debt Schemes ranges from 2% to 100% of the total funds raised. The interest rates of these Debt Schemes are 3.91%-8.20% (31 December 2015: 4.22%-8.20%) per annum as at 30 June 2016.

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 of 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.

As at 30 June 2016, except for a Debt Scheme under which the Group commits a debt investment of RMB708 million (31 December 2015: RMB1,660 million), 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.

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in active market. These financial products include securitised assets, wealth management products offered by banks and securities companies. The interest rates of these products are 3.30%-7.80% (31 December 2015: 4.20%-7.80%) per annum as at 30 June 2016.

Included in the balance of reinsurance arrangement classified as an investment contract was an amount paid under a reinsurance arrangement which did not transfer significant insurance risk. This arrangement offered a fixed interest rate of 6.35% per annum. Both the Group and the reinsurer have a right to terminate the arrangement at the end of or subsequent to the fifth anniversary of the effective date of the reinsurance contract.

The original terms of subordinated debts are 10 years with a redemption right exercisable by the issuer as at the end of fifth year after its issue. The interest rates of these debts are 5.50%-5.60% (31 December 2015: 5.50%-5.60%) per annum as at 30 June 2016.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in the associates and joint ventures as at 30 June 2016 and 31 December 2015 are as follows:

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Associates | | |
| Cost of investment in associates | 37,402 | 37,402 |
| Share of post-acquisition profits and other comprehensive income | 15,101 | 13,016 |
| Subtotal | 52,503 | 50,418 |
| Joint ventures | | |
| Cost of investment in joint ventures | 2,890 | 2,890 |
| Total | 55,393 | 53,308 |

As at 30 June 2016, except for the Industrial Bank which was listed on the main board of The Shanghai Stock Exchange, Mainland China, all other associates that the Group holds interests in are unlisted companies.

As permitted by International Accounting Standard 28 "Investments in Associates and Joint Ventures", for the six months ended 30 June 2016, the Group accounts for the share of profit of Industrial Bank from 1 October 2015 to 31 March 2016.

On 23 May 2016, a shareholders' meeting of Industrial Bank approved a final dividend in respect of the year ended 31 December 2015 and the Group recognised the dividend income of RMB1,634 million on the same date. Therefore, when applying the equity method to this associate, the Group adjusted the carrying amount of the share of the net assets of this associate by the corresponding dividends receivable.

(Amounts in millions of Renminbi, unless otherwise stated)

## 22. INVESTMENT PROPERTIES

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Beginning of the period | **10,358** | 10,682 |
| Additions | **5** | 13 |
| Transfer from property and equipment | **49** | 116 |
| Transfer from prepaid land premiums | **17** | 15 |
| Gains on revaluation of properties upon transfer from property and equipment | **107** | 86 |
| Gains on revaluation of properties upon transfer from prepaid land premiums | **38** | 15 |
| Increase in fair value of investment properties (note 5(c)) | **110** | 73 |
| Transfer to property and equipment | **(220)** | (197) |
| Disposals | **(6)** | (2) |
| End of the period | **10,458** | 10,801 |

The Group's investment properties were revalued as at the end of the reporting period. Valuations were based on combination of the following two approaches:

(1) the direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market; or

(2) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The management or independent valuers determine the fair value of the investment properties as a weighted average of valuations produced by these two approaches according to their professional judgement.

## 23. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB918 million (six months ended 30 June 2015: RMB1,806 million).

Assets with a net book value of RMB32 million were disposed of by the Group during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB31 million), resulting in a net disposal gain of RMB65 million (six months ended 30 June 2015: RMB72 million).

During the six months ended 30 June 2016, construction in progress with an aggregate amount of RMB30 million (six months ended 30 June 2015: RMB101 million) was transferred to buildings.

Information on transfer to/from investment properties is set out in note 22.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 24. OTHER ASSETS

Carrying values of other assets are as follows:

| | *Note* | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|---|
| Interest receivables | | 11,542 | 11,202 |
| Policy loans | (a) | 2,881 | 3,345 |
| Other receivables | | 1,696 | 5,008 |
| Amount due from MOF | | 344 | 344 |
| Dividends receivables | | 168 | 90 |
| Others | | 8,953 | 7,247 |
| Total | | 25,584 | 27,236 |
| Less: Impairment provision on other assets | | (1,786) | (1,636) |
| Net value | | 23,798 | 25,600 |

(a) Policy loans are secured by cash values of the relevant insurance policies and carry interest rate at 5.22%-6.35% (31 December 2015: 5.22%-6.45%) per annum as at 30 June 2016.

## 25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Long-term borrowings | | |
| – Carrying amount repayable more than five years | 980 | 980 |

## 26. SUBORDINATED DEBTS

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Carrying amount repayable: | | |
| – Within one year | 3,015 | 3,031 |
| – More than two years, but not exceeding five years | 831 | 6,043 |
| – More than five years | 30,208 | 30,136 |
| Total | 34,054 | 39,210 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 26. SUBORDINATED DEBTS *(continued)*

Terms of these subordinated debts are ten years. With proper notice to the counterparties, the Group 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 rates of the Group's subordinated debts are 4.08%-6.19% in the first five years (2015: 4.08%-6.19%) and 6.08%-8.19% in the second five years (2015: 6.08%-8.19%). During the six months ended 30 June 2016, the Group repaid subordinated debts of RMB5,000 million (six months ended 30 June 2015: RMB6,000 million).

## 27. INSURANCE CONTRACT LIABILITIES

| | 30 June 2016 | | |
|---|---|---|---|
| (Unaudited) | **Insurance contract liabilities** | **Reinsurers' share** | **Net** |
| Long-term life and health insurance contracts | **306,131** | **100** | **306,031** |
| Short-term health insurance contracts | | | |
| – Claim reserves | **3,477** | **615** | **2,862** |
| – Unearned premium reserves | **4,074** | **687** | **3,387** |
| Non-life insurance contracts | | | |
| – Claim reserves | **119,679** | **16,395** | **103,284** |
| – Unearned premium reserves | **120,799** | **10,845** | **109,954** |
| Total insurance contract liabilities | **554,160** | **28,642** | **525,518** |

| | 31 December 2015 | | |
|---|---|---|---|
| (Audited) | Insurance contract liabilities | Reinsurers' share | Net |
| Long-term life and health insurance contracts | 285,376 | 89 | 285,287 |
| Short-term health insurance contracts | | | |
| – Claim reserves | 3,004 | 508 | 2,496 |
| – Unearned premium reserves | 1,734 | 88 | 1,646 |
| Non-life insurance contracts | | | |
| – Claim reserves | 114,639 | 16,669 | 97,970 |
| – Unearned premium reserves | 102,933 | 9,188 | 93,745 |
| Total insurance contract liabilities | 507,686 | 26,542 | 481,144 |

The discount rates are the assumptions which have the most significant impacts on the measurement on the long-term life insurance contract liabilities. The changes of these assumptions during the six months ended 30 June 2016 increased long-term life insurance contract liabilities by RMB744 million (six months ended 30 June 2015: RMB351 million).

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 28. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Interest-bearing deposits | 34,782 | 25,823 |
| Non-interest-bearing deposits | 1,774 | 1,778 |
| Total | 36,556 | 27,601 |

The movements in investment contract liabilities for policyholders are as follows:

| | Six months ended 30 June 2016 (Unaudited) | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Beginning of the period | 27,601 | 25,520 |
| Deposits received after deducting fees | 12,863 | 5,374 |
| Deposits withdrawn | (4,661) | (5,816) |
| Interest credited *(note 8)* | 753 | 605 |
| End of the period | 36,556 | 25,683 |

## 29. OTHER LIABILITIES

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Due to reinsurers | 18,362 | 11,169 |
| Salaries and welfare payable | 12,529 | 12,139 |
| Premiums received in advance | 10,835 | 16,054 |
| Claims and benefits payable | 8,798 | 8,451 |
| Handling charges and commission payable | 7,002 | 5,243 |
| Business tax, net value added tax and other tax payable | 4,908 | 5,141 |
| Dividend payable | 2,533 | – |
| Insurance security fund | 899 | 803 |
| Interests payable | 702 | 719 |
| Others | 7,719 | 7,170 |
| Total | 74,287 | 66,889 |

Premiums received in advance represent amounts collected from policies not yet effective as at the 30 June 2016 and 31 December 2015, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 30. SHARE CAPITAL

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Issued and fully paid ordinary shares of RMB 1 each (in million shares) | | |
| Domestic shares | 33,698 | 33,698 |
| H shares | 8,726 | 8,726 |
| | 42,424 | 42,424 |
| Share capital | | |
| Domestic shares | 33,698 | 33,698 |
| H shares | 8,726 | 8,726 |
| | 42,424 | 42,424 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY

### Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, derivative financial assets, debt securities, equity securities, mutual funds and trust schemes, investments classified as loans and receivables, securities sold under agreement to repurchase and subordinated debts, etc. The Group holds various other financial assets and liabilities which directly arose from insurance operations, such as insurance receivables, and investment contract liabilities for policyholder, etc. The following table sets out the carrying values and fair values of the Group's major financial instruments by classification:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 39,882 | 49,884 | 39,882 | 49,884 |
| Held-for-trading | | | | |
| – Equity securities, mutual funds and trust schemes | 21,713 | 28,734 | 21,713 | 28,734 |
| – Debt securities | 3,629 | 768 | 3,629 | 768 |
| – Derivative financial assets | 4 | 8 | 4 | 8 |
| Available-for-sale | | | | |
| – Equity securities, mutual funds and trust schemes | 101,701 | 96,038 | 101,701 | 96,038 |
| – Debt securities | 154,056 | 106,348 | 154,056 | 106,348 |
| Held-to-maturity investment | | | | |
| – Debt securities | 121,472 | 125,031 | 130,978 | 135,899 |
| Loans and receivables | | | | |
| – Insurance receivables, net | 48,820 | 21,558 | 48,820 | 21,558 |
| – Term deposits | 118,702 | 148,097 | 118,702 | 148,097 |
| – Restricted statutory deposits | 9,412 | 9,914 | 9,412 | 9,914 |
| – Investments classified as loans and receivables | 130,567 | 110,485 | 141,955 | 121,760 |
| – Other assets | 22,336 | 24,568 | 22,336 | 24,568 |
| Total financial assets | 772,294 | 721,433 | 793,188 | 743,576 |
| **Financial liabilities** | | | | |
| Other financial liabilities-measured at amortised cost | | | | |
| – Securities sold under agreements to repurchase | 23,788 | 28,231 | 23,788 | 28,231 |
| – Due to banks and other financial institutions | 980 | 980 | 980 | 980 |
| – Subordinated debts | 34,054 | 39,210 | 38,252 | 44,337 |
| – Investment contract liabilities for policyholders | 36,556 | 27,601 | 36,556 | 27,601 |
| – Policyholder dividends payable | 7,531 | 8,114 | 7,531 | 8,114 |
| – Other liabilities | 63,415 | 45,696 | 63,415 | 45,696 |
| Total financial liabilities | 166,324 | 149,832 | 170,522 | 154,959 |

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Determination of fair value and the fair value hierarchy

This note provides information on how the Group determine the fair values of various financial assets and liabilities.

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.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Determination of fair value and the fair value hierarchy *(continued)*

#### (a) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value as at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Items | Fair value 30 June 2016 (Unaudited) | Fair value 31 December 2015 (Audited) | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| Derivative financial assets – Interest rate swaps | 4 | 8 | Level 2 | Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves as at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. |
| Held for trading debt securities | 523 | 36 | Level 1 | Quoted bid prices in an active market. |
| Held for trading debt securities | 3,106 | 732 | 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 | 10,136 | 20,571 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale debt Securities | 143,920 | 85,777 | 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. |
| Held for trading equity securities and mutual funds | 21,713 | 28,734 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale equity securities and mutual funds | 74,111 | 68,951 | Level 1 | Quoted bid prices in an active market. |
| Available-for-sale equity securities and mutual funds | 9,682 | 9,365 | Level 2 | Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend rates, discounted at a rate that reflects the risk characteristic of the instrument. |
| Available-for-sale equity securities and mutual funds | 4,404 | 3,013 | Level 3 | The fair value is determined with reference to the quoted market price or latest round of financing price with an adjustment of discount for lack of marketability as appropriate. |
| Available-for-sale equity securities and mutual funds | 1,238 | 548 | Level 3 | Relative value that are assessed based on average pricing-to-earnings ratio from comparative companies and earnings per share of target company. |
| Available-for-sale equity securities, mutual funds and trust schemes | 12,266 | 14,161 | Level 3 | Discounted cash flow with future cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the risk characteristic of the counterparty. |

During the six months ended 30 June 2016, the Group transferred debt securities with a carrying amount of RMB2,578 million (six months ended 30 June 2015: RMB2,782 million) from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. The Group transferred debt securities with a carrying amount of RMB1,608 million (six months ended 30 June 2015: RMB940 million) from Level 2 to Level 1 as the Group is able to obtain quoted prices in active markets.

During the six months ended 30 June 2016 and the six months ended 30 June 2015, the Group did not have any assets transferred between fair value hierarchy Level 2 and Level 3.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Determination of fair value and the fair value hierarchy *(continued)*

#### (b) Fair value of financial assets and liabilities not carried at fair value

Some of the Group's financial assets and financial liabilities are not carried at fair value at the end of each reporting period but their fair values are disclosed in the table set out at the beginning of this note. The level of fair value in the fair value hierarchy in respect of these fair values disclosed are as the following:

| | **Fair value hierarchy as at 30 June 2016** | | |
|---|---|---|---|
| (Unaudited) | **Level 1** | **Level 2** | **Total** |
| Financial assets | | | |
| Held-to-maturity financial assets | **442** | **130,536** | **130,978** |
| Investments classified as loans and receivables | **–** | **141,955** | **141,955** |
| Financial liabilities | | | |
| Subordinated debts | **–** | **38,252** | **38,252** |

| | Fair value hierarchy as at 31 December 2015 | | |
|---|---|---|---|
| (Audited) | Level 1 | Level 2 | Total |
| Financial assets | | | |
| Held-to-maturity financial assets | 3,126 | 132,773 | 135,899 |
| Investments classified as loans and receivables | – | 121,760 | 121,760 |
| Financial liabilities | | | |
| Subordinated debts | – | 44,337 | 44,337 |

The fair values of the financial assets and financial liabilities included in the Level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties or the Group.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Determination of fair value and the fair value hierarchy *(continued)*

#### (c) Reconciliation of Level 3 fair value measurements

| | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Unlisted available-for-sale financial assets | | |
| Opening balance | **17,722** | 21,300 |
| Additions | **1,456** | 900 |
| Disposals | **(1,695)** | (4,287) |
| Unrealised gains recognised in other comprehensive income | **425** | – |
| Closing balance | **17,908** | 17,913 |

In respect of a trust scheme of RMB8,666 million (six months ended 30 June 2015: RMB16,013 million), its fair value is measured by discounted cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the risk characteristics of the counterparty. A 50-basis point increase/decrease in the discount rate holding other variables constant will result in a decrease/increase in carrying amount by RMB70 million/RMB87 million (six months ended 30 June 2015: RMB190 million/RMB225 million).

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements are presented in note 22 to these condensed consolidated financial statements.

## 32. CONTINGENCIES AND COMMITMENTS

### (a) Contingencies

(1) Due to the nature of the insurance business, the Group is subject to 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 the losses incurred will be partly indemnified by reinsurers or other recoveries including salvage and subrogation. Provision has been made for the probable losses to the Group, including those claims where management can reasonably estimate the outcome of the litigation taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or an outflow of resources embodying economic benefits is not probable.

(2) The Company underwent restructuring and reorganisation during the period from 1996 and 1998. As a result of the restructuring and reorganisation, the Company and another insurance company were spun off from the predecessor company, the People's Insurance Company of China, and each spun-off entity inherited certain assets and liabilities. During the process, the Company owed certain amounts to that insurance company and settled these debts by cash payments, assets or by certain offsetting arrangements. Due to the long history and turnover of staff, the Company is not able to reach an agreement with that insurance company regarding the balances of debts that have been repaid in the form of assets or receivables. Potentially, certain receivables or payables may exist among these entities. However, the Company's management is of the opinion that the debts have been fully repaid, and therefore any contingent indebtedness will not significantly impact these condensed consolidated financial statements.

(3) As at the report date, there were various title defects for certain investment properties, property and equipment, prepaid land premiums and other assets held by the Group. The Group may be required to incur costs including relevant taxes to remediate these defects. The cost that will be incurred for the remediation cannot be quantified at this stage.

(4) Due to historical reasons, the Group owned a large number of branches and subsidiaries. Although these branches or subsidiaries may have been closed or liquidated, the Group may still have exposures to any non-compliance committed by these branches or subsidiaries.

Other than the above, as at 30 June 2016, the Group had no significant contingencies to disclose.

(Amounts in millions of Renminbi, unless otherwise stated)

## 32. CONTINGENCIES AND COMMITMENTS *(continued)*

### (b) Capital commitments and operating leases

#### *(1) Capital commitments*

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Property and equipment commitments: | | |
| Contracted, but not provided for | 2,685 | 2,466 |

#### *(2) Investment commitments*

On 28 December 2015, a major subsidiary of the Company entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to transfer to the major subsidiary of the Company 877 million shares, 267 million shares and 992 million shares of Hua Xia Bank Co., Limited ("Hua Xia Bank"), respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.99% of the total issued shares of Hua Xia Bank) and the major subsidiary of the Company conditionally agreed to purchase these shares. This share transfer agreement to purchase the Hua Xia Bank is not transferable to other parties. Based on the said share transfer agreement, the total considerations of such transaction is estimated at between RMB23.0 billion to RMB25.7 billion by the major subsidiary of the Company and will be paid in cash. Also, pursuant to relevant regulatory requirements, the major subsidiary of the Company has provided an undertaking not to transfer these shares within five years on completion of the transaction. At the date of approving of these condensed consolidated financial statements, such transaction is still subject to regulatory approval, among others.

#### *(3) Operating leases*

(i) As lessor

The Group leases its investment properties (note 22) under operating lease arrangements, with lease terms ranging from one to ten 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.

At 30 June 2016 and 31 December 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Within one year | 295 | 305 |
| In the second to fifth years, inclusive | 429 | 446 |
| After five years | 54 | 81 |
| Total | 778 | 832 |

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 32. CONTINGENCIES AND COMMITMENTS *(continued)*

### (b) Capital commitments and operating leases *(continued)*

#### *(3) Operating leases (continued)*

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Lease terms for properties range from one to ten years.

Future minimum lease payments under non-cancellable operating leases as at 30 June 2016 and 31 December 2015 are as follows:

| | **30 June 2016 (Unaudited)** | 31 December 2015 (Audited) |
|---|---|---|
| Within one year | **381** | 463 |
| In the second to fifth years, inclusive | **846** | 920 |
| After five years | **246** | 271 |
| Total | **1,473** | 1,654 |

## 33. RELATED PARTY DISCLOSURES

**(a)** The Company is a state-owned enterprise and its controlling shareholder is MOF.

**(b)** During the six months ended 30 June 2016 and 30 June 2015, the Group had the following significant related party transactions:

| **Transactions with associates** | **Six months ended 30 June 2016 (Unaudited)** | Six months ended 30 June 2015 (Unaudited) |
|---|---|---|
| Gross written premiums | **82** | 198 |
| Interest income | **128** | 103 |
| Claims and policyholders' benefits | **234** | 14 |
| Handling charges and commissions | **1** | 1 |
| Finance costs | **66** | 26 |
| Dividend received | **1,660** | 1,311 |

Transactions with these associates were conducted on a basis with reference to prevailing rates with other third parties.

*(Amounts in millions of Renminbi, unless otherwise stated)*

## 33. RELATED PARTY DISCLOSURES *(continued)*

### (c) Balances with related parties

| Receivables from associates | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Industrial Bank | | |
| Cash and cash equivalents | **1,010** | 376 |
| Debt securities | **3,115** | 3,115 |
| Equity securities | **460** | 460 |
| Term deposits | **999** | 700 |
| Investments classified as loans and receivables | **2,400** | – |
| Other assets | **184** | 146 |
| China Credit Trust | | |
| A trust scheme | **8,666** | 10,361 |
| Total | **16,834** | 15,158 |

| Receivables from a major shareholder | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Other assets | | |
| MOF | **344** | 344 |

| Payables to associates | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|---|---|
| Industrial Bank | | |
| Subordinated debts | **2,413** | 2,411 |
| Other liabilities | **36** | 51 |
| Total | **2,449** | 2,462 |

### (d) Key management personnel

Key management personnel include directors, supervisors and senior management team members.

No transactions have been entered with the key management personnel during the six months ended 30 June 2016 other than the emoluments paid to them (being the key management personnel compensation).

## 33. RELATED PARTY DISCLOSURES *(continued)*

### (e) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the 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 government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks and postal offices for insurance policies distributed.

Management considers 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.

## 34. EVENT AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, on 30 July 2016, Industrial Bank, an associate of the Group, announced a plan to issue new shares to six investors to raise not more than RMB26,000 million. The transaction is still subject to regulatory approvals and if it is completed, the Group's interest in this associate will be reduced from 14.06% to 12.90%. The Group is still assessing the impact of this transaction to the financial statements if and when it will be approved by the regulators and executed by Industrial Bank.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved by the Board of Directors of the Company on 26 August 2016.

## INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of 30 June 2016, none of the Directors, Supervisors and senior management of the Company held any interests or short positions in any shares, underlying shares or securities of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules (the "Model Code"), to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

## CHANGE IN THE BOARD OF DIRECTORS AND THE BOARD OF SUPERVISORS

As of the date of this interim report, the changes in the members of the Company's board of directors (the "Board") were as follows:

On 27 July 2016, Ms. Zhuang Chaoying resigned as an Executive Director and a member of the risk management committee of the Company due to work arrangements. On 5 August 2016, the qualification of Mr. Wang Zhibin as a Director of the Company was approved by CIRC. The appointment of Mr. Wang Zhibin as a Non-executive Director for the Second Session of the Board became effective on 5 August 2016 and the retirement of Mr. Li Fang as a Non-executive Director of the Company also became effective on the same day.

Mr. Wu Yan *(Chairman of the Board and Executive Director)*
Mr. Wang Yincheng *(Vice Chairman of the Board and Executive Director)*
Mr. Li Yuquan *(Executive Director)*
Mr. Yao Zhiqiang *(Non-executive Director)*
Mr. Wang Qiao *(Non-executive Director)*
Ms. Hua Rixin *(Non-executive Director)*
Ms. Cheng Yuqin *(Non-executive Director)*
Mr. Wang Zhibin *(Non-executive Director)*
Mr. Lau Hon Chuen *(Independent Non-executive Director)*
Mr. Du Jian *(Independent Non-executive Director)*
Mr. Xu Dingbo *(Independent Non-executive Director)*
Mr. Luk Kin Yu, Peter *(Independent Non-executive Director)*
Mr. Lin Yixiang *(Independent Non-executive Director)*

Save as disclosed in the 2015 Annual Report, the changes in the Supervisors of the Company during the Reporting Period were as follows:

Mr. Yu Ning passed away on 1 June 2016.

As of the date of this interim report, the members of the Board of Supervisors are:

Mr. Lin Fan *(Chairman of the Board of Supervisors)*
Mr. Xu Yongxian *(Shareholder representative Supervisor)*
Ms. Yao Bo *(Employees representative Supervisor)*
Mr. Wang Dajun *(Employees representative Supervisor)*

## CHANGES IN THE INFORMATION ON DIRECTORS AND SUPERVISORS

There were no changes in the information of the Directors and Supervisors of the Company that needs to be disclosed under Rule 13.51B (1) of the Listing Rules from 1 January 2016 to the date of this interim report.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company or its subsidiaries during the first half of 2016.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has formulated guidelines on the purchase and sale of the Company's securities that apply to Directors, Supervisors and all employees, and the terms of the guidelines are not less exacting than the Model Code. Following enquiries made by the Company, all the Directors and Supervisors confirmed that they have complied with the standards set out in the Model Code and the aforementioned guidelines during the first half of 2016.

## INTERESTS AND SHORT POSITIONS REQUIRED TO BE DISCLOSED BY SHAREHOLDERS UNDER THE SFO

As far as the Directors of the Company are aware, as at 30 June 2016, the following persons (other than the Directors, Supervisors of the Company and senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Sections 2 and 3 of Part XV of the SFO, or is required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

| Name of shareholder | Capacity | Number of domestic shares | Nature of interests | Percentage of total issued domestic shares (Note 3) | Percentage of total issued shares (Note 4) |
|---|---|---|---|---|---|
| Ministry of Finance of the People's Republic of China ("MOF") | Beneficial owner | 29,896,189,564 | Long position | 88.72% | 70.47% |
| National Council for Social Security Fund ("NSSF") | Beneficial owner | 3,801,567,019 | Long position | 11.28% | 8.96% |

| Name of shareholder | Capacity | Number of H shares | Nature of interests | Percentage of total issued H shares (Note 5) | Percentage of total issued shares (Note 4) |
|---|---|---|---|---|---|
| American International, Inc. ("AIG") | Beneficial owner | 1,113,405,000 | Long position | 12.76% | 2.62% |
| NSSF *(Note 1)* | Beneficial owner | 616,008,000 | Long position | 7.06% | 1.45% |
| BlackRock, Inc. ("BlackRock") *(Note 2)* | Interest of controlled corporation | 449,106,883 | Long position | 5.15% | 1.06% |
| | | 16,293,000 | Short position | 0.19% | 0.04% |

Note:

1. NSSF, as the beneficial owner, holds 602,279,000 H shares. In addition, it holds 13,658,000 H shares as asset manager and nominee via State Street Global Advisors ("SSGA"), 71,000 H shares as asset manager and nominee via Neuberger Berman. Accordingly, NSSF is deemed to be interested in the aforementioned H shares.

2. BlackRock is deemed to be interested in 449,106,883 H shares (long position) and 16,293,000 H shares (short position) through its controlled entities, namely, Trident Merger, LLC, BlackRock Investment Management, LLC, BlackRock Holdco 2, Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4, LLC, BlackRock Holdco 6, LLC, BlackRock Delaware Holdings Inc., BlackRock Institutional Trust Company, National Association, BlackRock Fund Advisors, BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC, BlackRock International Holdings, Inc., BR Jersey International Holdings L.P., BlackRock Cayco Limited, BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Japan Co., Ltd., BlackRock Canada Holdings LP, BlackRock Canada Holdings ULC, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty. Ltd., BlackRock Investment Management (Australia) Limited, BlackRock (Singapore) Holdco Pte. Ltd., BlackRock Asia-Pac Holdco, LLC, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock International Limited, BlackRock Luxembourg Holdco S.à r.l., BlackRock Investment Management Ireland Holdings Limited, BlackRock Asset Management Ireland Limited, BLACKROCK (Luxembourg) S.A., BlackRock Investment Management (UK) Limited, BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited, BlackRock Life Limited, BlackRock UK Holdco Limited, BlackRock Asset Management (Schweiz) AG.

3. As at 30 June 2016, the total issued domestic shares of the Company was 33,697,756,583 shares.

4. As at 30 June 2016, the total issued shares of the Company was 42,423,990,583 shares.

5. As at 30 June 2016, the total issued H shares of the Company was 8,726,234,000 shares.

Save as disclosed above, as of 30 June 2016, the Company is not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company that is required to be entered into the register under Section 336 of the SFO.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules in the first half of 2016, and has adopted the recommended best practices under appropriate circumstances.

# Other Information

## DIVIDEND

The Company does not declare any interim dividend for the first half of 2016.

## REVIEW OF INTERIM RESULTS

The Audit Committee of the Board has, in the presence of the external auditor, reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016.

# Corporate Information

## REGISTERED NAME

Chinese Name: 中國人民保險集團股份有限公司

Abbreviation of Chinese name: 中國人保集團

English Name: THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED

Abbreviation of English name: PICC Group

## REGISTERED OFFICE

No. 69 Dong He Yan Street, Xuanwu District, Beijing 100052, the PRC

## PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

## TYPE OF STOCK

H Share

## STOCK NAME

PICC Group

## STOCK CODE

1339

## H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

## WEBSITE

http://www.picc.com

## LEGAL REPRESENTATIVE

Wu Yan

## SECRETARY OF THE BOARD

Li Tao

## COMPANY SECRETARY

Tai Chi Shan Psyche

## INFORMATION INQUIRY DEPARTMENT

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## AUDITORS

*International Auditors:*
Deloitte Touche Tohmatsu

*Domestic Auditors:*
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Certified Public Accountants LLP

*Consulting Actuaries:*
Deloitte Consulting (Shanghai) Limited Beijing Branch

## LEGAL ADVISORS

*as to Hong Kong law:*
Davis Polk & Wardwell

*as to PRC law:*
King & Wood Mallesons

PICC

中国人民保险集团股份有限公司

THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED