中國太平洋保險（集團）股份有限公司

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code：02601)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Chairman's statement

Dear shareholders:

There is no doubt that 2020 will go down in history as "an extraordinary year", reminiscent of the global spread of COVID-19, changing and complicated domestic and overseas situation, economic slow-down, and for those in the industry, cyclical shifts of the insurance sector. All these were common challenges to business leaders, and a test of their will and wisdom. Despite increasing uncertainties, in the past year, we moved ahead in the right direction, and achieved an "extraordinary" year for CPIC.

Results-driven, we translated declarations into deeds. The Board, with KPIs in mind, focused on delivery and rallied efforts on the operation of the core business of insurance. Group operating income exceeded RMB400 billion, with rapid growth of net operating profits (OPAT) and embedded value (EV), and steady increase in assets under management (AuM), marking a step-up in the company's development.

The core business segments maintained healthy momentum of growth. On the life insurance side, in the face of COVID-19, we accelerated on-line and off-line integration, enhanced the “role-model” effect of high-performing agents, pushed for the integration of products and health management, elderly care and wealth management services. As for property and casualty insurance, we pro-actively responded to the challenges of the pandemic and the comprehensive reform of automobile insurance, and successfully fostered renewal business as its key growth driver. On the other hand, non-auto insurance business vigorously supported China’s effort to resume work and business, focused on emerging business lines, with agricultural insurance maintaining rapid growth. In investment, we adhered to value, long-term and prudent investing, stepped up system-building for a Group-integrated investment middle platform, enhanced investment management capabilities, and delivered sound investment results for the year.

We are always committed to ensure that our shareholders can share in the growth of the Company. In 2020, in spite of formidable challenges, the Board recommended annual cash dividend of RMB1.2 per share and 30th Anniversary Special Dividend of RMB0.1 per share[note], with a pay-out ratio of 50.9%. Since our listing more than a decade ago, the annual average pay-out ratio reached 47.6%, testifying to our commitment of giving back to our investors.

Our business operation has been an inseparable part of the effort to promote social development and meet people’s aspirations for a better life. In the face of the pandemic, as a leading insurer in China, we supported thousands of Chinese firms in their effort to resume normal business. As the only officially-designated insurance sponsor, we have provided insurance protection for China International Import Expo (CIIE) for 3 years on end. We signed a co-operation agreement with the organiser of the 2022 Hangzhou Asian Games, and became its official insurance partner. About 110,000 CPIC employees donated for the afforestation of the Sanjiangyuan, or origin of the Yangtze River, the Yellow River and Lancang River. We deepened the insurance-based poverty elimination mechanism with our own characteristics, and successfully lifted several rural townships and villages out of poverty, 9 months ahead of the schedule. Our poverty-reduction programmes cumulatively covered a total of 7.62 million people of documented impoverished households, and provided a total of RMB3.08 trillion in sum assured to poverty-stricken areas, doing our share in China’s fight against poverty. We have taken concrete steps to enhance “CPIC Service” that is responsible, smart and caring, so as to contribute to national strategies and the lot of the Chinese people.

We achieved a number of milestones in reform and change in 2020. The issuance of GDR (Global Depositary Receipts, GDR) on the LSE made us the first insurer listed in Shanghai, Hong Kong and London. The optimisation of ownership structure paved the way for improvement in governance and strategies. The new Board consists of leading experts in various areas, and these new members, with advanced philosophies and an international vision, will contribute to a more professional, market-oriented and international board.

People is key to our long-term success. We launched “the Ever-green Plan” on a trial basis in our life and P/C operations, focusing on key positions, top-performing employees and front-line units, with mechanisms of deferred payment, claw-backs so as to offer both incentives and checks, laying a sound foundation for talent recruitment and retention. We particularly deepened mechanism for the cultivation of young employees, used multiple ways to identify those with potential, and strived to build an on-line corporate university driven by technology, open for sharing and integrated in content. This will stimulate organisational vitality and ensure sustainable development of the Company.

We completed the 1st phase of 10bn-yuan deployment in retirement properties. There are 7 projects up and running in Chengdu, Dali, Hangzhou, Shanghai, Xiamen and Nanjing, with a total floor space of 510,000 square meters, 6,300 beds under construction and 11,000 beds in the pipeline. With this, we have initially achieved a nationwide deployment in retirement properties, and a full spectrum of product and service offerings for different age groups, laying a solid foundation for our elderly care service known as “CPIC Home”. We have issued over 10,000 certificates of admission into our CPIC Home communities.

We deepened participation in the Healthy China Initiative. The Board reviewed and approved the development programme of health business. The document articulated positioning of the business, set out concrete measures and provided guidelines for deployment in the sector. We have set up a Special Committee on the Development of Health Industry, responsible for implementation of relevant initiatives and plans, as well as identification of key levers of growth. We have made substantial progress in certain priority areas. We joined hands with Ruijin Hospital, a top-notch health care provider in China, and established Guangci CPIC Internet Hospital, marking an important step towards a full life-cycle health management model closely linked with insurance business. We entered into strategic partnership with Sequoia Capital to promote long-term investment along the health value chain such as bio-pharmaceutical, medical appliances, medical care and tele-medicine.

We made further progress in marketisation of technology. We continued to optimise the governance structure for technology, and put in place an overarching governance framework covering management, research and application. We launched CPIC Fintech. We also formed strategic partnerships with leading technology firms and institutions of higher learning, and set up 3 innovation labs in collaboration with Shanghai Jiaotong University, Fudan University and Shanghai Insurance Exchange, focusing on AI, insurance technology and block-chain respectively. We used market-based mechanisms in the recruitment of leading experts of technology, including those specialising in big data, cloud computing, Internet operation and cyber security, with initial success in the establishment of a team of scientists.

We yielded tangible results in 2020. Next, we will prepare and foster new drivers of growth for the long-term future.

Thirty years ago, CPIC was established in Shanghai, as one of the earliest commercial insurance companies in China. It was named after the Pacific Ocean, which reminds people of vastness. In the past 3 decades, we grew in tandem with China's insurance market, and in the process we devoted ourselves to education of the public, raising people's awareness of insurance. At the same time, "Focus, Prudence, Dynamism and Responsibility" have gradually become our key differentiators.

Looking ahead to the next 30 years, we aspire to be "a long-race runner" of the insurance industry, and that calls for a long-term view in our business strategies, long-term commitments in customer services and long-term effort in reform and transformation.

At the recent board meeting, we initiated top-level design centring on new development philosophies. The Board special committees were reshuffled, with the establishment of a Strategic and Investment Decision-Making & ESG Committee. We will emulate best practices of ESG in China and overseas, incorporate philosophies of sustainable development into business operation to boost high-quality development in environment, society and governance. What we are doing will instil new vitality into our business philosophy, our culture and our DNA, and stimulate long-term growth.

The year 2021 remains challenging: the pandemic is still raging around the world, and the global economic recovery is far from being secured. But under the leadership of the Board, we are confident that we can overcome difficulties and mitigate external risks and uncertainties by securing our own development in 2021. In terms of business strategy, life insurance will focus on fostering new growth drivers as part of the "Changhang Programme". In particular, we will continue to improve the quality and productivity of the agency force, diversify value-added services and enhance digital empowerment. As for property and casualty insurance, we will emulate top players of the industry, continuously enhance underwriting profitability to sharpen competitive edge for long-term development. Investment will focus on improving asset allocation through economic cycles and enhancing research and risk control capabilities. In the meantime, we will continue to prioritise, striving for further progress in corporate governance, organisational reform, deployment in health and retirement sectors, marketisation of technology and collaborative development of key areas.

The year 2021 marks our 30th anniversary, an opportune moment for us to embark on a new stretch of journey, given the combination of experience on the market in the past 30 years and the readiness to embrace reform and change.

Note: Subject to SGM approval.

Review and analysis of operating results

Business overview

I. Key businesses

We are a leading integrated insurance group in China, and the first insurer simultaneously listed in Shanghai, Hong Kong and London. We provide, through our subsidiaries and along the insurance value chain, a broad range of risk protection solutions, wealth management and asset management services.

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

In 2020, China's insurance market realised a premium income of RMB4,525.734 billion, up 6.1% from 2019. Of this, premium from life/health insurance companies amounted to RMB3,167.364 billion, a growth of 6.9%, and that from property and casualty insurance companies RMB1,358.369 billion, up 4.4%. Measured by direct business premiums, CPIC Life and CPIC P/C are both China's 3rd largest insurers for life and property and casualty insurance, respectively.

II. Core competitiveness

We are a leading integrated insurance group in China, and the first insurer simultaneously listed in Shanghai, Hong Kong and London, ranking 193rd among Fortune Global 500 released in 2020. On the back of vigorous effort in transformation and competitive insurance expertise, we can capitalise on the vast growth potential of China's insurance market.

Focus

We persist in the focus on insurance, and have obtained a full range of insurance-related licences covering life insurance, property and casualty insurance, pension, health insurance, agricultural insurance and asset management. With balanced development of business segments along the insurance value chain, we have fostered top-notch core competitiveness of specialised business operation in the insurance business. Our life/health insurance business centres on protection, deepen the model of "products + services", accelerates product innovation and the building of a multi-tiered service system to drive sustainable growth of customer value. The property and casualty insurance persists in enhancement of customer operation capabilities, strengthens business quality control to achieve industry leadership in premium growth and underwriting profitability. As for investment, we put in place the system of asset liability management (ALM) through economic cycles, adhere to prudent, value and long-term investing, and enhance mechanisms to curb cost of liabilities, with sustained improvement in industry-leading, liability-based strategic asset allocation (SAA) capabilities and specialised investment expertise. In 2020, in the face of the COVID-19 pandemic, we pro-actively stepped up on-line and off-line integration, innovated products and services to seize opportunities arising from the resumption of work and business, achieved steady business development and further improvement in specialised business operation.

Prudence

We are committed to protection as the central insurance value proposition, and pursue a path of high-quality development with a business philosophy centring on prudence and sustainability. We boast a professional and competent board of directors, an experienced management team and a group-centralised platform of management, with modernised corporate governance featuring a clear definition of responsibilities, checks and balances and well-coordinated mechanisms. Through GDR issuance on the LSE, we optimised shareholding structure, which paved the way for continued improvement in corporate governance and decision-making systems and capabilities, with an even more diversified, international and professional board of directors. We established an industry leading system for risk management and internal control, which ensures healthy and sustainable development of the Company.

Dynamism

We persist in customer orientation and forge ahead with transformation in a bid to foster capabilities for sustainable development. We optimised technology governance structure, introduced market-based reform so that technology & innovation can be a more powerful enabler. In response to trends and dynamics of the industry, we pro-actively invested in emerging business segments such as health care and elderly care, with progress in establishing a value chain for full life cycle coverage, and the new “products + services” model. We seek to stimulate organisational vitality through adoption of “the Ever-green Plan”, a long-term incentive system. We established an innovative on-line corporate university so that knowledge and wisdom can pass from generation to generation and drive sustainable development of the Company.

Responsibility

Committed to our responsibility to society, customers and shareholders, we vigorously participate in national initiatives, serve the needs of the real economy and peoples’ aspirations for a better life, and promote the brand image of “Responsible, Smart and Caring” CPIC Service. We use insurance to fulfil our social responsibilities, pioneering in the fight against the pandemic, poverty and natural disasters. We implement ESG philosophies, promote green financing, take part in “Carbon Peaking” and “Carbon Neutrality” to contribute to the Green China Initiative. We conduct charitable activities as part of our branding, showing care for the vulnerable and underprivileged communities. At the same time, we strive to generate sound returns and give back to our shareholders so that they can benefit from the growth of the Company.

Performance overview

We focused on the core business of insurance, persisted in value growth, believed in the long-term, deepened the customer-oriented strategic transformation, pursued high quality development and delivered solid business results and sustained increase in overall strength.

I. Performance highlights

During the reporting period, Group operating income[note 1] amounted to RMB422.182 billion, of which, gross written premiums (GWPs) reached RMB362.064 billion, a growth of 4.2% compared with that of 2019. Group net profit[note 2] reached RMB24.584 billion, down by 11.4%, with Group OPAT[notes 2,3] of RMB31.140 billion, a growth of 11.7%. Group EV amounted to RMB459.320 billion, an increase of 16.0% from the end of 2019. Of this, value of in-force business[note 4] reached RMB201.942 billion, up by 7.7%. Life insurance business delivered RMB17.841 billion in new business value (NBV), down by 27.5%

compared with that of 2019, with an NBV margin of 38.9%, down by 4.4pt. Property and casualty insurance business[note 5] recorded a combined ratio of 99.0%, up by 0.6pt. Growth rate of Group investments' net asset value rose by 0.2pt to 7.5%. As of the end of the reporting period, Group total number of customers amounted to 147.47 million, an increase of 8.91 million from the end of 2019.

Life business NBV growth under pressure, with steady growth of OPAT and residual margin.

- CPIC Life realised RMB17.841 billion in NBV, down by 27.5%, with an NBV margin of 38.9%, down by 4.4pt. Given the focus on business quality, the NBV margin of the individual customer business stood at 54.9%.
- OPAT of life insurance reached RMB25.875 billion, up by 16.7%; the residual margin of life insurance amounted to RMB351.077 billion, a growth of 6.5% from the end of 2019.
- CPIC Life GWPs amounted to RMB211.952 billion, down by 0.3%. Of this, renewal business realised a growth of 5.5%.

Property and casualty business[note 5] maintained underwriting profitability, with top-line growth leading in industry.

- The combined ratio was 99.0%, up by 0.6pt. Of this, loss ratio stood at 61.5%, up by 1.1pt, and expense ratio 37.5%, down by 0.5pt.
- GWPs amounted to RMB149.722 billion, an increase of 11.2%. Of this, non-auto business grew by 29.9% and accounted for 35.9% of total property and casualty insurance GWPs, up by 5.2pt.
- Automobile insurance enhanced customer retention to push for a shift of growth drivers. Emerging business lines such as health, agricultural and liability insurance maintained rapid development. Of this, agricultural business realised RMB9.442 billion in direct business premiums[note 6], a growth of 39.3%, with a fast increase in market share.

Persisted in asset allocation through economic cycles and based on profiles of liabilities, with solid investment results.

- The share of fixed income investments stood at 78.3%, down by 2.1pt from the end of 2019; that of equity investments 18.8%, up by 3.1pt, and of this, core equity investments[note 7] accounted for 10.2% of total investment assets, an increase of 1.9pt from the end of 2019.

- With continued effort to extend asset duration, enhance investment research capabilities and the Tactical Asset Allocation (TAA) process, growth rate of Group investments' net asset value reached 7.5%, up by 0.2pt from 2019. Total investment yield was 5.9%, up by 0.5pt, with net investment yield of 4.7%, down by 0.2pt.
- Group AuM amounted to RMB2,436.080 billion, an increase of 19.2% from the end of 2019. Of this, third-party AuM amounted to RMB788.073 billion, an increase of 26.3%.

Notes:

1. Based on PRC GAAP.
2. Attributable to shareholders of the parent.
3. OPAT is based on net profit on the financial statements, while excluding certain P/L items with short-term volatility and material one-off items which management does not consider to be part of the Company's day-to-day business operation.
4. Based on the Group's share of CPIC Life's value of in-force business after solvency.
5. Consolidated data of CPIC P/C, CPIC Anxin Agricultural and CPIC HK.
6. Based on direct business premiums, excluding premium from reinsurance assumed, with consolidation of CPIC P/C and CPIC Anxin Agricultural.
7. Stocks and equity funds included.

II. Key performance indicators

Unit: RMB million

Indicators	As at 31 December 2020/for the period between January and December in 2020	As at 31 December 2019/for the period between January and December in 2019	Changes (%)
Key value indicators			
Group embedded value	459,320	395,987	16.0
Value of in-force business[note 1]	201,942	187,585	7.7
Group net assets[note 2]	215,224	178,427	20.6
NBV of CPIC Life	17,841	24,597	(27.5)
NBV margin of CPIC Life (%)	38.9	43.3	(4.4pt)
Combined ratio of CPIC P/C (%)	99.0	98.3	0.7pt
Growth rate of Group investments' net asset value (%)	7.5	7.3	0.2pt
Key operating indicators			
GWPs	362,064	347,517	4.2
CPIC Life	211,952	212,514	(0.3)
CPIC P/C	147,734	132,979	11.1
Group number of customers ('000)[note 3]	147,473	138,558	6.4
Average number of insurance policies per customer	2.09	1.95	7.2
Monthly average agent number ('000)	749	790	(5.2)

Surrender rate of CPIC Life (%)	1.2	1.1	0.1pt
Total investment yield (%)	5.9	5.4	0.5pt
Net investment yield (%)	4.7	4.9	(0.2pt)
Third-party AuM	788,073	623,815	26.3
CPIC AMC	253,227	194,766	30.0
Changjiang Pension	483,060	395,277	22.2
Key financial indicators			
Net profit attributable to shareholders of the parent	24,584	27,741	(11.4)
CPIC Life	18,642	20,530	(9.2)
CPIC P/C	5,209	5,910	(11.9)
Basic earnings per share (RMB yuan)note 2	2.63	3.06	(14.1)
Net assets per share (RMB yuan)note 2	22.37	19.69	13.6
Comprehensive solvency margin ratio (%)			
CPIC Group	288	295	(7pt)
CPIC Life	242	257	(15pt)
CPIC P/C	276	293	(17pt)

Notes:

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

Life/health insurance business

Due to the impact of the COVID-19 pandemic, NBV growth was under pressure. CPIC Life stepped up on-line and off-line integration in business operation, promoted the restructuring of the agency force, enhanced the "role-model" effect of high-performing agents, and strived to establish a multi-tiered service system based on customer segmentation. CPIC Health boosted product and service innovations, deepened Group strategy of synergic development, and recorded rapid business growth.

I. CPIC Life

(I) Business analysis

In 2020, CPIC Life reported RMB211.952 billion in GWPs, a decrease of 0.3% compared with that of 2019. Due to the decline of new business premiums, the NBV fell by 27.5% to RMB17.841 billion. As a result of decreased share of first year premiums (FYPs) from individual customer business, the NBV margin fell by 4.4pt to 38.9%. Given the focus on business quality, the NBV margin of the individual customer business stood at 54.9%.

Going forward, CPIC Life, with a belief in long-termism, will persist in high-quality development, promote transformation & innovation, push forward the "Changhang Programme" in an all-around way, maintain steady NBV growth and a solid market position, diversify distribution channels, accelerate digitalisation and the deployment in health and retirement business, stimulate organisational vitality, further improve incentive systems, ensure compliance and effective risk control, and strive to become a life insurance company with the best customer experience.

1. Analysis by channels

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Individual customers	**201,992**	**204,521**	**(1.2)**
Agency channel	**191,291**	**195,166**	**(2.0)**
New policies	29,035	39,594	(26.7)
Regular premium business	21,977	33,000	(33.4)
Renewed policies	162,256	155,572	4.3
Other channels[note]	**10,701**	**9,355**	**14.4**
Group clients	**9,960**	**7,993**	**24.6**
Total GWPs	**211,952**	**212,514**	**(0.3)**

Note: Other channels include bancassurance, insurance brokerage, direct sales by employees, telemarketing & internet sales, etc.

(1) Business from individual customers

For the reporting period, CPIC Life realised RMB201.992 billion in GWPs from individual customers, down by 1.2%. Of this, new policies from the agency channel amounted to RMB29.035 billion, down by 26.7%, and renewal business RMB162.256 billion, an increase of 4.3%. GWPs from the agency channel accounted for 90.3% of total GWPs, a decrease of 1.5pt from 2019.

In 2020, monthly average performing ratio of agents was 57.8%, down by 1.0pt compared with that of 2019, with monthly average FYP per agent of RMB3,259 yuan, down by 22.6%, mainly due to the impact of COVID-19 pandemic, which disrupted the off-line recruitment, distribution and fundamental management activity of the agency force. To address these challenges, CPIC Life deepened the on-line and off-line integration of the operational mode, enhanced the "role-model" effect of high-performing agents, promoted the restructuring of the agency force, strived to establish a multi-tiered service system based on customer segmentation, stepped up integration of insurance and health management, elderly care and wealth management so as to meet diverse needs of customers and pursue high-quality development.

For 12 months ended 31 December	2020	2019	Changes (%)
Monthly average agent number ('000)	749	790	(5.2)
Monthly average FYP per agent (RMB)	3,259	4,212	(22.6)
Monthly average performing ratio of agents (%)	57.8	58.8	(1.0pt)
Average number of new long-term life insurance policies per agent per month	1.58	1.51	4.6

(2) Business from group clients

In pursuit of high-quality development, CPIC Life focused on core customer segments of group business, effectively controlled expenses and risks through business and service innovations, and delivered improved profitability as evidenced by a lower combined ratio. In 2020, the business segment realised RMB9.960 billion in GWPs, up by 24.6%. It vigorously contributed to China's social health insurance system by engaging in government-sponsored business such as critical illness programmes, third-party administration (TPA) of social insurance, long-term care insurance and supplementary medical insurance, which, during the reporting period, covered over 125 million people, cumulatively responded to nearly 18 million service requests, and paid out a total of RMB19 billion in claims. There was cumulatively a total of 43 managed care programmes, covering over 30 million people under the social security system in 35 cities of 12 provinces.

2. Analysis by product types

CPIC Life focuses on both traditional and participating products. For the reporting period, traditional business generated RMB95.864 billion in GWPs, up 14.5%. Of this, long-term health insurance contributed RMB46.106 billion, up 5.0%. Participating business delivered RMB97.318 billion in GWPs, down by 12.7%, due to adjustment of product strategies in the context of market-oriented pricing.

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
GWPs	**211,952**	**212,514**	**(0.3)**
Traditional	95,864	83,689	14.5
Long-term health	46,106	43,900	5.0
Participating	97,318	111,521	(12.7)
Universal	101	104	(2.9)
Tax-deferred pension	75	75	-
Short-term accident and health	18,594	17,125	8.6

Information of the top five products in 2020

Unit: RMB million

For 12 months ended 31 December

Ranking	Name	Type	GWPs	Sales channel
1	Jin You Ren Sheng Whole Life A (2014) 金佑人生終身壽險（分紅型）A 款（2014 版）	Participating	16,504	Individual customer business
2	Jin Nuo Ren Sheng Critical Illness (2018) 金諾人生重大疾病保險（2018 版）	Traditional	7,881	Individual customer business
3	Jin You Ren Sheng Whole Life A (2017) 金佑人生終身壽險（分紅型）A 款（2017 版）	Participating	6,703	Individual customer business
4	Group medical insurance for critical illness of rural and urban residents (A) 城鄉居民大病團體醫療保險（A 型）	Traditional	5,261	Group client business
5	Ju Bao Pen Annuity 聚寶盆年金保險（分紅型）	Participating	5,131	Individual customer business

3. Policy persistency ratio

For 12 months ended 31 December	2020	2019	Changes
Individual life insurance customer 13-month persistency ratio (%)[note 1]	85.7	90.3	(4.6pt)
Individual life insurance customer 25-month persistency ratio (%)[note 2]	85.1	89.2	(4.1pt)

Notes:

1. 13-month persistency ratio: premiums from in-force policies 13 months after their issuance as a percentage of premiums from policies which entered into force during the same period.
2. 25-month persistency ratio: premiums from in-force policies 25 months after their issuance as a percentage of premiums from policies which entered into force during the same period.

The policy persistency of CPIC Life continued to decline, due to the change to product mix, agency force retention, coupled with the impact of the pandemic, with the 13-month and 25-month persistency ratios at 85.7% and 85.1% respectively.

4. Top 10 regions for GWPs

The GWPs of CPIC Life mainly came from economically developed regions or populous areas.

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
GWPs	**211,952**	**212,514**	**(0.3)**
Henan	24,118	24,702	(2.4)
Jiangsu	21,301	21,649	(1.6)
Shandong	17,616	17,509	0.6
Zhejiang	14,953	15,365	(2.7)
Hebei	13,087	13,318	(1.7)
Guangdong	11,759	12,212	(3.7)
Hubei	8,971	9,170	(2.2)
Heilongjiang	8,962	9,001	(0.4)
Shanxi	8,500	9,026	(5.8)
Sichuan	6,855	7,034	(2.5)
Subtotal	136,122	138,986	(2.1)
Others	75,830	73,528	3.1

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Net premiums earned	203,848	204,340	(0.2)
Investment income[note]	71,848	58,259	23.3
Other operating income	2,355	2,405	(2.1)
Total income	**278,051**	**265,004**	**4.9**
Net policyholders' benefits and claims	(214,641)	(195,864)	9.6
Finance costs	(2,617)	(2,569)	1.9
Interest credited to investment contracts	(3,344)	(3,005)	11.3
Other operating and administrative expenses	(37,150)	(44,283)	(16.1)
Total benefits, claims and expenses	**(257,752)**	**(245,721)**	**4.9**
Profit before tax	20,299	19,283	5.3
Income tax	(1,657)	1,247	(232.9)
Net profit	**18,642**	**20,530**	**(9.2)**

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

Investment income for the reporting period was RMB71.848 billion, up by 23.3%, mainly because of increase in gains from securities trading and interest income on bond investments.

Net policyholders' benefits and claims amounted to RMB214.641 billion, up by 9.6%, largely due to growth of changes in long-term life insurance contract liabilities.

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Net policyholders' benefits and claims	**214,641**	**195,864**	**9.6**
Life insurance death and other benefits paid	61,848	58,419	5.9
Claims incurred	9,186	8,388	9.5
Changes in long-term life insurance contract liabilities	132,095	118,280	11.7
Policyholder dividends	11,512	10,777	6.8

Other operating and administrative expenses for the reporting period amounted to RMB37.150 billion, down by 16.1%.

Income tax for the reporting period was RMB1.657 billion, mainly due to adjustment of tax deductible policies on commissions and brokerage expenses of insurance companies. The income tax expense booked for 2018 was adjusted in 2019, resulting in a low base in 2019, hence the sharp increase in 2020. Excluding the above-mentioned factor, income tax for the reporting period would have decreased by 24.1% from the same period of 2019.

As a result, CPIC Life recorded a net profit of RMB18.642 billion, down by 9.2%.

II. CPIC Health

The subsidiary leveraged its strengths as a specialised provider of health insurance and management services, and strived to provide its customers with more comprehensive products and services, delivered in a faster and more convenient way, to contribute to the fight against the pandemic and promote the branding of CPIC Service. In the meantime, it seized opportunities of the implementation of Group health business strategy, focused on innovation in expertise and building of professional capabilities, vigorously explore paths of transitioning while maintaining rapid business growth. For the reporting period, it realised RMB6.818 billion in GWPs and health management fee income, a growth of 44.5%, and net profit of RMB116 million.

CPIC Health seized the window of opportunity of China's health insurance market, continuously enhanced professional capability-building. In product innovation, in response to the call for insurance supply-side reform, it differentiated in health insurance, supported CPIC Life and CPIC P/C in their effort to improve product line-up, deepened the mechanism of "health insurance + health services", helped with customer retention via the provision of full-cycle service, boosted the business development and enhanced customer experience of both CPIC Life and CPIC P/C, with a growth of 34.0% and 106.0%

respectively for life insurance and P/C insurance collaboration business in 2020; at the same time, it continued to promote product innovation based on medical big data, and achieved initial success in development of products for single illnesses or covering the insured with prior conditions, tapping into a potentially 10-billion yuan market. In respect of operational risk control, it made further progress in smart underwriting, interaction of medical data, self-service claims handling, and self-service post-sale services through empowerment from data and technology, with continued effort in high-tech incubation and commercialisation. As for health management, the subsidiary stepped up sharing of medical and health care resources, improved the full life-cycle health management system, enhanced operational capabilities in health service, expanded the network of care provider partnerships to provide service to the entire Group.

Property and casualty insurance

CPIC P/C[note] introduced effective steps to mitigate the impact of COVID-19 pandemic, and achieved rapid growth in premium. It enhanced the capability of customer acquisition and retention of automobile insurance to promote the shift of growth drivers, persisted in business quality control, with stability in the combined ratio; non-auto business focused on the support for resumption of business and work, maintained rapid development of emerging business lines, with a sustained increase in share of business.

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

I. CPIC P/C

(I) Business analysis

In the face of the pandemic and comprehensive reform of automobile insurance, CPIC P/C focused on disease control and prevention and the resumption of business and work. It enhanced the system of customer acquisition and retention, intensified technological empowerment to improve capabilities of high-quality development in an all-around way. During the reporting period, it recorded GWPs of RMB147.734 billion, up by 11.1%, with a combined ratio of 99.0%, an increase of 0.7pt from 2019. Of this, the loss ratio stood at 61.4%, up 1.2pt, and the expense ratio 37.6%, down by 0.5pt.

1. Analysis by lines of business

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
GWPs	**147,734**	**132,979**	**11.1**
Automobile insurance	95,670	93,218	2.6
Compulsory automobile insurance	23,906	21,938	9.0
Commercial automobile insurance	71,764	71,280	0.7
Non-automobile insurance	52,064	39,761	30.9
Health insurance	8,886	5,146	72.7
Liability insurance	8,784	6,097	44.1
Agricultural insurance	8,649	5,975	44.8
Guarantee insurance	6,682	5,616	19.0
Others	19,063	16,927	12.6

(1) Automobile insurance

In 2020, CPIC P/C reported GWPs of RMB95.670 billion from automobile business, a growth of 2.6%, with a combined ratio of 97.9%, the same as that of 2019. Of this, loss ratio stood at 60.5%, down by 0.3pt and expense ratio rose by 0.3pt to 37.4%.

CPIC P/C proactively adapted to challenges such as the comprehensive reform of automobile insurance, slow-down of new vehicle sales and the impact of COVID-19 pandemic, strived to translate the comprehensive reform into a strategic opportunity, persisted in high-quality development, enhanced risk screening, deepened customer acquisition and retention and promoted on-line business operation in an all-around way, which delivered tangible benefits. Its market share increased for successive years, with a stable combined ratio and improved renewal ratio for commercial automobile insurance.

Going forward, CPIC P/C will focus on customer acquisition & retention and platform-based operation and centre its efforts on customers, integration and technology. To be specific, it will enhance risk control, improve business quality, promote customer acquisition & retention, step up technological empowerment and intensify claims management.

(2) Non-automobile insurance

CPIC P/C vigorously coped with the challenge of COVID-19, supported China's national strategies such as the target of "ensuring stability in 6 areas and protection in 6 priorities", contributed to the real economy and people's welfare, accelerated the development of emerging business lines and continued to enhance risk control. For the reporting period, it recorded GWPs of RMB52.064 billion, up by 30.9%, with a combined ratio of 101.9%, up by 2.0pt. Of the major business lines, health insurance, liability insurance and agricultural insurance maintained rapid growth, with accident insurance recording great improvement in underwriting profitability.

Health insurance seized opportunities arising from the upgrading of consumption and government supportive policies, diversified the supply of personal lines health insurance products, gradually expanded the scope of business of government-sponsored insurance, contributed to China's social health insurance system, pushed for rapid development of long-term care and health insurance for poverty alleviation. In 2020, health insurance reported RMB8.886 billion in GWPs, a growth of 72.7%.

Liability insurance focused on improving people's life, innovation in public administration and the real economy, and accelerated development of business in food safety, environmental protection, large high-tech machinery, and new materials. The business line delivered RMB8.784 billion in GWPs for 2020, up by 44.1%.

Agricultural insurance, in spite of the pandemic, seized opportunities of government supportive policies, leveraged new platforms, pressed ahead with innovation, emulated industry leaders, and realised profitable, sustainable development driven by intensive management and continued improvement of strategies in geography, business lines, customers and management. In 2020, the business line delivered RMB8.649 billion in GWPs, up by 44.8%.

Guarantee insurance persisted in "Value, Integration and Prudence", achieved steady development while ensuring control of risks. Of this, personal lines business accounted for over 90%; it continued to enhance the risk control systems, improved risk management capabilities via technological innovation, with stable business quality and healthy premium growth. Commercial lines focused on business of security deposit substitute, with business risk overall under control. In 2020, guarantee insurance reported GWPs of RMB6.682 billion, up by 19.0%, with a combined ratio of 98.1%, realising underwriting profitability.

Going forward, CPIC P/C will continue to step up product innovations, optimise service supply, focus on the development of emerging lines, increase digitalisation, and push for an all-around upgrading of customer operation capabilities. At the same time, the subsidiary will continue with the building of risk control systems, increase the use of technology, strengthen business quality control, so as to drive healthy and rapid development of the business.

(3) Key financials of major business lines

Unit: RMB million

For 12 months ended 31 December

Name of insurance	GWPs	Amounts insured	Claims	Reserves	Underwriting profit	Combined ratio (%)
Automobile insurance	95,670	36,225,463	56,071	63,417	1,849	97.9
Health insurance	8,886	180,940,237	5,222	4,490	(944)	113.8
Liability insurance	8,784	67,996,791	3,780	6,784	(61)	101.1
Agricultural insurance	8,649	307,341	6,264	2,916	7	99.9
Guarantee insurance	6,682	147,899	2,248	9,120	80	98.1

2. Top 10 regions for GWPs

CPIC P/C attaches great importance to the strategic opportunity arising from China's regional development initiatives, implements differentiated regional strategies for differentiated competition.

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
GWPs	**147,734**	**132,979**	**11.1**
Guangdong	17,539	15,540	12.9
Jiangsu	15,940	14,348	11.1
Zhejiang	13,764	12,992	5.9
Shanghai	10,945	10,067	8.7
Shandong	8,313	7,449	11.6
Beijing	6,928	6,811	1.7
Hebei	5,505	4,734	16.3
Henan	5,306	4,578	15.9
Hunan	5,303	4,650	14.0
Hubei	5,236	4,832	8.4
Subtotal	94,779	86,001	10.2
Others	52,955	46,978	12.7

(II) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Net premiums earned	121,835	104,587	16.5
Investment income[note]	6,485	4,986	30.1
Other operating income	338	378	(10.6)
Total income	**128,658**	**109,951**	**17.0**
Claims incurred	(74,904)	(63,026)	18.8
Finance costs	(581)	(728)	(20.2)
Other operating and administrative expenses	(46,285)	(40,072)	15.5

Total benefits, claims and expenses	**(121,770)**	**(103,826)**	**17.3**
Profit before tax	6,888	6,125	12.5
Income tax	(1,679)	(215)	680.9
Net profit	**5,209**	**5,910**	**(11.9)**

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

Investment income for the reporting period amounted to RMB6.485 billion, up by 30.1%, mainly attributable to higher gains from securities trading.

Other operating and administrative expenses amounted to RMB46.285 billion, up by 15.5%.

This, coupled with the impact of adjustment of policies on deductibles for corporate income tax in 2019, resulted in a net profit of RMB5.209 billion in 2020, a decrease of 11.9% from 2019.

II. CPIC Anxin Agricultural

In 2020, committed to the high-quality development objectives, CPIC Anxin Agricultural continued to cement its branding as a specialised provider of agricultural insurance, underpinned by innovation and transformation, deepening of integration and empowerment of technology. It delivered RMB1.473 billion in GWPs, up by 2.9%. Of this, agricultural insurance reported GWPs of RMB925 million, a growth of 0.5%, with a combined ratio of 96.5%, down by 3.3pt. It reported net profit of RMB151 million, up by 45.2%.

III. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December 2020, its total assets stood at RMB1.545 billion, with net assets of RMB514 million. GWPs for the reporting period amounted to RMB724 million, with a combined ratio of 105.4%, and a net profit of RMB6 million.

Asset management

We persist in long-term, value and prudent investing and support the core insurance business with outstanding ALM capabilities. Within the SAA framework, we continued to extend the duration of assets, while seizing market opportunities and dynamically adjusting the procedures of TAA. As a result, we delivered solid investment performance, with Group AuM on steady increase.

I. Group AuM

As of the end of 2020, Group AuM totalled RMB2,436.080 billion, rising 19.2% from the end of 2019. Of this, Group in-house investment assets amounted to RMB1,648.007 billion, a growth of 16.1%, and third-party AuM RMB788.073 billion, an increase of 26.3%, with a management fee income of RMB2.385 billion, up by 46.8% from 2019.

Unit: RMB million

	31 December 2020	31 December 2019	Changes (%)
Group AuM	**2,436,080**	**2,043,078**	**19.2**
Group in-house investment assets	1,648,007	1,419,263	16.1
Third-party AuM	788,073	623,815	26.3
CPIC AMC	253,227	194,766	30.0
Changjiang Pension	483,060	395,277	22.2

II. Group in-house investment assets

During the reporting period, China delivered a GDP growth of 2.3%, the only country with positive growth among the major economies of the world, demonstrating resilience in the face of the challenge of COVID-19. On the capital markets, interest rates fell sharply and then came back to year-beginning levels amid effective control of the pandemic and economic recovery. The equity market plummeted at the year beginning due to the pandemic, and then rallied sharply, with volatility in the second half of the year. ChiNext and STAR markets were leading in the rally.

With the guidance of SAA, we conducted TAA with flexibility, seized market opportunities and achieved stable investment results which were higher than the cost of liabilities. Given expectations of lower interest rates, we increased strategic allocation into long-term T-bonds and local government bonds to extend asset duration. Given increasing credit risk on the fixed income market, we maintained prudence in credit risk exposure, enhanced credit risk control and took effective steps to mitigate credit risk.

In investment concentration, our investments are concentrated in financial services, communications & transport, real estate, infrastructure, and the energy sector like power, thermos and gas, with relatively strong resilience in the face of risks. Our equity investments spread across a wide range of instruments; as for fixed income assets, the debt issuers boasted strong overall strength, and our main counter-parties included China State Railway Group Co., Ltd., large commercial state-owned banks and State Grid Corporation of China.

(I) Group Consolidated investment portfolios

Unit: RMB million

	31 December 2020	Share (%)	Share change from the end of 2019 (pt)	Changes (%)
Group investment assets (total)	**1,648,007**	**100.0**	**-**	**16.1**
By investment category				
Fixed income investments	1,290,629	78.3	(2.1)	13.0
- Debt securities	648,475	39.3	(3.3)	7.2
- Term deposits	192,966	11.7	1.3	30.6
- Debt investment plans	187,443	11.4	0.7	23.8
- Wealth management products[note 1]	157,751	9.6	(0.3)	11.6
- Preferred shares	32,000	1.9	(0.4)	-
- Other fixed income investments[note 2]	71,994	4.4	(0.1)	12.3
Equity investments	310,249	18.8	3.1	39.7
- Equity funds	40,953	2.5	0.6	55.1
- Bond funds	19,138	1.2	(0.1)	5.3
- Stocks	127,286	7.7	1.3	40.5
- Wealth management products[note 1]	1,446	0.1	-	98.4
- Preferred shares	13,131	0.8	(0.2)	(3.6)
- Other equity investments[note 3]	108,295	6.5	1.5	49.2
Investment properties	7,866	0.5	(0.1)	(5.0)
Cash, cash equivalents and others	39,263	2.4	(0.9)	(16.6)
By investment purpose				
Financial assets at fair value through profit or loss[note 4]	12,613	0.7	0.4	155.8
Available-for-sale financial assets	596,158	36.2	0.1	16.5
Held-to-maturity financial assets	329,360	20.0	(0.8)	11.6
Interests in associates	14,554	0.9	0.2	37.8
Investment in joint ventures	9,889	0.6	(0.1)	0.1
Loans and other investments[note 5]	685,433	41.6	0.2	16.8

Notes:

1. Wealth management products include wealth management products issued by commercial banks, collective trust plans by trust firms, special asset management plans by securities firms and credit assets backed securities by banking institutions, etc.
2. Other fixed income investments include restricted statutory deposits and policy loans, etc.
3. Other equity investments include unlisted equities, and derivative financial assets, etc.
4. Financial assets at fair value through profit or loss include financial assets at fair value through profit or loss, and derivative financial assets on financial statements.
5. Loans and other investments include term deposits, cash and short-term time deposits, securities purchased under agreements to resell, policy loans, restricted statutory deposits, investments classified as loans and receivables, and investment properties, etc.

1. By investment category

As of the end of the reporting period, the share of debt securities was 39.3%, a drop of 3.3pt from the end of 2019. Of this, treasury bonds, local government bonds and financial bonds issued by policy banks made up 17.5% of total investment assets, up by 1.3pt from the end of 2019, with an average duration of 16.4 years, extended by 1.2 years versus the end of 2019. Moreover, 99.8% of enterprise bonds and financial bonds issued by non-policy banks had a debt/issuer rating of AA/A-1 or above. Out of these, the share of AAA reached 93.1%. We put in place and dynamically enhanced independent internal credit-rating teams and credit risk management systems covering the entire debt securities investment process, namely, before, during and after the investment. We vigorously pushed for the establishment of a Group integrated credit-rating system. In the selection of securities, we looked at the internal credit-rating of both the debt and debt issuer, identified the credit risk based on our internal credit-rating system and the input from in-house credit analysts, while considering other factors such as macroeconomic conditions, market environment and external credit-ratings in order to make a well-informed investment decision. At the same time, to assess the credit risk of the stock of bond holdings, we followed a uniform and standardised set of regulations and procedures, combining both regular and unscheduled follow-up tracking post the investment. Our corporate/enterprise bond holdings spread over a wide range of sectors with good diversification effect; the debt issuers all boasted sound financial strength, with the overall credit risk under control.

The share of equity investments stood at 18.8%, up by 3.1pt from the end of 2019. Of this, stocks and equity funds accounted for 10.2% of total investment assets, up by 1.9pt versus the end of 2019. On the back of market strategy research and in compliance of disciplined TAA processes, we pro-actively seized tactical opportunities on the equity market, increased allocation into equity assets and realised solid investment performance, supporting the core business of insurance.

As of the end of the reporting period, non-public financing instruments (NPFIs) totalled RMB356.422 billion, accounting for 21.6% of total investment assets, rising 0.7pt from the end of 2019. While ensuring full compliance with regulatory requirements and internal risk control policies, we persisted in prudent management as is inherently required of insurance companies, stayed highly selective about debt issuers and projects and strived to serve the needs of China’s real economy. The underlying projects spread across sectors like infrastructure, non-bank financial institutions, communications & transport and real estate, and were geographically concentrated in China’s prosperous areas such as Beijing, Shanghai, Guangdong and Jiangsu.

Overall, the credit risk of our NPFI holdings is in the comfort zone. 99% NPFIs had external credit-ratings, and of these, the share of AAA reached 94.9%, and that of AA+ and above 99.9%. 54.6% of NPFIs were exempt from debt issuer external credit-ratings, with the rest secured with credit-enhancing measures such as guarantee or pledge of collateral. In 2020, there were no new defaults, with credit risk manageable overall.

Mix and distribution of yields of non-public financing instruments

Sectors	Share of investments (%)	Nominal yield (%)	Average duration (year)	Average remaining duration (year)
Infrastructure	37.2	5.3	7.1	5.4
Real estate	18.4	5.3	6.4	4.6
Non-bank financial institutions	17.8	4.9	5.1	3.7
Communications & transport	12.8	5.4	9.2	6.5
Energy and manufacturing	7.2	5.4	6.3	3.9
Others	6.6	5.9	8.0	5.6
Total	**100.0**	**5.3**	**6.9**	**5.0**

Note: Non-public financing instruments include wealth management products issued by commercial banks, debt investment plans, collective trust plans by trust firms, special asset management plans by securities firms and credit assets backed securities by banking institutions, etc.

2. By investment purpose

By investment purpose, our in-house investment assets are mainly in three categories, namely, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets as well as loans and other investments. Of this, financial assets at fair value through profit or loss increased by 155.8% from the end of 2019, mainly because of increased allocation in unlisted equities. AFS financial assets increased by 16.5%, mainly as a result of increased investments in listed stocks and funds. HTM financial assets grew by 11.6% from the end of 2019, mainly due to increased investments in government bonds. Interests in associates grew by 37.8% from the end of 2019, mainly due to increased investments in structured entities. Loans and other investments rose by 16.8%, largely attributable to increased allocation in debt investment plans and term deposits.

(II) Group consolidated investment income

For the reporting period, net investment income totalled RMB67.159 billion, up by 9.6%. This stemmed mainly from increased interest income from fixed income investments. Net investment yield reached 4.7%, down by 0.2pt compared with that of 2019.

Total investment income amounted to RMB83.997 billion, up by 25.4%, mainly attributable to increase in gains from securities trading and interest income from fixed income investments, with total investment yield at 5.9%, up by 0.5pt. Growth rate of investments' net asset value rose by 0.2pt to 7.5%.

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Interest income from fixed income investments	59,624	54,857	8.7
Dividend income from equity investments	6,790	5,664	19.9
Rental income from investment properties	745	754	(1.2)
Net investment income	**67,159**	**61,275**	**9.6**
Realised gains	19,462	6,174	215.2
Unrealised gains	81	801	(89.9)
Charge of impairment losses on investment assets	(4,242)	(2,339)	81.4
Other income[note 1]	1,537	1,067	44.0
Total investment income	**83,997**	**66,978**	**25.4**
Net investment yield (%)[note 2]	4.7	4.9	(0.2pt)
Total investment yield (%)[note 2]	5.9	5.4	0.5pt
Growth rate of investments' net asset value (%)[notes 2,3]	7.5	7.3	0.2pt

Notes:

1. Other income includes interest income on cash and short-term time deposits and securities purchased under agreements to resell, share of profit / (loss) in equity accounted investees, and investment income through the step acquisition of a subsidiary, etc.
2. The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets as the denominator in the calculation of net / total investment yield and growth rate of investments' net asset value are computed based on the Modified Dietz method.
3. Growth rate of investments' net asset value = total investment yield + net of fair value changes of AFS booked as other comprehensive income / (loss) / average investment assets.

(III) Total investment yield on a consolidated basis

Unit: %

For 12 months ended 31 December	2020	2019	Changes
Total investment yield	**5.9**	**5.4**	**0.5pt**
Fixed income investments[note]	4.9	5.1	(0.2pt)
Equity investments[note]	10.1	6.3	3.8pt
Investment properties[note]	9.6	9.3	0.3pt
Cash, cash equivalents and others[note]	1.3	1.7	(0.4pt)

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

III. Third-party AuM

(I) CPIC AMC

In the face of COVID-19 and the ensuing economic shocks, CPIC AMC persisted in the prevention of major risks, and effectively mitigated the adverse impact of the pandemic through support of the real economy. As of the end of the reporting period, its third-party AuM amounted to RMB253.227 billion, an increase of 30.0% from the end of 2019.

In alternative investment, the company centred on needs of national strategies and the real economy, looked for opportunities of “big projects and major co-operation”. It focused on high-quality clients such as large SOEs under the central government, key SOEs under provincial governments, and key enterprises in urban economic centres, with investment in sectors of infrastructure, nuclear power, rail transit systems and high-tech parks, covering the Yangtze River Delta Region and the Greater Bay Area of Guangdong, Hong Kong and Macao. In particular, it supported the integration of the Yangtze River Delta Region and the building of the Greater Bay Area via investing in the debt investment plans of Jiangsu Communications Holding Group, China South Power Grid and China Power Construction respectively. To facilitate economic recovery and social development of areas most affected by the pandemic, it contacted, at the earliest possible time, owners of partnership projects in Hubei Province, and met their funding needs. In 2020, it registered a total of 33 alternative investment products involving an amount of RMB96.825 billion, a growth of 98.6% and maintaining industry leadership.

It launched a series of portfolio-based products with distinctive insurance asset management features, marking initial success in their branding. Under the guidelines of “market-based, product-driven and systematic development”, the company faithfully implemented new regulatory rules, and steadily translated its insurance fund investment capabilities and strategies into development of portfolio-based insurance asset management products. The company reviewed the product positioning, leveraged its differentiating strengths and issued products in multiple classes, such as “fixed income +”, liquidity management and strategic asset allocation, which were well received by its institutional clients. As of the end of the reporting period, the subsidiary reported RMB191.322 billion in third-party asset management products and AuM combined, an increase of 49.4% from the end of 2019.

(II) Changjiang Pension

Under the guidance of Transformation 2.0 objectives and vision, Changjiang Pension closely followed national strategies, enhanced CPIC Service, stayed focused on the core business of pension fund management, continued to improve core competencies in trustee service and investment research, increased incentives for people via organisational restructuring and innovation in mechanisms, made forward-looking deployment in fin-tech with digitalisation at the core, strived to formulate an integrated risk control system aligned with pension fund management, fully participated in the fight against the pandemic and pressed ahead with the transitioning towards high-quality development. As of the end of 2020, its third-party assets under trustee management amounted to RMB243.074 billion, up 63.8% from the end of 2019; third-party assets under investment management reached RMB483.060 billion, an increase of 22.2%.

It realised the goal of "nationwide presence" in pension business. In the first pillar, it maintained leadership, on a comparable basis, in AuM and investment performance of social security pension funds. As for the second pillar, the company provided service to 32 occupational annuity programmes at the central and provincial government level, with industry-leading performance for the year; it continued to deepen its presence in enterprise annuity business, and was selected as manager of a number of large enterprise annuity plans in public tendering; it maintained industry leadership in group pension business, and launched a TPA programme of retirees for payments extra to the social security system, the first of its kind in China, and a fund-based Employee Ownership Plan. These innovations supported firms in compensation management and reform of incentive systems. In the third pillar, Changjiang Pension continued to deliver solid investment performance for the tax-deferred pension schemes; in the light of regulatory trends, it pushed for transitioning of alternative business. In 2020, the company registered RMB73.1 billion in alternative insurance asset management products, and since its inception, it has cumulatively channelled RMB150 billion in direct funding to the real economy, playing its part in boosting China's economic development.

Customer operation

Since the launch of Transformation 2.0, we persisted in customer-centric business philosophy, pressed ahead with strategic transformation, and leveraged our strength as an insurer with a full range of insurance-related licenses and deployment in asset management, health and retirement business. Given the objective of delivering "integrated service to one customer via one interface", we are committed to providing comprehensive, tailor-made product & service solutions which are easy and convenient to use, so as to enhance customer experience and steadily increase customer value.

I. Individual customer operation

We implemented the customer operation strategy, strived to meet, in a "one-stop" way, diverse needs of our customers for insurance products and services, delivering caring

"CPIC Service". The width and depth of service provided to individual customers have been continuously improved in recent years. As of the end of 2020, the number of customers with sum assured (SA) exceeding RMB300,000 on critical illness (CI) products of CPIC Life reached 4.73 million, up by 17.1% from the year beginning, and the number of customers with sum assured of a million yuan and above on Third-party Liability (TPL) of automobile insurance amounted to 17.15 million, a jump of 31.9% from the year beginning.

	2020	2019	2018	2017
Number of customers with SA exceeding RMB300,000 on CI products of CPIC Life (million)	4.73	4.04	2.99	1.74
Number of customers with SA of a million yuan and above on TPL of automobile insurance of CPIC P/C (million)	17.15	13.00	9.68	6.03

We persisted in an innovation-driven mode, deepened comprehensive operation of individual customers, built a middle platform of collaborative operation for individual customers to boost the connectivity of accounts and data while ensuring customer data security, which helped us to achieve integration of products, services and tools. With profound insights into customers' diverse needs, we provided personalised product & service recommendations based on customer segmentation, with steady increase in average number of insurance policies per customer and number of customers with multiple insurance policies, pointing to enhanced customer loyalty. As of the end of 2020, Group average number of insurance policies per individual customer reached 2.09, an increase of 7.2% from the year beginning; the number of individual customers with 2 insurance policies and above amounted to 31.66 million, up by 23.3% from the year beginning.

Leveraging our strength as an insurer with a full range of insurance-related licenses, we put in place work mechanisms for collaboration across business segments and diversified the systems. We upgraded the one-stop platform for individual customer operation to provide life insurance agents with tools for sales across business lines and customer services spanning full processes, empowering integrated on-line operation of the agency force. Based on big data, we established a customer labelling system, achieving precision in customer segment selection and leads allocation. In recent years, the penetration of cross-sell of individual customers has been on steady increase. As of the end of the reporting period, the number of individual customers holding insurance policies of multiple Group subsidiaries reached 10.24 million, a growth of 22.5% versus year-beginning.

	2020	2019	2018	2017	2016
Average number of insurance policies per individual customer[note 1]	2.09	1.95	1.83	1.73	1.64
Number of individual customers holding 2 insurance policies and above[note 2] (million)	31.66	25.68	20.26	15.81	13.91
Number of individual customers holding insurance policies of multiple Group subsidiaries[note 2] (million)	10.24	8.36	5.61	3.48	2.32

Notes：

1. Based on applicants of in-force insurance policies.
2. Based on applicants of in-force insurance policies of one year or above.

We continued to deepen the model of “products + services”, accelerated product innovation and the building of a multi-tiered service system. Given the deployment in health and retirement business, our professional elderly care service under “CPIC Home” retirement communities has delivered tangible benefits in the engagement of high-end customers. In response to the surge in demand for on-line health management service in the context of COVID-19, we enhanced the infrastructure of health management system, with “CPIC Blue Passports”, a health management programme, covering nearly 13 million customers, and “Tele-doctors” 2 million customers. We continuously diversified the system of services for automobile insurance customers to support life insurance agents in providing full life-cycle service to them, involving 2.05 million service deliveries in 2020.

We value feedbacks from customers, and strived to promote innovation and efficiency in customer services to enhance customer experience. We introduced the Net Promotional Score (NPS), a leading tool for customer experience evaluation in the world, established step-by-step a closed-loop management system for customer experience, which helped us gain insights into the pain spots and take effective measures to enhance service quality. We built a digital platform for the monitoring of NPS, which enabled us to closely track customer feedbacks post key business journey interactions. In 2020, we received 1.47 million feedbacks from customers, which were instrumental in improvement of operational management and products & services.

Based on insights into customer experience, we focused on enhancing service capabilities and efficiency to improve convenience in service requests, speed in service responses and transparency in service processes. CPIC P/C used “CPIC AI”, a smart tool for loss-adjustment, which realised evaluation of losses within seconds, and graded claims payment, with the turnaround for payment as short as less than 2 minutes for small claims cases of automobile insurance. CPIC Life focused on R&D and roll-out of smart processes covering insurance application, claims management and post-sale customer services, achieved complete on-line process for insurance application and a much expedited claims turnaround on medical insurance due to direct connection of data, with average turnaround of 2.6 hours.

II. Group customer operation

To achieve the goal of "One Company, One-stop Service", we vigorously pushed forward collaboration within the Group, promoted sharing of group customers and centralised use of products, services and expertise, deepened organisational support, enhanced management innovation and system operation, so as to build capabilities in the provision of comprehensive solutions catering for needs of group customers. We introduced differentiated management of strategic accounts and key accounts. For the former, the Group co-ordinates business development by subsidiaries; as for the latter, we promote collaborative business development across subsidiaries based on market-oriented mechanisms.

At the Group level, we set up the cluster of key accounts, including central ministries and commissions, provincial/municipal governments, enterprises under the administration of central government, SOEs, major state-owned banks, joint-stock banks, securities firms, urban commercial banks, firms listed among China's Top 500, industry leading companies, and local champions. As of the end of 2020, we signed agreements with 103 partners for strategic cooperation, up by 33.8% from the end of 2019; entered into strategic partnership with 75% of provinces/municipalities (provinces, autonomous regions, municipalities under the central government, cities with vice-provincial status), an increase of 11.2pt from the end of 2019.

On the back of solid performance in group customer operation, we have consolidated our strengths in traditional business lines such as agricultural insurance, government-sponsored critical illness insurance, long-term care insurance, occupational annuity, while delivering continued progress in emerging business such as inherent defect insurance (IDI) and green insurance. At the same time, we continuously explored the path to deliver insurance solutions to employees and their families via our corporate/government clients. Given the surge in demand for health protection post the pandemic, we combined insurance with services, customised health tips for key accounts, and tailor-made health management services for strategic accounts.

ESG

I. ESG philosophies and management

(I) ESG philosophies

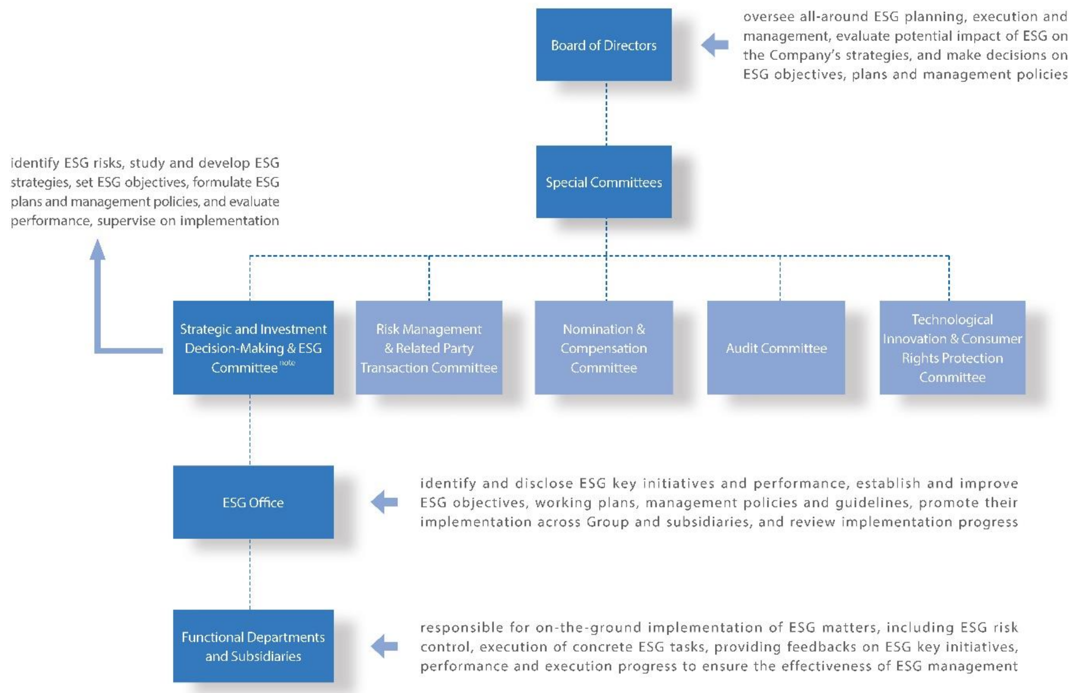
In recent years, climate change has become more severe, highlighting the urgency of low carbon and reduction in emissions. COVID-19 raised global attention on public health care. The Chinese government has put forward the target of achieving the peak carbon emissions by 2030, and carbon neutrality by 2060. China's 14^{th} 5-year Development Programme expressly calls for adherence to New Development Philosophies, building a New Development Pattern and a substantial shift of the mode of development. In such context, ESG philosophies, which integrate environment, society and governance, have become increasingly important.

Our vision is to be "the best in customer experience, business quality and risk control capabilities, achieving industry leadership in healthy and steady development". We adhere to high-quality development, focus on insurance, and persist in "value, long-term and prudent investing", all of which are in line with ESG philosophies. We are committed to creating value for customers, employees, shareholders, society, business partners and environment, translating social responsibility into drivers of sustainable development.

We practice energy-saving and emission reduction, enhance disaster mitigation and loss reduction, support green transitioning through sustainable insurance, responsible investment and green operation. We support national initiatives and the real economy, focus on the fight against COVID-19 and poverty, promote social benefits and protection of customer and employee rights and interests. We optimise the corporate governance system, push for risk management integration and improve anti-corruption rules & procedures.

(II) ESG governance

We incorporated ESG philosophies into business management, set up ESG top-level design and governance structure based on needs of business development. With the Board as the top decision-making body, we push for the integration of ESG philosophies into day-to-day business operation by functional departments and subsidiaries, to ensure the effectiveness of ESG management.



Note: On 26 March 2021, the 9th session of 9th board of directors agreed to change the name of Strategic and Investment Decision-Making Committee to Strategic and Investment Decision-Making & ESG Committee and revised its working rules accordingly.

II. Alignment with the United Nations Sustainable Development Goals (SDGs)

In September 2015, the United Nations passed the 2030 Sustainable Development Agenda, floating 17 sustainable development goals. To facilitate their implementation in China, the Chinese government issued Country-specific Programme for Implementing 2030 Sustainable Development Agenda of China in September 2016.

In 2020, we aligned business operation and related projects of the Company with SDGs by priority, and clearly defined the connection between our business operation and sustainable development, which points to direction of our ESG effort going forward.

SDGs	Our actions
1 NO POVERTY	Centred on insurance and deepened insurance-based long-term mechanisms for poverty reduction with CPIC characteristics, focusing on officially-designated poverty-stricken regions, extremely impoverished areas, and “pair-up” regions with Shanghai and the Company. Fully leveraged our strengths in talent, expertise and resources, utilised insurance to cope with poverty, focused on lifting people out of poverty and preventing poverty, fulfilling our social responsibility.
2 ZERO HUNGER	Developed multiple innovative agricultural insurance products combining insurance and futures, covering against catastrophes, offering price, income and quality protection. Upgraded the e-Agricultural System to boost agricultural production through risk protection.
3 GOOD HEALTH AND WELL-BEING	Continuously optimised the health care and retirement security system, served the 3 pillars of pension system, strived to improve elderly care and build an service system of “insurance + retirement + health”; committed to creating a healthy and safe work-place via diverse cultural events and training; provided sound financial support to companies, helping them combat the pandemic and resume business, doing our share in the national initiative of ensuring “stability in 6 areas and protection in 6 priorities”.
4 QUALITY EDUCATION	Long-term commitment to education of children, and donated to total over 60 primary schools across China; organised volunteers to teach in rural areas on a regular basis, and improved conditions of schools in impoverished regions; actively promoted co-operation with firms and the academia, deeply involved in education and training of specialists in finance and insurance.
7 AFFORDABLE AND CLEAN ENERGY	Long-term commitment in energy mix optimisation, contributing to an environmentally-friendly society via underwriting and investment in clean energy industries, with development of innovative products for clean energy.
8 DECENT WORK AND ECONOMIC GROWTH	Strictly abided by national laws & regulations, continued to improve welfare benefits, occupational training and career advancement paths on the basis of protecting employee rights and interests, to ensure inclusive development of the Company; promoted the stability and sustainable development of agents by means of technological empowerment, improvement in training and benefits; expanded campus recruitment to create jobs, focusing on impoverished areas in particular.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Pursued innovation in products and services in industries of aerospace & astronautics, ship-building, new materials and life sciences to facilitate domestic industry upgrading; developed customised products to mitigate financing difficulties of SMEs.
11 SUSTAINABLE CITIES AND COMMUNITIES	Keeping tabs on social and economic development needs and upholding central insurance value proposition, we expanded the scope of products and services in life/health insurance, P/C insurance and insurance asset management in a bid to contribute to a better life of the Chinese people and sustained urbanisation.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Actively employed new technologies and developed on-line products and services, optimised processes and improved transparency of processes in sales, application, and claims handling, providing strong support to agents .
13 CLIMATE ACTION	Innovated multiple weather index insurance, catastrophe insurance products to mitigate risks in climate-vulnerable areas; intensified effort in green financing, and offered risk solutions to investment & financing and operation of environment protection, energy saving and clean energy projects; advocated green buildings and paperless work-place, donated for afforestation to reduce carbon footprints and conserve nature.
15 LIFE ON LAND	Developed public liability insurance against losses caused by wildlife, and forest insurance, which promoted bio-diversity while lowering social risks.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Committed to eliminating all forms of corruption and bribery, and establishing an effective, responsible and transparent governance system. Give back to stakeholders with a strong sense of responsibility, while ensuring sustainable value growth of the Company.
17 PARTNERSHIPS FOR THE GOALS	Actively participated in strategic partnerships with governments and companies, supported national strategies, real economy and promoted people's well-being; deeply involved in industry dialogues and exchanges, ready to share our own experience and strive for industry leadership in healthy and steady development.

III. ESG practice

Sustainable insurance products

We increased research into and investment in climate change and catastrophe risk mitigation, and developed a "Risk Radar" accessible to meteorological centres and earthquake bureaus. Rolled out weather index insurance programmes in 24 provinces/municipalities, offering cover against losses caused by climate change worth over RMB1.46 billion in SA to 53,000 rural households. As of the end of 2020, we cumulatively provided environmental liability insurance to over 4,360 firms in China, with SA exceeding RMB7.9 billion. We underwrote China's first environmental liability insurance for public areas, and business of many large firms in the power-generation sector such as China Nuclear Group and the National Energy Group, cumulatively providing SA of RMB938.3 billion for renewable energy.

Responsible investment

We innovated mode of responsible investment with insurance characteristics, and focused on projects in environmental protection, renewable energy, energy conservation, resettlement of shanty town, and new infrastructure, so as to provide funding to economic and social transitioning. We directly invested in green projects via debt investment plans, equity investment plans, asset-backed plans and industry funds. Besides, we made indirect investments, especially via green bonds, to support development of green finance. As of the end of 2020, we invested RMB39.751 billion in renewable energy, RMB13.7 billion in water conservation and RMB864 million in environment protection.

Green operation

At the end of May 2020, our employees donated for afforestation of Sanjiangyuan, or origin of the Yangtze River, the Yellow River and Lancang River, planting 50,000 saplings covering about 67 hectares, which are projected to absorb 15,000 tons of CO_2 in the next 30 years. In compliance with The Work Plan for GHG Emission Control during the 13th 5-year Development Period issued by the State Council, we advocated green travelling, improved efficiency in working and company vehicle use, and promoted green buildings in Luojing and Chengdu Data Centres to reduce carbon footprints, with targets and measures in discharge intensity, waste disposal sorting ratio, energy efficiency and water intensity.

Combating COVID-19

In 2020, in the face of COVID-19, we leveraged our strengths in risk protection and rolled out special programmes to support the fight against the pandemic in 35 most affected provinces and municipalities, offering over RMB2.8 billion in SA to more than 12,000 companies, while putting in place mechanisms for regular services.

- Launched guarantee insurance for financing against pledge of collateral to support micro, small and medium sized firms in their effort to resume business, involving SA of nearly RMB4 billion. Provided discounted or free insurance for 100,000 micro, small and medium sized firms in 11 regions, also extended the duration and reduced renewal premiums for certain firms. The Company cumulatively invested in RMB1.64 billion of anti-pandemic bonds.

- Innovated comprehensive insurance solutions to mitigate disruption to supply chain of farm produce and launched price insurance for eggs, vegetables and milk, as well as income insurance for wheat. Issued more than 0.33 million insurance policies in food safety insurance covering food production, food processing, food circulation and restaurants, involving over RMB430 billion in SA.
- Donated specific insurance against COVID-19 to those fighting the pandemic at the frontline, involving nearly 10 million public health and medical professionals, police and people ensuring supply of basic necessities, with SA totally RMB1.2 trillion.

Supporting national initiatives

We leveraged our expertise in risk management, financial compensation, social administration and financing to boost China's opening up, promote regional development, support rural revitalisation, and contribute to a new economic development pattern. Provided one-stop comprehensive risk solutions spanning P/C, life and health insurance and integrated risk management to the 3rd CIIE, with SA totalling RMB884.8 billion. Since 2017, we have offered cumulatively more than RMB800 billion in SA in over 100 countries for the Belt & Road Initiative. To boost the integration of the Yangtze River Delta Region, we signed green insurance strategic cooperation agreements with local governments, set up green funds for environmental protection, so as to facilitate transitioning towards green industries. We innovated critical illness and medical insurance products customised for the Greater Bay Area. To support the Rural Revitalisation Initiative, we developed 732 agricultural insurance products, and in total over 3,000 insurance products, with innovations of income insurance, "insurance + futures" and "agricultural insurance +", providing RMB468.6 billion in SA to 30.04 million rural households.

Social medical insurance

We were involved in the building of China's social medical insurance system to improve public health. We conducted social medical insurance TPA, government-sponsored critical illness insurance, supplementary medical insurance and long-term care insurance, involving a total of 225 local governments in 277 programmes, covering 125 million people. To be specific, we conducted government-sponsored critical illness programmes in 54 prefectures/municipalities of 15 provinces, covering 92 million people, with cumulative pay-out totalling RMB15.9 billion via 14.27 million claims cases. In the face of population ageing, we have cumulatively conducted 59 TPA programmes since 2016, covering 38 prefectures/municipalities of 19 provinces; long-term care insurance served over 35 million people, involving more than 1 million claims cases. Besides, we also carried out the Huiminbao, or affordable supplementary medical insurance.

Poverty alleviation

The Company deepened insurance-based poverty alleviation mechanisms with CPIC characteristics to better contribute to the country's poverty alleviation campaign. It paired up with 2 rural townships and 3 rural villages in the Inner Mongolia Autonomous Region and Yunnan Province and succeeded in lifting them out of poverty 9 months ahead of plan. As of the end of 2020, its poverty alleviation programmes covered about 7.62 million registered impoverished households nationwide and provided a total of RMB 3.08 trillion in sum assured to poverty-stricken areas.

Donations

We donated to a total of 110 projects on poverty elimination, fight against COVID-19 and education. We were a sponsor of the "Magnolia Foundation" in Hong Kong, donating RMB40.72 million in total. We launched "CPIC Blue Foundation" in Shanghai, a charitable foundation devoted to elderly people with cognitive impairment. We donated a total of 64 primary schools across China, with employees volunteering for on-site teaching for 13 years on end. We currently boast over 7,000 volunteers, with total length of service of 45,000 hours.

Consumer rights protection

We are committed to consumer rights protection, and have established, as per laws and regulations such as The Law of Consumer Rights Protection, a Work Commission on Consumer Rights Protection to co-ordinate effort in the area. Our life and P/C companies have issued Provisions on Handling of Insurance Consumer Complaints respectively in 2020, explicitly defining the procedures, division of responsibilities and deadlines for the handling of consumer complaints. We drafted rules on intellectual property rights (IPR) protection, covering the acquisition, application, protection and management of IPRs, and have been granted 17 patents in software copyright.

Corporate governance

As per relevant laws and regulations such as The Company Law of the PRC, The Securities Law of the PRC and The Insurance Law of the PRC, we put in place a governance system consisting of the SGM, the board of directors, the board of supervisors and senior management, with co-operation, co-ordination and checks and balances between the top authority, the decision-making body, the body responsible for oversight and that of execution. We have formed a relatively sound governance structure through deepening of Group centralised management framework, optimised in-house resources allocation and enhanced communications with the capital market.

Employee rights and development

- Labour standards. We set out explicit rules on age, professional competence, compensation & dismissal, recruitment & promotion, working hours, leave, equal opportunities, diversity and anti-discrimination requirements in our labour standards. We provide more job opportunities and support local employment. There is no child labour in the Company. We do not encourage voluntary extension of working hours and there is no forced labour. We strictly abide by The Labour Law of the PRC, and do not discriminate against candidates due to their gender, ethnic groups, marital status, religion. We are committed to providing equal career development opportunities. The Administration Department and Legal & Compliance Department are responsible for management of whistle-blowing or lodging of complaints by employees. We formulated regulations on compensation, ensuring that the monthly salary paid is not lower than national or local statutory minimum requirements.

- Employee benefits. We are committed to creating a safe work-place, free from occupational hazards for our employees. We made proper policies for the protection of female employees. We organised physical exercises, health lectures, first-aid training, fire drills and psychological counselling for employees to foster a healthy and comfortable work environment. In 2020, there was no major work-place accidents.

- Employee development. We established a comprehensive employee training system, with a series of policies, rules and guidelines for career development. We launched an on-line corporate university, providing shared services in training, accreditation of qualifications and innovative empowerment.

Anti-corruption

We formulated Provisional Regulations on Anti-fraud Work, Management Rules on Money Laundering, and Provisional Regulations on Conflict of Interest between Related People, in a bid to prevent and combat misconduct or illegal behaviours such as bribery, blackmailing, frauds and money laundering. Drafted Policies on Irregular Whistle-blowing, Disciplinary Rules on Misconduct of Employees and Provisions on Accountability in Misconduct & Breaches of Laws and Regulations, which allowed for whistle-blowing via letters, e-mail or telephone calls on corruption and frauds. We continued to conduct training in anti-money laundering and anti-corruption, with enrollments for anti-embezzlement training reaching 12,691 people, and total length of the training amounting to 9,514.6 hours.

Supply-chain management

We formulated Policies on Centralised Purchases, Rules on Management of Suppliers, Provisional Implementation Rules on Management of Suppliers, stepped up co-ordination with suppliers, and enhanced their ESG capability. We continued to improve the full life-cycle management of the supply chain, strengthened the identification and control of environmental and social risks, gave priority to suppliers with sound ESG performance. We convene annual meetings of suppliers, advocating ESG policies. In 2020, we did not terminate co-operation with any suppliers due to major adverse impact on economy, society, and environment.

Analysis of specific items

I. Key consolidated results

Unit: RMB million

	31 December 2020/Year 2020	31 December 2019/Year 2019	Changes (%)	Main reasons
Total assets	1,771,004	1,528,333	15.9	Business expansion
Total liabilities	1,550,169	1,345,013	15.3	Business expansion
Total equity	220,835	183,320	20.5	Profit for the period, fair value change on AFS financial assets and issuance of GDR
Net profit attributable to shareholders of the parent	24,584	27,741	(11.4)	Increase in investment income and change of tax policy

II. Liquidity analysis

(I) Cash flow statement

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
Net cash flows from operating activities	108,063	111,795	(3.3)
Net cash flows used in investing activities	(136,068)	(96,855)	40.5
Net cash flows from/(used in) financing activities	21,448	(10,544)	(303.4)

(II) Gearing ratio

	31 December 2020	31 December 2019	Changes
Gearing ratio (%)	87.8	88.3	(0.5pt)

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

(III) Liquidity analysis

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

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

We normally record net cash inflows from our operating activities due to growing premium income. Meanwhile, adhering to ALM, and in line with our SAA, we would maintain an appropriate level of allocation in highly liquid assets to meet liquidity requirement.

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

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

III. Items concerning fair value accounting

Unit: RMB million

	31 December 2020	31 December 2019	Changes	Impact of fair value changes on profits[note]
Financial assets at fair value through profit or loss	12,473	4,931	7,542	(59)
Available-for-sale financial assets	596,158	511,822	84,336	(3,925)
Derivative financial assets	140	-	140	140
Total	**608,771**	**516,753**	**92,018**	**(3,844)**

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

IV. Solvency

We calculate and disclose our core capital, actual capital, minimum required capital and solvency margin ratio in accordance with requirements by CBIRC. The solvency margin ratio of domestic insurance companies in the People's Republic of China (PRC) shall meet certain prescribed levels as stipulated by CBIRC.

Unit: RMB million

	31 December 2020	31 December 2019	Reasons for change
CPIC Group			
Core capital	500,766	453,838	Profit for the period, capital raising, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	510,766	463,838	Profit for the period, capital raising, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	177,288	157,481	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	282	288	
Comprehensive solvency margin ratio (%)	288	295	
CPIC Life			
Core capital	377,203	357,883	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	377,203	357,883	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	155,860	139,354	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	242	257	
Comprehensive solvency margin ratio (%)	242	257	
CPIC P/C			
Core capital	44,208	38,900	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	54,208	48,900	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets

Minimum required capital	19,672	16,713	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	225	233	
Comprehensive solvency margin ratio (%)	276	293	
CPIC Health			
Core capital	1,294	1,084	Profit for the period and change of fair value of investment assets
Actual capital	1,294	1,084	Profit for the period and change of fair value of investment assets
Minimum required capital	949	702	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	136	155	
Comprehensive solvency margin ratio (%)	136	155	
CPIC Anxin Agricultural			
Core capital	1,821	1,684	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Actual capital	1,821	1,684	Profit for the period, profit distribution to shareholders, and change of fair value of investment assets
Minimum required capital	614	557	Growth of insurance business and changes to asset allocation
Core solvency margin ratio (%)	297	303	
Comprehensive solvency margin ratio (%)	297	303	

Please refer to the summaries of solvency reports published on the websites of SSE (www.sse.com.cn), SEHK (www.hkexnews.hk), LSE (www.londonstockexchange.com) and the Company (www.cpic.com.cn) for more information about the solvency of CPIC Group and its main insurance subsidiaries.

V. Sensitivity analysis

Sensitivity analysis of price risk

The following table shows the sensitivity analysis of price risk, i.e. the pre-tax impact[note 1] of fair value changes of all equity assets[note 2] in the case of a 10% change in stock prices as at the end of the reporting period on the profit before tax and shareholders' equity (assuming the fair value of equity assets[note 2] moves in proportion to stock prices), other variables being equal.

Unit: RMB million

	2020 / 31 December 2020	
Market value	**Impact on profit before tax**	**Impact on equity**
+10%	18	10,416
-10%	(18)	(10,416)

Notes:

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

VI. Insurance contract liabilities

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

As at 31 December 2020, insurance contract liabilities of CPIC Life amounted to RMB1,118.370 billion, representing an increase of 15.0% from the end of 2019. Those of CPIC P/C amounted to RMB104.478 billion, an increase of 11.5%. The rise was mainly caused by business expansion and accumulation of insurance liabilities.

We also test the adequacy of reserves at the balance sheet date. If the testing shows that reserves set aside for each type of insurance contracts are sufficient, there is no need for additional provisions; if not, then additional reserves are required.

Unit: RMB million

	31 December 2020	31 December 2019	Changes (%)
CPIC Life			
Unearned premium reserves	4,100	4,500	(8.9)
Claim reserves	5,287	4,472	18.2
Long-term life insurance contract liabilities	1,108,983	963,540	15.1
CPIC P/C			
Unearned premium reserves	63,706	56,643	12.5
Claim reserves	40,772	37,026	10.1

VII. Investment contract liabilities

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

Unit: RMB million

	31 December 2019	Increase for the period			Decrease for the period		31 December 2020
		Deposits received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	75,506	14,994	3,344	1,694	(8,220)	(262)	87,056

VIII. Reinsurance business

In 2020, premiums ceded to reinsurers are shown below:

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
CPIC Life	**8,643**	**7,771**	**11.2**
Traditional	3,481	3,694	(5.8)
Long-term health	2,583	2,832	(8.8)

Participating	332	441	(24.7)
Universal	59	62	(4.8)
Tax-deferred pension	-	-	/
Short-term accident and health	4,771	3,574	33.5
CPIC P/C	**20,244**	**17,228**	**17.5**
Automobile	6,315	6,249	1.1
Non-automobile	13,929	10,979	26.9

In 2020, premiums from reinsurance assumed are set out below:

Unit: RMB million

For 12 months ended 31 December	2020	2019	Changes (%)
CPIC Life	**3,493**	**150**	**2,228.7**
Traditional	3,493	150	2,228.7
Long-term health	1	-	/
Participating	-	-	/
Universal	-	-	/
Tax-deferred pension	-	-	/
Short-term accident and health	-	-	/
CPIC P/C	**1,017**	**747**	**36.1**
Automobile	-	-	/
Non-automobile	1,017	747	36.1

As at the end of 2020, assets under reinsurance are set out below:

Unit: RMB million

	31 December 2020	31 December 2019	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	1,206	1,067	13.0
Claim reserves	379	246	54.1
Long-term life insurance contract liabilities	12,938	12,340	4.8
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	7,692	6,283	22.4
Claim reserves	6,853	6,117	12.0

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

IX. Main subsidiaries & associates and equity participation

As of the end of 2020, the Company's main subsidiaries, associates and equity participation are set out as below:

Unit: RMB million

Company	Main business scope	Registered capital	Group shareholding[note 2]	Total assets	Net assets	Net profit
China Pacific Property Insurance Co., Ltd.	Property indemnity insurance; liability insurance; credit and guarantee insurance; short-term health and accident insurance; reinsurance of the above said insurance; insurance funds investment as approved by relevant laws and regulations; other business as approved by CBIRC.	19,470	98.5%	184,066	45,346	5,209
China Pacific Life Insurance Co., Ltd.	Personal lines insurance including life insurance, health insurance, accident insurance, etc. denominated in RMB or foreign currencies; reinsurance of the above said insurance; statutory life/health insurance; agency and business relationships with domestic and overseas insurers and organisations,	8,420	98.3%	1,484,364	93,747	18,642

	loss adjustment, claims and other business entrusted from overseas insurance organisations; insurance funds investment as prescribed by Insurance Law of the PRC and relevant laws and regulations; international insurance activities as approved; other business as approved by CBIRC.					
Changjiang Pension Insurance Co., Ltd.	Group pension and annuity business; individual pension and annuity business; short-term health insurance; accident insurance; reinsurance of the aforementioned business; outsourced money management business denominated in RMB or foreign currencies for the purpose of elderly provisions; pension insurance asset management business; advisory business pertaining to asset management; insurance fund management as allowed by the PRC laws and regulations; other business as approved by CBIRC.	3,000	61.1%	5,559	3,856	620
Pacific Asset Management	Asset management of capital and	2,100	99.7%	4,393	3,631	489

Co., Ltd.	insurance funds; outsourcing of fund management; advisory services relating to asset management; other asset management business as allowed by the PRC laws and regulations.					
Pacific Health Insurance Co., Ltd.	Health and accident insurance denominated in RMB yuan or foreign currencies; health insurance sponsored by the government or supplementary to state medical insurance policies; reinsurance of the above said insurance; health insurance-related advisory and agency business; insurance funds investment as approved by relevant laws and regulations; other business as approved by CBIRC.	1,700	77.1%	9,384	1,410	116
China Pacific Anxin Agricultural Insurance Co., Ltd.	Agricultural insurance; property indemnity insurance; liability insurance; statutory liability insurance; credit and guarantee insurance; short-term health insurance and accident insurance; property insurance relating to rural areas and farmers; reinsurance of the above said insurance;	700	51.3%	4,040	1,679	151

	insurance agency business.					
CPIC Fund Management Co., Ltd.	Fund management business; the launch of mutual funds and other business as approved by competent authorities of the PRC.	150	50.8%	732	568	69

Notes:

1. Figures for companies in the table are on an unconsolidated basis. For other information pertaining to the Company's main subsidiaries, associates or invested entities, please refer to "Review and analysis of operating results" of this report, and "Scope of consolidation", "Interests in associates" and "Investment in joint ventures" in notes to the financial statements.
2. Figures for Group shareholding include direct and indirect shareholdings.

X. Top five customers

During the reporting period, the top 5 customers accounted for approximately 0.6% of the Company's GWPs. To the knowledge of the Company, Directors, Supervisors and their respective close associates, shareholders owning more than 5% of the number of issued shares of the Company have no interest in any of the top five customers.

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

XI. Environmental policies, employee engagement and customer relations

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

In 2020, the Company persisted in customer orientation and valued and maintained good customer relations.

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

The Company's assets are mainly financial assets. The repurchase of bonds forms part of the Company's day-to-day securities investment activities, and as of the end of the reporting period, no abnormality was detected.

Outlook

I. Market environment and business plan

There are great uncertainties in the pandemic situation and market environment. The 5th Plenary Session of the 19th Party Congress made a major decision to establish a new development pattern of "mutual reinforcement of domestic and international cycles with the former at the core", ushering in the era of high-quality development, defined by higher efficiency, better quality and improved equity. In the long-term, economic development, rising per capita income, demographic shifts, change of government roles and innovation in public administration will continue to drive sustainable development of China's insurance industry. The COVID-19 pandemic further raised public awareness of and stimulated demand for insurance and health care service. Overall, China remains one of the most dynamic and fastest-growing insurance markets of the world.

Going forward, with a vision of "achieving leadership in healthy and steady development of the insurance industry", and the targets of "being the best in customer experience, business quality and risk control capabilities", the Company will focus on the long-term, continue to deepen transformation, promote the establishment of long-term incentive systems, marketisation of technology, platform development of health-related business, specialisation of investment management and modernisation of corporate governance, so as to foster core competitiveness for the future. It will step up deployment in key sectors such as health business, regional integration initiatives and big data to boost new development drivers. Meanwhile, it will promote the branding of "CPIC Service", vigorously serve national strategies, support the real economy, improve the welfare of the Chinese people, ensure the prevention of major risks, and achieve more success in high-quality development.

II. Major risks and mitigating measures

Firstly, in terms of macroeconomic environment, uncertainties are still rising. The global spread of COVID-19 and complicated international economic and political landscape will pose new challenges. Global trade and investment contracted considerably, disrupting world economic recovery. At the same time, the pandemic has a profound impact on China's economy. Resumption of business and work will run in tandem with the control and prevention of the pandemic, forming a new normal. Rising credit defaults, the pressure on long-term risk-free interest rates and deterioration of liquidity risk may materially impact insurance and asset management business.

Secondly, in terms of industry development, China's insurance market is also slowing down, complicated by a shift of the development model, and accumulation of risks over the years which have begun to surface. The regulator will continue to intensify its efforts to mitigate risks, tackle irregularities and tighten the overall regulation. Amendments to critical illness morbidity and administrative rules on health insurance, the launch of comprehensive reform of automobile insurance, issuance of new regulations on Internet insurance will compel the industry to enhance capacity-building and professionalism. The COVID-19 pandemic will stimulate digital transformation of the industry, reshape its business model as new technologies are increasingly important drivers of development. Domestic insurance players will face more intense competitions as a result of increased opening-up of the industry.

Thirdly, in respect of its business operation, the Company is facing a relatively high catastrophe risk and risk of large claims arising from extreme weather, natural disasters and artificial accidents, with emerging risks starting to have potential impact on the stability of its business performance. Its GDR issuance and the execution of internationalisation strategy will require even higher standards of compliance and professionalism in corporate governance and investment capabilities.

To cope with these risks, we will persist in compliance in business operation, stay focused on the core business of insurance and press ahead with transformation & innovation. In particular, we will step up analysis of macroeconomic trends, early-warning and mitigation of key risks, enhance customer insights and risk selection through technology empowerment, accelerate innovation in products and services, and continuously optimise resource-allocation; improve ALM and counter-party credit risk management in an all-around way, strengthen investment research capabilities and the matching of assets and liabilities; continuously optimise mechanisms for risk identification, assessment, early warning and mitigation, as well as programmes of cumulative risk exposure control and reinsurance so as to forestall major risks and ensure stable business operation and healthy solvency levels.

Change in accounting estimates

When measuring the insurance contract liabilities, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expenses assumptions and policy dividend assumptions based on information currently available as at the balance sheet date.

As at 31 December 2020, the Group used information currently available to determine the above assumptions. Mainly due to change of the benchmark yield curve of discount rate for life and long-term health insurance reserves, life and long-term health insurance reserves after reinsurance increased by approximately RMB 11.733 billion as at 31 December 2020 and profit before tax decreased by approximately RMB 11.733 billion for 2020.

Embedded value

Summary of Embedded Value and Value of One Year's Sales

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2020, and the value of one year's sales of CPIC Life in the 12 months to 31 December 2020 at a risk discount rate of 11%.

Unit: RMB million

Valuation Date	31 December 2020	31 December 2019
Group Adjusted Net Worth	**257,378**	**208,402**
Adjusted Net Worth of CPIC Life	135,898	114,677
Value of In Force Business of CPIC Life Before Cost of Required Capital Held	217,617	203,392
Cost of Required Capital Held for CPIC Life	(12,167)	(12,548)
Value of In Force Business of CPIC Life After Cost of Required Capital Held	205,451	190,844
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Required Capital Held attributable to the shareholders of CPIC Group	**201,942**	**187,585**
Group Embedded Value	**459,320**	**395,987**
CPIC Life Embedded Value	341,348	305,521

Valuation Date	31 December 2020	31 December 2019
Value of One Year's Sales of CPIC Life Before Cost of Required Capital Held	20,058	28,533
Cost of Required Capital Held	(2,217)	(3,936)
Value of One Year's Sales of CPIC Life After Cost of Required Capital Held	**17,841**	**24,597**

Notes:

1. Figures may not be additive due to rounding.
2. Results in column "31 December 2019" are those reported in the 2019 annual report.

The Group Adjusted Net Worth represents the shareholder net equity of the Company based on the China Accounting Standards, inclusive of adjustments of the value of certain assets to market value and adjusted for the relevant differences, such as difference between China Accounting Standards reserves and policy liabilities valued under "Appraisal of Embedded Value" standard published by the CAA. It should be noted that the Group Adjusted Net Worth incorporates the shareholder net equity of the Company as a whole (including CPIC Life and other operations of the Company), and the value of in force business and the value of one year's sales are of CPIC Life only. The Group Embedded Value also does not include the value of in force business that is attributable to minority shareholders of CPIC Life.

New Business Volumes and Value of One Year's Sales

The table below shows the volume of new business sold in terms of first year annual premium and value of one year's sales of CPIC Life after cost of required capital held at a risk discount rate of 11% for year 2020.

Unit: RMB million

	First Year Annual Premium (FYAP)		Value of One Year's Sales After Cost of Required Capital Held	
	2020	**2019**	**2020**	**2019**
Total	**45,903**	**56,773**	**17,841**	**24,597**
Of which: Traditional	19,112	26,620	15,242	20,741
Participating	7,079	9,205	1,756	2,228

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2019 to 31 December 2020.

Unit: RMB million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2019**	**305,521**	
2	Expected Return on Embedded Value	27,753	Expected returns on the 2019 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2020
3	Value of One Year's Sales	17,841	Value of one year's sales in respect of new business written in the 12 months prior to 31 December 2020
4	Investment Experience Variance	6,530	Reflects the difference between actual and assumed investment return in 2020

5	Operating Experience Variance	(679)	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(881)	Reflects assumption and methodology changes, together with model enhancements
7	Diversification effects	2,536	Changes in diversification benefits on cost of required capital from new business and different business mix
8	Change in market value adjustment	(245)	Reflects the change in value of certain assets not valued on a market value basis
9	Shareholder Dividends	(16,840)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	(186)	
11	**Embedded Value of the life business at 31 December 2020**	**341,348**	
12	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2019**	**99,138**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	39,713	
14	Shareholder dividends	(10,874)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	(157)	Reflects the change in value of assets not valued on a market value basis
16	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2020**	**127,820**	
17	Minority interests relating to equity and market value adjustments	(9,848)	Minority interests on Embedded Value as at 31 December 2020
18	**Group Embedded Value as at 31 December 2020**	**459,320**	
19	**Embedded Value as at 31 December 2020 per share (RMB)**	**47.74**	

Note: Figures may not be additive due to rounding.

Compliance of the Corporate Governance Code

During the reporting period, save as disclosed below, the Company has complied with all the code provisions and substantially all of the recommended best practices of the Corporate Governance Code, as well as the latest revisions of the Corporate Governance Code including but not limited to improving the transparency and accountability of the Board and board member election, and advocating the diversity of board members.

In 2019, after the former president Mr. HE Qing resigned, a resolution in relation to the appointment of Mr. FU Fan as the president of the Company has been considered and approved at the 22nd session of the 8th Board, and his appointment qualification has been approved by CBIRC in March 2020. The Board has designated Mr. KONG Qingwei, Chairman of the Board, as the temporary person-in-charge to act on behalf of the president prior to the tenure of office of Mr. FU Fan. According to the Code Provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. After considering the principles under Code Provision A.2.1 of the Corporate Governance Code and examining the Company's situation that the appointment qualification of the president shall be approved by the CBIRC, the Board is of the view that such temporary arrangement is able to provide the Company with effective management and, at the same time, protect the shareholders' rights to the greatest extent. Since March 2020, Mr. KONG Qingwei serves as Chairman of the Board, and Mr. FU Fan serves as President of the Company. The Chairman is responsible for presiding over the general meeting of shareholders and the board of directors and performing other duties as delegated by the board of directors, while the President is responsible to the board of directors, and preside over the management of the company. The division of responsibilities between the Chairman and President of the Company is stated in the Articles of Association.

Completion of the issuance and listing of GDRs

Upon the approval of CBIRC, domestic and foreign securities regulators and stock exchanges, the GDRs issued by the Company were listed on the LSE on 22 June 2020 (London time) (Stock Name: China Pacific Insurance (Group) Co., Ltd.; Trading Symbol: CPIC). Newly issued PRC domestic A shares of the Company are used as the underlying securities of the GDRs, with each GDR representing 5 A shares of the Company. After the listing of the A shares issued upon the exercise of over-allotment option on the SSE on 9 July 2020 (Beijing time), 111,668,291 GDRs were issued by the Company in total, and the total share capital of the Company changed to 9,620,341,455 shares. The issue price was USD17.60 per GDR, and the gross proceeds raised from the issuance of GDRs were USD1,965.4 million.

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

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

Proposed final dividend

On 26 March 2021, the Board recommended annual cash dividend of RMB1.2 per share (tax included) and 30th Anniversary Special Dividend of RMB0.1 per share (tax included), amounting to approximately RMB12,506,443,891.50 yuan in aggregate. The proposed profit distribution is subject to the approval of shareholders at the 2020 annual general meeting of the Company ("AGM"). If approved, it is expected that the payment of the final dividend will be made on or about Wednesday, 30 June 2021 to the shareholders.

Withholding of dividend income tax

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (PRC) and its implementation rules enacted in 2008, the Company is required to withhold and pay 10% of corporate income tax when it distributes the final dividend to H Share shareholders eligible for the proposed final dividend.

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC and its implementation rules and confirmed by the relevant tax authorities in the PRC after consulting with them by the Company, the Company will withhold and pay individual income tax at the tax rate of 10% when it distributes the final dividend to H Share shareholders eligible for the proposed final dividend. However, if it is otherwise stated in the tax regulations and relevant tax treaties, the Company will withhold and pay individual income tax in accordance with the required tax rate and procedures set out in the relevant regulations and treaties. If the applicable dividend tax rate is less than 10%, the individual H Share shareholders are entitled to apply for refund of the over-deducted amount on their own or appoint an agent to act on their behalf according to the tax treaty entered into between their countries of domicile and the PRC and the regulations of the relevant PRC tax authorities. The Company will withhold and pay the enterprise income tax as well as the individual income tax as required by law. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share shareholders or any disputes over the withholding and payment mechanism or arrangements.

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

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

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

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

Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Interconnected Mechanism for Trading on the Shenzhen Stock Market and the Hong Kong Stock Market (Cai Shui [2016] No. 127) (《財政部、國家稅務總局、證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127 號)) implemented on 5 December 2016:

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

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

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

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A shares of the Company listed on SSE (the "Shanghai Stock Connect"), the dividends received by them will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such A shares. Pursuant to the Notice on Relevant Taxation Policies Concerning the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), the Company will withhold income tax at the rate of 10% on behalf of those investors and will undertake the reporting procedures on the tax withholding and payment with the tax authorities, and the after-tax cash dividend will be RMB1.17 per share. For investors of Shanghai Stock Connect who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the amount paid in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

All investors should read this announcement carefully. Shareholders are recommended to consult their tax advisors on the PRC, Hong Kong and other tax effects regarding their holding and disposing of H shares of the Company.

The eligibility for attending the AGM and eligibility for proposed final dividend and closure of H share register of members

The Company will announce further details in relation to the eligibility for attending the AGM, the eligibility for the proposed final dividend and the closure of register of member for H Shares after the arrangement of AGM is finalised.

The Company will announce details on A Share shareholders' qualification for attending the annual general meeting and the payment of the final dividend for the year 2020 to A Share shareholder on SSE.

Review of accounts

The audit committee of the Company has reviewed the principal accounting policies of the Company and the audited financial statements the year ended 31 December 2020 in the presence of internal and external auditors.

Publication of results on the websites of SEHK and the Company

The annual report of the Company for the year ended 31 December 2020 will be dispatched to shareholders of the Company and will be published on the websites of SEHK (www.hkexnews.hk) and the Company (www.cpic.com.cn) in due course.

DEFINITIONS

"The Company", "the Group", "CPIC" or "CPIC Group"	China Pacific Insurance (Group) Co., Ltd.
"CPIC Life"	China Pacific Life Insurance Co., Ltd., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC P/C"	China Pacific Property Insurance Co., Ltd., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC AMC"	Pacific Asset Management Co., Ltd., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC HK"	China Pacific Insurance Co., (H.K.) Limited, a wholly-owned subsidiary of China Pacific Insurance (Group) Co., Ltd.
"Changjiang Pension"	Changjiang Pension Insurance Co., Ltd., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC Anxin Agricultural"	China Pacific Anxin Agricultural Insurance Co., Ltd (former Anxin Agricultural Insurance Co., Ltd, renamed in December 2020)., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC Fund"	CPIC Fund Management Co., Ltd., a subsidiary of China Pacific Insurance (Group) Co., Ltd.
"CPIC Health"	Pacific Health Insurance Co., Ltd. (former CPIC Allianz Health Insurance Co., Ltd. renamed in March 2021), a subsidiary of China Pacific Insurance (Group) Co., Ltd.

“CBIRC”	China Banking and Insurance Regulatory Commission
“SSE”	Shanghai Stock Exchange
“SEHK”	The Stock Exchange of Hong Kong Limited
“LSE”	London Stock Exchange
“PRC GAAP”	China Accounting Standards for Business Enterprises issued by Ministry of Finance of the People's Republic of China, and the application guide, interpretation and other related regulations issued afterwards
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“ESG”	Environmental, Social and Governance
“RMB”	Renminbi
“pt”	Percentage point

By Order of the Board

China Pacific Insurance (Group) Co., Ltd.

KONG Qingwei

Chairman

Hong Kong, 28 March 2021

As at the date of this announcement, the Executive Directors of the Company are Mr. KONG Qingwei and Mr. FU Fan; the Non-executive Directors of the Company are Mr. HUANG Dinan, Mr. WANG Tayu, Mr. WU Junhao, Mr. CHEN Ran, Mr. ZHOU Donghui, Ms. LIANG Hong, Ms. LU Qiaoling and Mr. John Robert DACEY; and the Independent Non-executive Directors of the Company are Ms. LIU Xiaodan, Mr. CHEN Jizhong, Ms. LAM Tyng Yhi, Elizabeth, Mr. WOO Ka Biu, Jackson and Mr. JIANG Xuping.

* Note: The appointment qualification of Mr. John Robert DACEY is subject to the approval of China Banking and Insurance Regulatory Commission.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 9 to 145, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Valuation of life insurance contract liabilities
- Valuation of non-life insurance contract liabilities
- Valuation of level 3 investments

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of life insurance contract liabilities Refer to note 2.2(23) Summary of principal accounting policies - Insurance contract liabilities and note 40 Insurance contract liabilities to the consolidated financial statements. Refer to note 3.2(1) Estimation uncertainty - Valuation of insurance contract liabilities to the consolidated financial statements. The Group had significant long-term life insurance contract liabilities stated at RMB 1,109.0 billion as at 31 December 2020, representing 72% of the Group's total liabilities. The valuation of long-term life insurance contract liabilities involves complex models and a high degree of judgment by management in setting assumptions. Key assumptions used in measuring long-term life insurance contract liabilities include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, expenses assumptions and policy dividend assumptions, etc.	With the assistance of our actuarial experts, we performed the following audit procedures: • We obtained an understanding of the management's assessment process of valuation of life insurance contract liabilities and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. • We understood, evaluated and tested the management's internal controls over valuation of life insurance contract liabilities including management's determination and approval process for actuarial assumptions setting, data collection and analysis, and actuarial models change, etc. • We assessed the appropriateness of the actuarial valuation methodologies adopted by the Group. We performed independent modelling checks on selected actuarial models by considering mix of product types and distribution channels; and we checked the best estimate liabilities, risk margin and residual margin respectively at the point of policy issuance and evaluation.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of life insurance contract liabilities (continued) We focused on this area due to the significant quantum amount of long-term life insurance contract liabilities to the consolidated financial statements and because the relevant key assumptions applied in valuation involved significant judgments and estimates and the inherent risk in relation to the valuation of life insurance contract liabilities was considered significant.	• We evaluated key actuarial assumptions such as discount rates, mortality, morbidity, surrender rates, expense assumptions and policy dividend assumptions considering management's rationale for the actuarial judgments applied along with comparison to the Group's historical data and applicable industry experiences. • We evaluated the overall reasonableness of the long-term life insurance contract liabilities by performing variation and movement analysis to check the impact of key changes and compare actual results to expected results. Based on our audit work, we found methodologies applied appropriate and key assumptions adopted supportable by the evidence we gathered.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of non-life insurance contract liabilities Refer to note 2.2(23) Summary of principal accounting policies - Insurance contract liabilities and note 40 Insurance contract liabilities to the consolidated financial statements. Refer to note 3.2(1) Estimation uncertainty-Valuation of insurance contract liabilities to the consolidated financial statements. The Group had claim reserves which was included in non-life insurance contract liabilities stated at RMB 47.4 billion as at 31 December 2020, representing 3% of the Group's total liabilities. We focused on this area because the valuation of claim reserves involved a high degree of judgment by management in selecting the models and setting the assumptions including the development of paid and incurred losses and ultimate loss ratios, and the inherent risk in relation to the valuation of non-life insurance contract liabilities was considered significant.	With the assistance of our actuarial experts, we performed the following audit procedures: We obtained an understanding of the management's assessment process of valuation of non-life insurance contract liabilities and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We understood, evaluated and tested the management's internal controls over valuation of non-life insurance contract liabilities including data collection and analysis, and management's assumptions setting processes, etc. We performed independent modelling analysis for claim reserves by performing below procedures. • For the underlying data used in actuarial models, we compared the data with source systems, such as earned premiums to accounting records and reported claims to the claims system. • We set up independent actuarial assumptions including claims development, loss ratio, etc., by considering both the Group's historical data and applicable industry experiences. • We evaluated the overall reasonableness of the Group's claim reserves by comparing management's result to the results from our independent modelling analysis. Based on our audit work, we found management judgments in the valuation of claim reserves supportable by the evidence we gathered.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of level 3 investments Refer to note 3.2(2) Estimation uncertainty - Fair values of financial assets and derivative financial instruments determined using valuation techniques and note 49 Fair value measurement to the consolidated financial statements. The Group's investment measured at fair value that were classified in level 3 stated at RMB 92.1 billion as at 31 December 2020, representing 5% of the Group's total assets. We focused on this area because level 3 investments were valued based on models and inputs and assumptions that are not observable by third parties. The valuation involved significant management judgment and the inherent risk in relation to the valuation of level 3 investments was considered significant.	We obtained an understanding of the management's assessment process of valuation of level 3 investments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and susceptibility to management bias or fraud. We understood, evaluated and tested the management's internal controls over the investment valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and choice for internally operated valuation models and management's review of valuation inputs provided by data vendors. With the assistance of our valuation experts, our audit work over the measurement of level 3 investments included: • We assessed valuation model methodologies against industry practice and valuation guidelines. • We performed independent checks by using unobservable inputs from external sources where available for illiquid investments. • We compared assumptions used against appropriate public third party pricing sources such as public stocks price and bond yields. Based on our audit work, we found that the valuation methodologies applied were consistent with industry practice and that the inputs and assumptions used were supportable by the evidence we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

The engagement partner on the audit resulting in this independent auditor’s report is CHAN KWONG TAK.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2021

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2020

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2020	2019
Gross written premiums	6(a)	362,064	347,517
Less: Premiums ceded to reinsurers	6(b)	(24,741)	(22,358)
Net written premiums	6(c)	337,323	325,159
Net change in unearned premium reserves		(5,684)	(11,913)
Net premiums earned		331,639	313,246
Investment income	7	82,740	65,730
Other operating income		4,585	3,706
Other income		87,325	69,436
Total income		418,964	382,682
Net policyholders’ benefits and claims:			
Life insurance death and other benefits paid	8	(61,848)	(58,437)
Claims incurred	8	(87,377)	(73,163)
Changes in long-term life insurance contract liabilities	8	(132,678)	(118,473)
Policyholder dividends	8	(11,512)	(10,777)
Finance costs	9	(3,405)	(3,511)
Interest credited to investment contracts		(3,344)	(3,005)
Other operating and administrative expenses		(90,074)	(87,844)
Total benefits, claims and expenses		(390,238)	(355,210)
Share of profit in equity accounted investees		512	494
Profit before tax	10	29,238	27,966
Income tax	14	(3,886)	388
Net profit for the year		25,352	28,354
Attributable to:			
Shareholders of the parent		24,584	27,741
Non-controlling interests		768	613
		25,352	28,354
Basic earnings per share	15	RMB 2.63	RMB 3.06
Diluted earnings per share	15	RMB 2.63	RMB 3.06

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2020**	**2019**
Net profit for the year		25,352	28,354
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations	16	(34)	13
Available-for-sale financial assets	16	12,909	13,716
Income tax relating to these items	16	(3,259)	(3,383)
Other comprehensive income to be reclassified to profit or loss in subsequent periods		9,616	10,346
Other comprehensive income for the year	16	9,616	10,346
Total comprehensive income for the year		34,968	38,700
Attributable to:			
Shareholders of the parent		33,975	37,898
Non-controlling interests		993	802
		34,968	38,700

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2020

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2020	31 December 2019
ASSETS			
Goodwill	17	1,357	1,357
Property and equipment	18	19,293	19,365
Right-of-use assets	19	5,168	4,810
Investment properties	20	7,866	8,283
Other intangible assets	21	3,323	2,972
Interests in associates	22	14,554	10,563
Investment in joint ventures	23	9,889	9,879
Held-to-maturity financial assets	24	329,360	295,247
Investments classified as loans and receivables	25	380,174	324,013
Restricted statutory deposits	26	6,858	6,658
Term deposits	27	192,966	147,756
Available-for-sale financial assets	28	596,158	511,822
Financial assets at fair value through profit or loss	29	12,473	4,931
Derivative financial assets	30	140	-
Securities purchased under agreements to resell	31	14,327	28,045
Policy loans		62,364	57,194
Interest receivables	32	20,563	19,493
Reinsurance assets	33	27,719	25,560
Deferred income tax assets	34	845	860
Insurance receivables	35	29,872	23,256
Other assets	36	14,857	11,397
Cash and short-term time deposits	37	20,878	14,872
Total assets		1,771,004	1,528,333

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

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2020**	**31 December 2019**
EQUITY AND LIABILITIES			
Equity			
Issued capital	38	9,620	9,062
Reserves	39	124,071	98,763
Retained profits	39	81,533	70,602
Equity attributable to shareholders of the parent		215,224	178,427
Non-controlling interests		5,611	4,893
Total equity		220,835	183,320
Liabilities			
Insurance contract liabilities	40	1,225,176	1,068,021
Investment contract liabilities	41	87,056	75,506
Policyholders' deposits		70	70
Bonds payable	42	9,991	9,988
Securities sold under agreements to repurchase	43	90,825	78,366
Lease liabilities		3,430	3,668
Deferred income tax liabilities	34	5,055	2,911
Income tax payable		1,396	549
Premium received in advance		27,983	21,000
Policyholder dividend payable		24,351	25,447
Payables to reinsurers		5,501	4,543
Other liabilities	44	69,335	54,944
Total liabilities		1,550,169	1,345,013
Total equity and liabilities		1,771,004	1,528,333

KONG Qingwei
Director

FU Fan
Director

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

(All amounts expressed in RMB million unless otherwise specified)

Group

	2020									
	Attributable to shareholders of the parent									
		Reserves								
	Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
At 1 January 2020	9,062	66,650	4,835	14,329	12,952	(3)	70,602	178,427	4,893	183,320
Total comprehensive income	-	-	-	-	9,425	(34)	24,584	33,975	993	34,968
Dividend declared [1]	-	-	-	-	-	-	(10,874)	(10,874)	-	(10,874)
Issue of shares (Note 1)	558	13,148	-	-	-	-	-	13,706	-	13,706
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	145	145
De-registration of subsidiaries	-	(15)	-	-	-	-	-	(15)	-	(15)
Share of other changes in equity of investees accounted for using the equity method	-	5	-	-	-	-	-	5	-	5
Appropriations to general reserves	-	-	-	2,500	-	-	(2,500)	-	-	-
Appropriations to surplus reserves	-	-	279	-	-	-	(279)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(420)	(420)
At 31 December 2020	9,620	79,788	5,114	16,829	22,377	(37)	81,533	215,224	5,611	220,835

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2019, amounting to RMB 10,874 million (RMB 1.20 per share).

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

(All amounts expressed in RMB million unless otherwise specified)

Group

	2019									
	Attributable to shareholders of the parent									
		Reserves								
	Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
At 1 January 2019	9,062	66,635	4,835	11,642	2,808	(16)	54,610	149,576	4,472	154,048
Total comprehensive income	-	-	-	-	10,144	13	27,741	37,898	802	38,700
Dividend declared [1]	-	-	-	-	-	-	(9,062)	(9,062)	-	(9,062)
Share of other changes in equity of investees accounted for using the equity method	-	15	-	-	-	-	-	15	-	15
Appropriations to general reserves	-	-	-	2,687	-	-	(2,687)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(381)	(381)
At 31 December 2019	9,062	66,650	4,835	14,329	12,952	(3)	70,602	178,427	4,893	183,320

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2018, amounting to RMB 9,062million (RMB 1.00 per share).

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2020

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	2020	2019
OPERATING ACTIVITIES			
Cash generated from operating activities	50	113,490	118,310
Income tax paid		(5,427)	(6,515)
Net cash inflows from operating activities		108,063	111,795
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(3,628)	(3,475)
Proceeds from disposal of property and equipment, intangible assets and other assets		21	61
Purchases of investments, net		(196,317)	(151,236)
Acquisition of subsidiaries and other business entities, net		(4,031)	(2,943)
Proceeds from disposal of subsidiaries and other business entities, net		318	3
Interest received		60,715	55,948
Dividends received from investments		6,863	5,741
Other cash paid related to investing activities		(9)	(954)
Net cash outflows from investing activities		(136,068)	(96,855)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		12,433	3,215
Proceeds from the issue of asset-backed securities		10,890	4,540
Proceeds from the issue of share capital		13,915	-
Transaction costs of share issuance		(209)	-
Capital injection to subsidiaries by non-controlling interests		-	229
Capital repayment to non-controlling interests of subsidiaries		(229)	-
Repayment of borrowings		(2,290)	(6,750)
Interest paid		(2,530)	(2,768)
Dividends paid		(11,294)	(9,443)
Principal elements of lease payments		(1,579)	(1,542)
Cash received related to non-controlling interests of consolidated structured entities, net		2,341	1,975
Net cash inflows/(outflows) from financing activities		21,448	(10,544)
Effects of exchange rate changes on cash and cash equivalents		(1,222)	29
Net (decrease)/increase in cash and cash equivalents		(7,779)	4,425
Cash and cash equivalents at the beginning of year		42,546	38,121
Cash and cash equivalents at the end of year		34,767	42,546
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		18,203	13,159
Time deposits with original maturity of no more than three months		1,132	358
Other monetary assets		1,105	984
Investments with original maturity of no more than three months		14,327	28,045
Cash and cash equivalents at the end of year		34,767	42,546

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

(All amounts expressed in RMB million unless otherwise specified)

1. CORPORATE INFORMATION

China Pacific Insurance (Group) Co., Ltd. (the "Company") was established in Shanghai, the People's Republic of China (the "PRC") in May 1991, under the original name of China Pacific Insurance Co., Ltd. Pursuant to the approval of the State Council of the PRC and Circular [2001] No. 239 issued by the former China Insurance Regulatory Commission (the "CIRC"), the Company was restructured as a joint stock limited company in October 2001 with an issued capital of RMB 2,006.39 million. The Company increased its issued capital to RMB 6,700 million through issuing new shares to its then existing shareholders and new shareholders in 2002 and 2007.

In December 2007, the Company conducted a public offering of 1,000 million A shares in the PRC. Upon the completion of the A share offering, the issued capital was increased to RMB 7,700 million. The Company's A shares are listed on the Shanghai Stock Exchange and trading of its A shares commenced on 25 December 2007.

In December 2009, the Company conducted a global offering of overseas listed foreign shares ("H shares"). Upon the completion of the H share offering, the issued capital was increased to RMB 8,600 million. The Company's H shares are listed on the Hong Kong Stock Exchange and trading of its H shares commenced on 23 December 2009.

In November 2012, the Company conducted a non-public offering of 462 million H shares. Upon completion of the H share offering, the issued capital was increased to RMB 9,062 million, which was approved by the CIRC in December 2012.

In June 2020, the Company issued 102,873,300 Global Depositary Receipts ("GDRs") on the London Stock Exchange (the "LSE") and listed on the LSE. In July 2020, the Company further issued 8,794,991 GDRs. Each GDR represents five A shares of the Company. After GDR issuance, the issued capital of the Company was increased to approximately RMB 9,620 million. The capital change registration is still in process.

The authorised business scope of the Company includes investing in insurance enterprises; supervising and managing the domestic and overseas reinsurance businesses of subsidiaries and their utilisation of funds; and participating in approved international insurance activities. The principal activities of the Company and its subsidiaries (the "Group" or "CPIC Group") are property and casualty insurance businesses, life and health insurance businesses, pension and annuity insurance businesses, as well as investments with insurance funds,etc.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

(1) Changes in accounting policy and disclosures

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

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

(2) New and revised standards not yet adopted

All HKFRSs that remain in effect which are relevant to the Group have been applied except HKFRS 9, as the Group qualifies for a temporary exemption from HKFRS 9 which was illuminated in HKFRS 4 Amendments.

The Group has not applied the following key new and revised HKFRSs that have been issued but are not yet effective, in these consolidated financial statements:

Amendments to HKFRS 16	Covid-19-related Rent Concessions[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual improvements to HKFRS standards 2018–2020 Cycle[2]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]

[1] Effective for annual periods beginning on or after 1 June 2020
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

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

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI which are not recycled to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on 1 January 2018. The Group is eligible to and has elected to apply the temporary option to defer the effective date of HKFRS 9 under the amendments to HKFRS 4 'Insurance contracts'. The impact of the adoption of HKFRS 9 on the Group's consolidated financial statements will, to a large extent, have to take into account the interaction with the issued insurance contracts standard. The Group will not adopt the HKFRS 9 until 1 January 2023 and the Group makes additional disclosures as below:

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

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

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

	As at 31 December 2020 Fair value	2020 Change in the fair value
Financial assets held for trading(A)	3,583	(70)
Financial assets managed and whose performance evaluated on a fair value basis (B)	8,890	11
Financial assets other than A or B		
——Financial assets meet SPPI(C)	1,005,922	(3,729)
——Financial assets not meet SPPI	318,952	22,738
Total	1,337,347	18,950

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

Credit risk rating grades of financial assets meet SPPI(C)	As at 31 December 2020 Carrying amount
Domestic	
Exempt from rating[Note]	252,463
AAA	691,597
A-1	386
AA+	35,621
AA(inclusive) or below	5,892
Overseas	
A-(inclusive) or above	354
BBB+	269
BBB	69
BBB-	24
BB+(inclusive) or below	125
Total	986,800

Note:“Exempt from rating”, a domestic rating grade, is to describe a rating grade above “AAA”. It mainly includes government bonds and policy financial bonds.

	As at 31 December 2020	
Financial assets not have low credit risk	Carrying amount	Fair value
Domestic	5,892	5,892
Overseas	125	128
Total	6,017	6,020

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

HKFRS 17 was issued in May 2017 and will replace the current HKFRS 4 Insurance Contracts. It applies to the measurement of insurance contracts issued, all reinsurance contracts and investment contracts with discretionary participating features. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

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

In October 2020, the Amendments to HKFRS 17 was issued. The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. The impact is expected to be significant, and the Group is in the process of assessing the impact of adoption of HKFRS 17.

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

2.2 Summary of principal accounting policies

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

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2020. The financial statements of the subsidiaries for the purpose of preparing the consolidated financial statements are prepared for the same reporting period, using consistent accounting policies. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

2.2 Summary of principal accounting policies (continued)

(1) Basis of consolidation (continued)

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

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

(2) Foreign currency translation

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(2) Foreign currency translation (continued)

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

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

(3) Subsidiaries

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(3) Subsidiaries(continued)

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

(4) Investments in associates and joint ventures

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill (continued)

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

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

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

(6) Related parties

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

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

or

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(7) Property and equipment and depreciation

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

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

Land and buildings	1.39% to 4.04%
Motor vehicles	12.13% to 32.33%
Office furniture and equipment	10% to 33.33%
Leasehold improvements	Over the shorter of the lease terms and 20%

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

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

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

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

(8) Investment properties

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(8) Investment properties (continued)

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

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

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

(9) Intangible assets (other than goodwill)

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

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

(10) Leases

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

As the lessee, the Group shall recognise right-of-use assets and lease liabilities at the commencement date. The only exceptions are short-term leases and leases of low-value assets. Right-of-use assets are the assets that represent the Group’s rights to use an underlying asset for the lease term. The commencement date is the date on which a lessor makes an underlying asset available for use by the Group.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(10) Leases (continued)

The right-of-use assets of the Group are initially measured at cost. The cost of right-of-use asset shall comprise:

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

The Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group measures the lease liabilities at the present value of the lease payments that are not paid at the commencement date. Lease payments includes fixed payments and the payments for terminating the lease with an option to terminate the lease, etc. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group use the incremental borrowing rate. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and is recognised in profit or loss.

Payments related to short-term leases and low-value asset leases are recognised in profit or loss on a straight-line basis over each lease term. Short-term lease is the lease that, at the commencement date, has a lease term of 12 months or less. Lease of low-value asset is the lease for which the individual underlying asset is of low value when it is new.

As the lessor, the income from operating lease is recognised as rental income on a straight-line basis over each lease period.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

(12) Derivative financial instruments

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(13) Fair value measurement

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(13) Fair value measurement (continued)

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

(14) Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Available-for-sale financial assets

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(15) Derecognition of financial assets

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

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

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

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

(16) Offsetting of financial instruments

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

(17) Securities purchased under agreements to resell

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

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

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

(19) Reinsurance

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(19) Reinsurance (continued)

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

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

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

(20) Cash and cash equivalents

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

(21) Insurance contracts

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

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

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

(b) If the insurance risk portion and other risk portion are not distinct, or if they are distinct but cannot be separately measurable, the Group would test the significance of insurance risk at the initial recognition of such contracts. The whole contract should be treated as an insurance contract if the insurance risk is significant; the whole contract should not be treated as an insurance contract if the insurance risk is insignificant.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(22) Significant insurance risk test

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

Margins for long-term life insurance contract reserves include a risk adjustment and a residual margin. The risk adjustment represents provision for the uncertainty associated with the future cash flows. The residual margin is provided to eliminate any gain at inception of the contract and is amortised over the life of the contract in a systematic manner. For non-life insurance contracts, the Group amortises the residual margin on a time basis during the whole insurance coverage period and records it in profit or loss. For life insurance contracts, the Group amortises the residual margin on the basis of the sums insured, sums at risk or other appropriate carriers during the whole insurance coverage period. Upon initial recognition, the residual margin is separately measured from expected future cash outflows and the risk adjustment, and will not be adjusted for future changes in assumptions.

The risk adjustment for property and casualty and short-term life insurance contract liabilities is determined by reference to the industry benchmark and the Group's experience.

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

(25) Investment contract liabilities

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

(26) Financial liabilities

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(26) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

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

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

(27) Derecognition of financial liabilities

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

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

(28) Securities sold under agreements to repurchase

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

(29) Provisions

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(29) Provisions (continued)

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

(30) Income tax

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(30) Income tax (continued)

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

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

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

(31) Revenue recognition

(a) Gross premiums

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(31) Revenue recognition (continued)

(a) Gross premiums (continued)

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

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

(b) Income from investment contracts

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

Income from investment contracts is included in other operating income.

(c) Investment income

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

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

(32) Employee benefits

(a) Pension schemes

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(32) Employee benefits (continued)

(a) Pension schemes (continued)

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

(b) Housing benefits

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

(c) Medical benefits

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

(d) Deferred bonus plans

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

(33) Borrowing costs

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

(34) Dividends

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Significant judgements

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

(1) Classification of financial assets

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

(2) Unbundling and classification of hybrid contracts

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

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

(3) Measurement unit for insurance contracts

The Group shall make judgements on whether a group of insurance contracts' insurance risks are of the same nature. The result of such judgements affects the measurement results of insurance contract liabilities.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Significant judgements (continued)

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

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

(5) Determination of control over structured entities

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

3.2 Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

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

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

Unearned premium and long-term life insurance contract reserves

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by base rate curve with comprehensive premium in consideration of the time value of money. The comprehensive premium is added by considering taxation impacts, the liquidity, conversion period, and other relevant factors. The ranges of discount rates used as at 31 December 2019 and 2020 were from 3.43% to 4.80% and from 3.05% to 4.80%, respectively.

For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates of the corresponding investment portfolio in consideration of the time value of money. Discount rates used as at 31 December 2019 and 2020 were both 5.00%.

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

(b) Mortality and morbidity

Mortality assumption is determined based on the Group's historical mortality experiences as well as current and expected future development trends, etc. The Group presents its mortality assumptions using appropriate percentages of China Life and Health Insurance Mortality Table (2010-2013).

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

Mortality and morbidity assumptions are uncertain as they are affected by uncertain factors, such as national lifestyle changes in the future, future development of medical technologies, continuing advancements in social conditions and other factors. The risk margin is considered in the Group's mortality and morbidity assumptions.

(c) Loss ratios

The Group determines a reasonable estimate as its loss ratio assumption based on analysis of its historical claim experience and future development trends.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(d) Surrender rates

Surrender rate assumptions are determined based on product types, the Group's historical experiences, and estimates on current and future expectations, and vary by interest rate, product type and sale channel.

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

(e) Expenses assumptions

The Group develops its expense assumption based on its expense analysis and future expectation, including assumptions of acquisition costs, maintenance expenses and claim expenses.

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

(f) Policy dividend assumptions

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

The Group's policy dividend assumption is affected by the above factors. The Group uses information available as at the balance sheet date to determine policy dividend assumption and risk margin is considered.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Claim reserves

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.3 Change in accounting estimates

When measuring the insurance contract reserves, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expense assumptions and policy dividend assumptions based on information currently available as at the balance sheet date.

As at 31 December 2020, the Group used information currently available to determine the above assumptions. Mainly due to change of the benchmark yield curve of discount rate for life and long-term health insurance reserves, life and long-term health insurance reserves after reinsurance increased by approximately RMB 11,733 million as at 31 December 2020 and profit before tax decreased by approximately RMB 11,733 million for 2020.

4. SEGMENT INFORMATION

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

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

The Group's operating segments are listed as follows:

- The life and health insurance segment (including China Pacific Life Insurance Co.,Ltd. ("CPIC Life") and CPIC Allianz Health Insurance Co.,Ltd. ("CPIC Allianz Health")) offers a wide range of RMB life and health insurance;
- The property and casualty insurance segment (including Mainland China segment and Hong Kong segment) provides a wide range of RMB and foreign-currency property and casualty insurance;
- Other businesses segment mainly provides corporation management and assets management services, etc.

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

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

In 2020, gross written premiums from transactions with the top five external customers amounted to 0.59% (2019: 0.42%) of the Group's total gross written premiums.

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2020

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Gross written premiums	213,980	149,153	724	(155)	149,722	-	(1,638)	362,064
Less: Premiums ceded to reinsurers	(5,885)	(20,410)	(258)	174	(20,494)	-	1,638	(24,741)
Net written premiums	208,095	128,743	466	19	129,228	-	-	337,323
Net change in unearned premium reserves	224	(5,729)	(93)	-	(5,822)	-	(86)	(5,684)
Net premiums earned	208,319	123,014	373	19	123,406	-	(86)	331,639
Investment income	71,628	6,552	39	-	6,591	25,036	(20,515)	82,740
Other operating income	2,458	352	3	-	355	6,046	(4,274)	4,585
Other income	74,086	6,904	42	-	6,946	31,082	(24,789)	87,325
Segment income	282,405	129,918	415	19	130,352	31,082	(24,875)	418,964
Net policyholders’ benefits and claims:								
Life insurance death and other benefits paid	(61,848)	-	-	-	-	-	-	(61,848)
Claims incurred	(11,283)	(75,798)	(221)	-	(76,019)	-	(75)	(87,377)
Changes in long-term life insurance contract liabilities	(132,101)	-	-	-	-	-	(577)	(132,678)
Policyholder dividends	(11,512)	-	-	-	-	-	-	(11,512)
Finance costs	(2,623)	(584)	-	-	(584)	(87)	(111)	(3,405)
Interest credited to investment contracts	(3,344)	-	-	-	-	-	-	(3,344)
Other operating and administrative expenses	(40,044)	(46,537)	(183)	-	(46,720)	(7,375)	4,065	(90,074)
Segment benefits, claims and expenses	(262,755)	(122,919)	(404)	-	(123,323)	(7,462)	3,302	(390,238)
Segment results	19,650	6,999	11	19	7,029	23,620	(21,573)	28,726
Share of profit/(loss) in equity accounted investees	525	41	-	-	41	(38)	(16)	512
Profit before tax	20,175	7,040	11	19	7,070	23,582	(21,589)	29,238
Income tax	(1,695)	(1,695)	(5)	-	(1,700)	(408)	(83)	(3,886)
Net profit for the year	18,480	5,345	6	19	5,370	23,174	(21,672)	25,352

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2020

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Investment in associates	10,745	268	-	-	268	3,541	-	14,554
Investment in joint ventures	9,840	73	-	-	73	-	(24)	9,889
Financial assets *	1,137,718	98,688	395	-	99,083	81,504	-	1,318,305
Term deposits	144,560	26,131	-	-	26,131	22,275	-	192,966
Others	149,737	62,223	1,150	(134)	63,239	54,068	(31,754)	235,290
Segment assets	1,452,600	187,383	1,545	(134)	188,794	161,388	(31,778)	1,771,004
Insurance contract liabilities	1,120,050	105,871	708	(80)	106,499	-	(1,373)	1,225,176
Investment contract liabilities	87,056	-	-	-	-	-	-	87,056
Policyholders' deposits	7	63	-	-	63	-	-	70
Bonds payable	-	9,991	-	-	9,991	-	-	9,991
Securities sold under agreements to repurchase	87,847	257	-	-	257	2,721	-	90,825
Others	99,492	24,894	323	(44)	25,173	24,472	(12,086)	137,051
Segment liabilities	1,394,452	141,076	1,031	(124)	141,983	27,193	(13,459)	1,550,169

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

Other segment information for the year ended 31 December 2020

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Depreciation and amortisation	1,145	979	1	-	980	2,278	-	4,403
Capital expenditure	1,018	962	-	-	962	1,375	-	3,355
Impairment loss charges	3,713	503	-	-	503	178	-	4,394
Interest income	51,843	5,229	36	-	5,265	2,978	-	60,086
Unrealised gains/(losses) from financial assets at fair value through profit or loss	93	(1)	-	-	(1)	(11)	-	81

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2019

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Gross written premiums	213,663	134,402	397	(149)	134,650	-	(796)	347,517
Less: Premiums ceded to reinsurers	(5,653)	(17,463)	(173)	135	(17,501)	-	796	(22,358)
Net written premiums	208,010	116,939	224	(14)	117,149	-	-	325,159
Net change in unearned premium reserves	(743)	(11,192)	30	-	(11,162)	-	(8)	(11,913)
Net premiums earned	207,267	105,747	254	(14)	105,987	-	(8)	313,246
Investment income	57,909	5,062	36	-	5,098	19,212	(16,489)	65,730
Other operating income	2,447	395	3	-	398	4,778	(3,917)	3,706
Other income	60,356	5,457	39	-	5,496	23,990	(20,406)	69,436
Segment income	267,623	111,204	293	(14)	111,483	23,990	(20,414)	382,682
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(58,437)	-	-	-	-	-	-	(58,437)
Claims incurred	(9,379)	(63,866)	(153)	-	(64,019)	-	235	(73,163)
Changes in long-term life insurance contract liabilities	(118,266)	-	-	-	-	-	(207)	(118,473)
Policyholder dividends	(10,777)	-	-	-	-	-	-	(10,777)
Finance costs	(2,570)	(729)	-	-	(729)	(81)	(131)	(3,511)
Interest credited to investment contracts	(3,005)	-	-	-	-	-	-	(3,005)
Other operating and administrative expenses	(45,826)	(40,413)	(99)	-	(40,512)	(5,367)	3,861	(87,844)
Segment benefits, claims and expenses	(248,260)	(105,008)	(252)	-	(105,260)	(5,448)	3,758	(355,210)
Segment results	19,363	6,196	41	(14)	6,223	18,542	(16,656)	27,472
Share of profit/(loss) in equity accounted investees	515	12	-	-	12	(25)	(8)	494
Profit before tax	19,878	6,208	41	(14)	6,235	18,517	(16,664)	27,966
Income tax	1,254	(223)	(6)	-	(229)	(390)	(247)	388
Net profit for the year	21,132	5,985	35	(14)	6,006	18,127	(16,911)	28,354

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2019

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Investment in associates	9,489	577	-	-	577	497	-	10,563
Investment in joint ventures	9,841	39	-	-	39	13	(14)	9,879
Financial assets *	985,155	86,366	403	-	86,769	64,089	-	1,136,013
Term deposits	121,649	23,232	-	-	23,232	2,875	-	147,756
Others	146,727	58,543	822	(161)	59,204	35,332	(17,141)	224,122
Segment assets	1,272,861	168,757	1,225	(161)	169,821	102,806	(17,155)	1,528,333
Insurance contract liabilities	973,514	94,945	429	(90)	95,284	-	(777)	1,068,021
Investment contract liabilities	75,506	-	-	-	-	-	-	75,506
Policyholders' deposits	7	63	-	-	63	-	-	70
Bonds payable	-	9,988	-	-	9,988	-	-	9,988
Securities sold under agreements to repurchase	75,839	95	-	-	95	2,432	-	78,366
Others	81,139	22,938	239	(55)	23,122	14,539	(5,738)	113,062
Segment liabilities	1,206,005	128,029	668	(145)	128,552	16,971	(6,515)	1,345,013

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

Other segment information for the year ended 31 December 2019

	Life and health insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Subtotal			
Depreciation and amortisation	1,035	871	-	-	871	2,059	-	3,965
Capital expenditure	1,265	1,155	-	-	1,155	934	-	3,354
Impairment loss charges	1,632	758	-	-	758	64	-	2,454
Interest income	47,618	5,108	35	-	5,143	2,612	(31)	55,342
Unrealised gains/(losses) from financial assets at fair value through profit or loss	823	2	-	-	2	(24)	-	801

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows:

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise specified)	Issued capital/paid-up capital (RMB thousand, unless otherwise specified)	Percentage of equity attributable to the Company(%)		Percentage of voting rights attributable to the Company(%)	Note
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Limited company	Property and casualty insurance	Shanghai	The PRC	19,470,000	19,470,000	98.50	-	98.50	
CPIC Life	Limited company	Life and health insurance	Shanghai	The PRC	8,420,000	8,420,000	98.29	-	98.29	
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Limited company	Investment management	Shanghai	Shanghai	2,100,000	2,100,000	80.00	19.67	100.00	
China Pacific Insurance Co., (H.K.) Ltd.	Limited company	Property and casualty insurance	Hong Kong	Hong Kong	HK$ 250,000 thousand	HK$ 250,000 thousand	100.00	-	100.00	
Shanghai Pacific Insurance Real Estate Co., Ltd.	Limited company	Real estate	Shanghai	Shanghai	115,000	115,000	100.00	-	100.00	
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Limited company	Pension business and investment management	Shanghai	Shanghai	3,000,000	3,000,000	-	61.10	62.16	
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Limited company	Investment management	Hong Kong	Hong Kong	HK$ 50,000 thousand	HK$ 50,000 thousand	49.00	50.83	100.00	
City Island Developments Limited ("City Island")	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US$ 50,000	US$ 1,000	-	98.29	100.00	

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows (continued):

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise specified)	Issued capital/paid-up capital (RMB thousand, unless otherwise specified)	Percentage of equity attributable to the Company(%)		Percentage of voting rights attributable to the Company(%)	Note
							Direct	Indirect		
Great Winwick Limited*	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US$ 50,000	US$ 100	-	98.29	100.00	
Great Winwick (Hong Kong) Limited*	Limited company	Investment holding	Hong Kong	Hong Kong	HK$ 10,000	HK$ 1	-	98.29	100.00	
Newscott Investments Limited*	Limited company	Investment holding	The British Virgin Islands	The British Virgin Islands	US$ 50,000	US$ 100	-	98.29	100.00	
Newscott (Hong Kong) Investments Limited*	Limited company	Investment holding	Hong Kong	Hong Kong	HK$ 10,000	HK$ 1	-	98.29	100.00	
Shanghai Xinhui Real Estate Development Co., Ltd.*("Xinhui Real Estate")	Limited company	Real estate	Shanghai	Shanghai	US$ 15,600 thousand	US$ 15,600 thousand	-	98.29	100.00	
Shanghai Hehui Real Estate Development Co., Ltd.*("Hehui Real Estate")	Limited company	Real estate	Shanghai	Shanghai	US$ 46,330 thousand	US$ 46,330 thousand	-	98.29	100.00	
Pacific Insurance Online Services Technology Co., Ltd. ("CPIC Online Services")	Limited company	Consulting services, etc.	Shandong	The PRC	200,000	200,000	100.00	-	100.00	
Tianjin Trophy Real Estate Co., Ltd. ("Tianjin Trophy")	Limited company	Real estate	Tianjin	Tianjin	353,690	353,690	-	98.29	100.00	
Pacific Insurance Senior Living Investment Management Co., Ltd. ("CPIC Senior Living Investment")	Limited company	Senior living properties investment and management, etc	Shanghai	Shanghai	3,000,000	3,000,000	-	98.29	100.00	

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows (continued):

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise specified)	Issued capital/paid-up capital (RMB thousand, unless otherwise specified)	Percentage of equity attributable to the Company(%) Direct	Percentage of equity attributable to the Company(%) Indirect	Percentage of voting rights attributable to the Company(%)	Note
CPIC Allianz Health	Limited company	Health insurance	Shanghai	Shanghai	1,700,000	1,700,000	77.05	-	77.05	
China Pacific Anxin Agricultural Insurance Co., Ltd. ("PAAIC")	Limited company	Property and casualty insurance	Shanghai	Shanghai	700,000	700,000	-	51.35	52.13	
Pacific Medical & Healthcare Management Co., Ltd. ("Pacific Medical & Healthcare")	Limited company	Medical consulting services, etc.	Shanghai	Shanghai	500,000	500,000	-	98.29	100.00	
Pacific Insurance Agency Co., Ltd. ("Pacific Insurance Agency")	Limited company	Insurance agency	Shanghai	Shanghai	50,000	50,000	-	100.00	100.00	
CPIC Fund Management Co., Ltd. ("CPIC Funds")	Limited company	Fund management	Shanghai	Shanghai	150,000	150,000	-	50.83	51.00	
CPIC Senior Living Development (Chengdu) Co., Ltd. ("Chengdu Project Company")	Limited company	Senior living property investment and construction, etc.	Chengdu	Chengdu	1,000,000	600,000	-	98.29	100.00	(1)
CPIC Senior Living Development (Hangzhou) Co., Ltd. ("Hangzhou Project Company")	Limited company	Senior living property investment and construction, etc.	Hangzhou	Hangzhou	1,200,000	550,000	-	98.29	100.00	(2)
CPIC Senior Living Development (Xiamen) Co., Ltd. ("Xiamen Project Company")	Limited company	Senior living property investment and construction, etc	Xiamen	Xiamen	900,000	450,000	-	98.29	100.00	(3)
Pacific Care Home (Chengdu) Senior Living Service Co., Ltd. ("Pacific Care Home at Chengdu")	Limited company	Seniors and disabled care, etc.	Chengdu	Chengdu	60,000	7,500	-	98.29	100.00	(4)

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows (continued):

Name	Type of legal entity	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Registered capital (RMB thousand, unless otherwise specified)	Issued capital/paid-up capital (RMB thousand, unless otherwise specified)	Percentage of equity attributable to the Company(%)		Percentage of voting rights attributable to the Company(%)	Note
							Direct	Indirect		
CPIC Senior Living Development (Nanjing) Co., Ltd. ("Nanjing Project Company")	Limited company	Senior living property investment and construction, etc.	Nanjing	Nanjing	220,000	84,000	-	98.29	100.00	(5)
Pacific Care Home (Dali) Co., Ltd. ("Dali Project Company")	Limited company	Senior living property investment and management, etc.	Dali	Dali	608,000	418,000	-	74.70	76.00	(6)
CPIC (Shanghai) Senior Care Development Co., Ltd. ("Shanghai (Putuo) Project Company")	Limited company	Senior living property investment and construction, etc.	Shanghai	Shanghai	250,000	160,000	-	98.29	100.00	(7)
Pacific Care Home (Hangzhou) Senior Living Service Co., Ltd. ("Pacific Care Home at Hangzhou")	Limited company	Seniors care and health advisory service, etc.	Hangzhou	Hangzhou	60,000	-	-	98.29	100.00	(8)

* Subsidiaries of City Island

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows (continued):

(1) Chengdu Project Company

Chengdu Project Company, a wholly-owned subsidiary set up by CPIC Life, obtained the business license of legal entity with the unified social credit code of 91510115MA6B4BEJ4P on 24 December 2018. The registered capital is RMB 1,000 million. CPIC Life had injected capital of RMB 90 million in 2020 and the total capital contribution amounted to RMB 600 million as at 31 December 2020.

(2) Hangzhou Project Company

Hangzhou Project Company, a wholly-owned subsidiary set up by CPIC Life, obtained the business license of legal entity with the unified social credit code of 91330185MA2GMQ5J3E on 31 May 2019. The registered capital is RMB 1,200 million. CPIC Life had injected capital of RMB 200 million in 2020 and the total capital contribution amounted to RMB 550 million as at 31 December 2020.

(3) Xiamen Project Company

Xiamen Project Company, a wholly-owned subsidiary set up by CPIC Life, obtained the business license of legal entity with the unified social credit code of 91350200MA33L83Y9L on 6 March 2020. The registered capital is RMB 900 million. CPIC Life had injected capital of RMB 450 million as at 31 December 2020.

(4) Pacific Care Home at Chengdu

Pacific Care Home at Chengdu, a wholly-owned subsidiary set up by CPIC Senior Living Investment, obtained the business license of legal entity with the unified social credit code of 91510115MA64FB601H on 18 May 2020. The registered capital is RMB 60 million. CPIC Senior Living Investment had injected capital of RMB 7.5 million as at 31 December 2020.

(5) Nanjing Project Company

Nanjing Project Company, a wholly-owned subsidiary set up by CPIC Life, has obtained the business license of legal entity with the unified social credit code of 91320113MA21XKXC49 on 9 July 2020. The registered capital is RMB 220 million. CPIC Life had injected capital of RMB 84 million as at 31 December 2020.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2020 are as follows (continued):

(6) Dali Project Company

In September 2020, CPIC Senior Living Investment entered into an equity transaction contract with Dali Tourism Development Investment Co., Ltd ("Dali Tourism") to acquire additional 25% shares of Dali Project Company at a consideration of RMB 152 million. After this transaction, CPIC Senior Living Investment held 76% shares of Dali Project Company and its capital commitment to Dali Project Company reached RMB 462 million. Dali Project Company obtained the business license of legal entity with the unified social credit code of 91532901MA6NL9K48W. The registered capital is RMB 608 million. CPIC Senior Living Investment had injected capital of RMB 272 million as at 31 December 2020.

(7) Shanghai (Putuo) Project Company

Shanghai (Putuo) Project Company, a wholly-owned subsidiary set up by CPIC Life, obtained the business license of legal entity with the unified social credit code of 91310107MA1G17KA7Y on 18 August 2020. The registered capital is RMB 250 million. CPIC Life had injected capital of RMB 160 million as at 31 December 2020.

(8) Pacific Care Home at Hangzhou

Pacific Care Home at Hangzhou, a wholly-owned subsidiary set up by CPIC Senior Living Investment, obtained the business license of legal entity with the unified social credit code of 91330185MA2KCCRP3G on 8 December 2020. The registered capital is RMB 60 million. CPIC Senior Living Investment had not injected capital as at 31 December 2020.

(b) As at 31 December 2020, entities no longer included in the Group's scope of consolidation:

(1) Ningbo Fenghua Xikou Garden Hotel Co., Ltd. ("Xikou Garden Hotel"), a subsidiary of CPIC Life, was registered in Ningbo with a paid-in capital of RMB 27.28 million. Xikou Garden Hotel completed the liquidation and de-registration procedures in 2020.

(2) Taiji (Shanghai) InformationTechnology Co., Ltd.("Taiji Information Technology"), the CPIC Online Services's subsidiary, was registered in Shanghai with a paid-in capital of RMB 15 million. Taiji Information Technology completed the liquidation and de-registration procedures in 2020.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(c) As at 31 December 2020, consolidated structured entities material to the Group are as follows:

Name	Collective Holding by the Group (%)	Product Scale (Units in RMB thousand)	Nature of business
CPIC Zengyu Annually Open Pure Type Launching Securities Investment Fund	100.00	5,996,580	Investing in financial instruments with high liquidity including national bonds, government bond, local treasury bonds, financial bonds, enterprise bonds, corporate bonds, Central Bank bills, medium term notes, short-term commercial paper, super short-term commercial paper, SME private debt, asset-backed security, subordinated debt, the debt part of the convertible bonds, bonds repo, bank deposits (including agreement deposits, notice deposits and term deposits), NCDs, money market instrument, treasury bond futures and other financial instruments that laws and regulations or the CSRC allow funds to invest (yet subject to related regulations of the CSRC).
CPIC Zengfu Annually Open Pure Type Launching Securities Investment Fund	100.00	5,009,999	Investing in financial instruments with high liquidity including national bonds, government bond, local treasury bonds, financial bonds, enterprise bonds, corporate bonds, Central Bank bills, medium term notes, short-term commercial paper, super short-term commercial paper, SME private debt, asset-backed security, subordinated debt, the debt part of the convertible bonds, bonds repo, bank deposits (including agreement deposits, notice deposits and term deposits), NCDs, money market instrument, treasury bond futures and other financial instruments that laws and regulations or the CSRC allow funds to invest (yet subject to related regulations of the CSRC).
Pacific-Jiangsu Communications Holdings Co., Ltd. Debt Investment Plan (Phase I)	100.00	4,000,000	Investing in Taizhou Yangtze River Highway Bridge Project operated by Jiangsu Communications Holdings Co., Ltd. through debt investment plan.
Shanghai Genharmony Tongyi Science and Technology Innovation Industry Equity Investment Fund Partnership (Limited Partnership) ("Genharmony Tongyi")	99.97	2,979,000	Equity investment, equity investment management. (Except for items subject to approval according to law, carry out business activities independently within business license approved scope).
Changjiang Pension-Ansteel Group Infrastructure Debt Investment Plan	72.00	2,500,000	Investing in Pangang Xichang Vanadium & Titanium Resources Project operated by AnSteel Group Co., Ltd. through debt investment plan

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

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2020	2019
Long-term life insurance premiums	193,361	195,394
Short-term life insurance premiums	18,981	17,473
Property and casualty insurance premiums	149,722	134,650
	362,064	347,517

(b) Premiums ceded to reinsurers

	2020	2019
Long-term life insurance premiums ceded to reinsurers	(3,872)	(4,196)
Short-term life insurance premiums ceded to reinsurers	(2,013)	(1,456)
Property and casualty insurance premiums ceded to reinsurers	(18,856)	(16,706)
	(24,741)	(22,358)

(c) Net written premiums

	2020	2019
Net written premiums	337,323	325,159

7. INVESTMENT INCOME

	2020	2019
Interest and dividend income (a)	66,935	61,094
Realised gains (b)	19,966	6,174
Unrealised gains (c)	81	801
Charge of impairment losses on financial assets, net	(4,242)	(2,339)
	82,740	65,730

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2020	2019
Financial assets at fair value through profit or loss		
- Fixed maturity investments	64	86
- Funds	15	14
- Stocks	10	21
- Other equity investments	29	30
	118	151
Held-to-maturity financial assets		
- Fixed maturity investments	14,456	13,893
Loans and receivables		
- Fixed maturity investments	32,393	28,551
Available-for-sale financial assets		
- Fixed maturity investments	13,173	12,812
- Funds	1,437	1,199
- Stocks	2,759	2,267
- Other equity investments	2,599	2,221
	19,968	18,499
	66,935	61,094

(b) Realised gains

	2020	2019
Financial assets at fair value through profit or loss		
- Fixed maturity investments	197	127
- Funds	(5)	164
- Stocks	(71)	(20)
- Other equity investments	9	(125)
- Derivative instruments	24	(2)
	154	144
Available-for-sale financial assets		
- Fixed maturity investments	266	155
- Funds	1,838	759
- Stocks	16,717	5,075
- Other equity investments	487	41
	19,308	6,030
Others	504	-
	19,966	6,174

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(c) Unrealised gains

	2020	2019
Financial assets at fair value through profit or loss		
- Fixed maturity investments	(144)	167
- Funds	1	273
- Derivative instruments	140	(1)
- Stocks	74	391
- Wealth management product and other equity investments	10	(29)
	81	801

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2020		
	Gross	Ceded	Net
Life insurance death and other benefits paid	64,179	(2,331)	61,848
Claims incurred			
- Short-term life insurance	10,977	(616)	10,361
- Property and casualty insurance	87,027	(10,011)	77,016
Changes in long-term life insurance contract liabilities	133,273	(595)	132,678
Policyholder dividends	11,512	-	11,512
	306,968	(13,553)	293,415

	2019		
	Gross	Ceded	Net
Life insurance death and other benefits paid	60,430	(1,993)	58,437
Claims incurred			
- Short-term life insurance	9,569	(725)	8,844
- Property and casualty insurance	73,282	(8,963)	64,319
Changes in long-term life insurance contract liabilities	119,139	(666)	118,473
Policyholder dividends	10,777	-	10,777
	273,197	(12,347)	260,850

(All amounts expressed in RMB million unless otherwise specified)

9. FINANCE COSTS

	2020	2019
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	1,907	1,922
- Interest expense on policyholder dividends	645	657
- Lease liabilities	9	8
	2,561	2,587
Non-current liabilities		
- Interest expense on bonds payable	508	551
- Interest expense on asset-backed securities	208	238
- Lease liabilities	125	132
- Others	3	3
	844	924
	3,405	3,511

10. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	2020	2019
Employee benefit expense (including directors’ and supervisors’ emoluments) (Note 11)	24,388	24,084
Auditors’ remuneration	36	31
Short-term and low-value leases payments	117	269
Depreciation of property and equipment (Note 18)	1,791	1,708
Depreciation of investment properties (Note 20)	335	334
Depreciation of right-of-use assets (Note 19)	1,534	1,311
Amortisation of other intangible assets (Note 21)	725	597
Amortisation of other assets	18	15
Gains on disposal of items of property and equipment, intangible assets and other long-term assets	(4)	(15)
Charge of impairment loss on insurance receivables and other assets	152	115
Charge of impairment loss on financial assets, net (Note 7)	4,242	2,339
Foreign exchange loss/(income), net	1,428	(56)

(All amounts expressed in RMB million unless otherwise specified)

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

	2020	**2019**
Salaries, allowances and other short-term benefits	20,869	19,695
Contributions to defined contribution plans (1)	3,277	4,219
Early retirement benefit obligation	242	170
	24,388	24,084

(1) Contributions to defined contribution plans mainly include contributions made to the state pension schemes.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

(in RMB thousand)	**2020**	**2019**
Fees	950	1,379
Other remuneration		
- Salaries, allowances and other short-term benefits	3,722	6,036
- Contributions to defined contribution plans	799	786
- Deferred bonus (1)	-	780
- Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	-	-
	4,521	7,602
	5,471	8,981

(1) In order to motivate senior management and certain key employees, the Group operates deferred bonus plans.

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

Included in the fees is an amount of RMB 950 thousand paid to independent non-executive directors for the year ended 31 December 2020 (2019: RMB 1,379 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2020.

(in RMB thousand)	2020					
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
LIN Tingyi	350	-	-	-	-	350
CHEN Jizhong	-	-	-	-	-	-
JIANG Xuping	329	-	-	-	-	329
GAO Shanwen[1]	146	-	-	-	-	146
LI Jiashi[1]	125	-	-	-	-	125
	950	-	-	-	-	950

[1] Resigned from independent non-executive director in May 2020.

(in RMB thousand)	2019					
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
LIN Tingyi	146	-	-	-	-	146
CHEN Jizhong	-	-	-	-	-	-
JIANG Xuping	100	-	-	-	-	100
LIN Zhiquan	179	-	-	-	-	179
ZHOU Zhonghui	179	-	-	-	-	179
BAI Wei	175	-	-	-	-	175
GAO Shanwen	325	-	-	-	-	325
LI Jiashi	275	-	-	-	-	275
	1,379	-	-	-	-	1,379

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

(in RMB thousand)	2020				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive directors:					
KONG Qingwei[1]	-	799	249	-	1,048
FU Fan[2]	-	1,000	217	-	1,217
Non-executive directors:					
HUANG Dinan	-	-	-	-	-
SUN Xiaoning[3]	-	-	-	-	-
WU Junhao	-	-	-	-	-
WANG Tayu	-	300	-	-	300
KONG Xiangqing[3]	-	125	-	-	125
LI Qiqiang[3]	-	125	-	-	125
CHEN Xuanmin[3]	-	-	-	-	-
	-	2,349	466	-	2,815

[1] The final amount of remuneration of Mr. KONG Qingwei is yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.

[2] Executive director from June 2020; The final amount of remuneration of Mr. FU Fan is yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.

[3] Resigned from non-executive director in May 2020.

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

(in RMB thousand)	**2019**				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive directors:					
KONG Qingwei	-	1,483	217	-	1,700
HE Qing	780	1,170	160	-	2,110
Non-executive directors:					
HUANG Dinan	-	-	-	-	-
SUN Xiaoning	-	-	-	-	-
WU Junhao	-	-	-	-	-
WANG Tayu	-	275	-	-	275
KONG Xiangqing	-	275	-	-	275
LI Qiqiang	-	100	-	-	100
CHEN Xuanmin	-	-	-	-	-
	780	3,303	377	-	4,460

Pursuant to the resolution of the 2018 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB300,000 (before tax) per year. The 2018 annual general meeting also resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. Mr. HUANG Dinan, Ms. SUN Xiaoning, Mr. WU Junhao and Mr. CHEN Xuanmin, the non-executive director, waived remuneration during 2020 (2019: HUANG Dinan, SUN Xiaoning, WU Junhao, CHEN Xuanmin), Mr.CHEN Jizhong, the independent non-executive director, temporarily waived remuneration during 2020 (2019: CHEN Jizhong). Except for Mr. HUANG Dinan, Ms. SUN Xiaoning, Mr. WU Junhao, Mr. CHEN Xuanmin and Mr.CHEN Jizhong, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2020.

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors

(in RMB thousand)	2020				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
ZHU Yonghong	-	-	-	-	-
JI Zhengrong[1]	-	719	249	-	968
LU Ning	-	-	-	-	-
JIN Zaiming[2]	-	654	84	-	738
ZHANG Xinmei[2]	-	-	-	-	-
	-	1,373	333	-	1,706

[1] The final amount of remuneration of Mr. JI Zhengrong is yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.
[2] Resigned from supervisor in May 2020.

(in RMB thousand)	2019				
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
ZHU Yonghong	-	-	-	-	-
LU Ning	-	-	-	-	-
JIN Zaiming	-	1,460	210	-	1,670
ZHANG Xinmei	-	62	-	-	62
JI Zhengrong	-	1,001	167	-	1,168
YUAN Songwen	-	210	32	-	242
	-	2,733	409	-	3,142

Pursuant to the resolution of the 2018 annual general meeting, the allowance for each of the existing supervisors (excluding employees' representative supervisors) is RMB 300,000 (before tax) per year. MR. ZHU Yonghong, MR. LU Ning and Ms. ZHANG Xinmei, the supervisor, had waived remuneration during 2020. Except for MR. ZHU Yonghong, MR. LU Ning and Ms. ZHANG Xinmei, the supervisor, there was no other arrangement under which a supervisor waived or agreed to waive any remuneration during 2020 (2019: ZHU Yonghong, LU Ning and ZHANG Xinmei (since April 2019)).

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(d) Directors' retirement benefits

There was no retirement benefits paid to directors during 2020 and 2019.

(e) Directors' termination benefits

There was no termination benefits paid to directors during 2020 and 2019.

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

There was no payment to third parties for making available directors' services during 2020 and 2019.

(g) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There was no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors entered into by the company or subsidiary undertaking of the Company during 2020 and 2019.

(h) Directors' material interests in transactions, arrangements or contracts

There was no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(All amounts expressed in RMB million unless otherwise specified)

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose remuneration was the highest for the year ended 31 December 2020 in the Group include no director (2019: no director) whose emoluments were reflected in the analysis presented in Note 12.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is set out below:

	2020	**2019**
Nil to RMB 1,000,000	-	-
RMB 1,000,001 to RMB 2,000,000	-	-
RMB 2,000,001 to RMB 3,000,000	-	-
RMB 3,000,001 to RMB 4,000,000	-	-
RMB 4,000,001 to RMB 5,000,000	1	1
RMB 5,000,001 to RMB 6,000,000	3	2
RMB 6,000,001 to RMB 7,000,000	-	1
RMB 7,000,001 to RMB 8,000,000	1	1
Total	5	5

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

(in RMB thousand)	**2020**	**2019**
Salaries, allowances and other short-term benefits	27,346	27,700
Contributions to defined contribution plans	950	1,105
	28,296	28,805
The number of non-director individuals for the above remuneration	5	5

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2020	2019
Current income tax	4,986	(267)
Deferred income tax (Note 34)	(1,100)	(121)
	3,886	(388)

(b) Tax recorded in other comprehensive income

	2020	2019
Deferred income tax (Note 34)	3,259	3,383

(c) Reconciliation of tax expense

Current income tax has been provided at the rate of 25% on the assessable profits arising in Mainland China. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the PRC statutory income tax rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	2020	2019
Profit before tax	29,238	27,966
Tax computed at the statutory tax rate	7,310	6,992
Adjustments to income tax in respect of previous periods[Note]	(181)	(4,900)
Income not subject to tax	(3,801)	(3,038)
Expenses not deductible for tax	431	447
Others	127	111
Tax expense at the Group's effective rate	3,886	(388)

Note: Pursuant to the Announcement on the Pre-tax Deduction Policy for the Commission and Brokerage Expenses of Insurance Enterprises issued by the Ministry of Finance and the State Administration of Taxation (Notice of the Ministry of Finance and the State Administration of Taxation No.72, 2019), the deductible commissions rate is increased to 18%, with allowing any excess amount to be carried forward to future years. The commission rate is calculated as insurance business related commission and brokerage expenses over the current year total premium income less surrenders. This announcement was effective for the 2018 annual income tax filing for insurance companies and resulted the "Adjustments to income tax in respect of previous periods" of 2019.

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share was calculated by dividing the net profit of the current period attributable to shareholders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2020.

	2020	2019
Consolidated net profit for the year attributable to shareholders of the parent	24,584	27,741
Weighted average number of ordinary shares in issue (million)	9,353	9,062
Basic earnings per share	RMB 2.63	RMB 3.06

The weighted average number of ordinary shares in issue has been adjusted to reflect the impact of the issuance of 111,668,291 GDRs in 2020, representing 558,341,455 A shares of the Company (Note 1).

(b) Diluted earnings per share

Diluted earnings per share was calculated by dividing the net profit of the current period attributable to the shareholders of the parent by the adjusted weighted average number of ordinary shares based on assuming full exercise of the over-allotment option as below.

	2020	2019
Consolidated net profit for the year attributable to shareholders of the parent	24,584	27,741
Weighted average number of ordinary shares in issue (million)	9,353	9,062
Adjustment for:		
Assumed vesting of the over-allotment option	-	-
Weighted average number of ordinary shares for diluted earnings per share	9,353	9,062
Diluted earnings per share	RMB 2.63	RMB 3.06

The Company had no dilutive potential ordinary shares in 2019.

(All amounts expressed in RMB million unless otherwise specified)

16. OTHER COMPREHENSIVE INCOME/(LOSS)

	2020	**2019**
Exchange differences on translation of foreign operations	(34)	13
Available-for-sale financial assets		
Gains arising during the year	37,132	27,439
Transfer out of other comprehensive income/(loss)	(19,308)	(6,030)
Fair value change on available-for-sale financial assets attributable to policyholders	(8,840)	(9,788)
Impairment charges reclassified to the income statement	3,925	2,095
	12,909	13,716
Income tax relating to these items	(3,259)	(3,383)
Other comprehensive income	9,616	10,346

17. GOODWILL

	As at 31 December 2020			
	Beginning of year	Additions	Disposals	End of year
Changjiang Pension	149	-	-	149
City Island	813	-	-	813
CPIC Funds	395	-	-	395
	1,357	-	-	1,357
Less: Impairment provision	-	-	-	-
	1,357	-	-	1,357

	As at 31 December 2019			
	Beginning of year	Additions	Disposals	End of year
Changjiang Pension	149	-	-	149
City Island	813	-	-	813
CPIC Funds	395	-	-	395
	1,357	-	-	1,357
Less: Impairment provision	-	-	-	-
	1,357	-	-	1,357

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. As at 31 December 2020, the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is greater than its carrying amount, thus no impairment loss is recognised.

(All amounts expressed in RMB million unless otherwise specified)

18. PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2019	16,218	3,386	1,152	5,403	2,986	29,145
Additions	82	605	64	712	450	1,913
Transfer	1,921	(2,004)	-	-	49	(34)
Transfer to investment properties, net (Note 20)	(35)	-	-	-	-	(35)
Decrease	(43)	-	(69)	(483)	-	(595)
At 31 December 2019	18,143	1,987	1,147	5,632	3,485	30,394
Additions	72	732	61	616	326	1,807
Transfer	863	(897)	-	-	-	(34)
Transfer from investment properties, net (Note 20)	102	-	-	-	-	102
Decrease	(131)	-	(75)	(521)	-	(727)
At 31 December 2020	19,049	1,822	1,133	5,727	3,811	31,542
Accumulated depreciation and impairment						
At 1 January 2019	(3,594)	-	(770)	(3,351)	(2,129)	(9,844)
Depreciation charge	(549)	-	(104)	(699)	(356)	(1,708)
Transfer from investment properties, net (Note 20)	(29)	-	-	-	-	(29)
Decrease	15	-	64	473	-	552
At 31 December 2019	(4,157)	-	(810)	(3,577)	(2,485)	(11,029)
Depreciation charge	(589)	-	(97)	(734)	(371)	(1,791)
Transfer to investment properties, net (Note 20)	2	-	-	-	-	2
Decrease	2	-	72	495	-	569
At 31 December 2020	(4,742)	-	(835)	(3,816)	(2,856)	(12,249)
Net book value						
At 31 December 2019	13,986	1,987	337	2,055	1,000	19,365
At 31 December 2020	14,307	1,822	298	1,911	955	19,293

(All amounts expressed in RMB million unless otherwise specified)

19. RIGHT-OF-USE ASSETS

	Buildings	Motor vehicles	Prepaid land lease payment	Other equipment	Total
Cost:					
1 January 2019	3,769	1	355	3	4,128
Additions	1,753	3	350	14	2,120
Disposals	(136)	-	-	-	(136)
31 December 2019	5,386	4	705	17	6,112
Additions	1,295	3	715	2	2,015
Disposals	(582)	(1)	-	(2)	(585)
31 December 2020	6,099	6	1,420	17	7,542
Accumulated depreciation:					
1 January 2019	-	-	(11)	-	(11)
Depreciation charge	(1,293)	(1)	(14)	(3)	(1,311)
Disposals	20	-	-	-	20
31 December 2019	(1,273)	(1)	(25)	(3)	(1,302)
Depreciation charge	(1,504)	(2)	(25)	(3)	(1,534)
Disposals	460	-	-	2	462
31 December 2020	(2,317)	(3)	(50)	(4)	(2,374)
Carrying amount:					
31 December 2019	4,113	3	680	14	4,810
31 December 2020	3,782	3	1,370	13	5,168

There was no such case as the recoverable amount was lower than the carrying amount of the right-of-use assets at the end of the year, thus no provision for impairment of right-of-use assets was required.

(All amounts expressed in RMB million unless otherwise specified)

20. INVESTMENT PROPERTIES

Cost	
At 1 January 2019	10,592
Additions	11
Transfer from property and equipment, net	35
At 31 December 2019	10,638
Additions	22
Transfer to property and equipment, net	(102)
At 31 December 2020	10,558
Accumulated depreciation	
At 1 January 2019	(2,050)
Depreciation charge	(334)
Transfer to property and equipment, net	29
At 31 December 2019	(2,355)
Depreciation charge	(335)
Transfer from property and equipment, net	(2)
At 31 December 2020	(2,692)
Carrying amount	
At 31 December 2019	8,283
At 31 December 2020	7,866

The fair values of investment properties of the Group as at 31 December 2020 amounted to RMB 11,470 million (31 December 2019: RMB 11,887 million), respectively, which were estimated by the Company based on the independent appraisers' valuations. The Company leases part of its investment properties to CPIC Property, CPIC Life, Changjiang Pension, CPIC Senior Living Investment and CPIC Allianz Health charges rentals based on the areas occupied by the respective entities. These properties are categorised as property and equipment of the Group in the consolidated balance sheet.

(All amounts expressed in RMB million unless otherwise specified)

21. OTHER INTANGIBLE ASSETS

	Software	Franchise License	Total
Cost			
At 1 January 2019	5,227	646	5,873
Additions	994	-	994
Transfer	34	-	34
Decrease	(1)	-	(1)
At 31 December 2019	6,254	646	6,900
Additions	1,046	-	1,046
Transfer	34	-	34
Decrease	(5)	-	(5)
At 31 December 2020	7,329	646	7,975
Accumulated amortisation			
At 1 January 2019	(3,331)	-	(3,331)
Amortisation	(597)	-	(597)
At 31 December 2019	(3,928)	-	(3,928)
Amortisation	(725)	-	(725)
Decrease	1	-	1
At 31 December 2020	(4,652)	-	(4,652)
Carrying amount			
At 31 December 2019	2,326	646	2,972
At 31 December 2020	2,677	646	3,323

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES

	31 December 2020							
	Historical Cost	At 1 January 2020	Increase / (Decrease)	Share of profit	Adjustment of other comprehensive income/(loss)	Other equity movement	Dividend declared	At 31 December 2020
Shanghai Juche Information Technology Co., Ltd. ("Juche")	3	9	-	2	-	-	-	11
Zhongdao Automobile Rescue Industry Co., Ltd. ("Zhongdao")	17	34	-	5	-	-	-	39
Shanghai Proton and Heavy Ion Hospital ("Zhizhong Hospital")	100	66	-	4	-	-	-	70
Shanghai Dedao Co., Ltd. ("Dedao")	5	1	-	-	-	-	-	1
Shanghai Better Sharing Technology Co., Ltd. ("Better Sharing")	81	58	-	(5)	-	5	-	58
Shanghai Heji Business Management LLP. ("Heji")	200	477	(300)	1	-	-	(5)	173
Changjiang Pension - China National Chemical Corporation Infrastructure Debt Investment Plan ("CHEMCHINA Debt Investment Plan")	2,160	2,164	-	116	-	-	(116)	2,164
Changjiang Pension - Sichuan Railway Xugu Highway Investment Infrastructure Debt Investment Plan ("Sichuan Railway Investment Plan")	250	250	-	14	-	-	(14)	250
Changjiang Pension - Yunnan Energy Investment Infrastructure Debt Investment Plan ("Yunnan Energy Investment Plan")	3,610	3,617	-	223	-	-	(223)	3,617
Ningbo Zhilin Investment Management LLP. ("Ningbo Zhilin")	2,416	2,514	-	175	-	-	(121)	2,568
Beijing More Health Technology Group Co., Ltd.("Beijing Miaoyijia")	413	387	-	(37)	-	-	-	350
Jiaxing Yishang Equity Investment LLP. ("Jiaxing Yishang")	474	486	-	29	-	-	-	515
Lianren Digital Health Technology Co., Ltd. ("Lianren Digital Health")	500	500	-	(58)	-	-	-	442
Zhejiang Xin'an Shuzhi Technology Co., Ltd. ("Xin'an Technology")	9	-	9	1	-	-	-	10
Yangtze River Delta Synergy Industry Investment Fund ("Yangtze River Delta Fund")	1,195	-	1,195	32	-	-	-	1,227
Shanghai Lingang GLP International Logistics Development Co.,Ltd. ("Lingang GLP")	1,057	-	1,057	-	-	-	-	1,057
Shanghai Hi-Tech Park United Development Co.,Ltd. (Hi-Tech)	1,856	-	1,856	-	-	-	-	1,856
Shanghai Lingang Yunhui Economic Development Co.,Ltd. (Lingang Yunhui)	55	-	55	-	-	-	-	55
Shanghai Guangci Memorial Hospital Co.,Ltd. ("Guangci Hospital")	91	-	91	-	-	-	-	91
Total	14,492	10,563	3,963	502	-	5	(479)	14,554

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

On 8 May 2020, the shareholders of Shanghai Xingongying Information Technology Co., Ltd. ("Xingongying") changed and Xingongying's total registered capital increased from RMB 3.106 million to RMB 3.112 million. After this change, CPIC Property's shareholding in Xingongying became 6.27%, and CPIC Online Services's shareholding in Xingongying became 0.67% respectively. On 14 September 2020, the equity of other investors of Xingongying changed and Xingongying's total registered capital increased from RMB 3.112 million to RMB 3.172 million. After this change, CPIC Property's shareholding in Xingongying became 6.16%, and CPIC Online Services's shareholding in Xingongying became 0.66% respectively. On 13 December 2020, Xingongying was renamed as Better Sharing. The category of enterprise was changed from limited liability company to joint stock limited company with a registered capital of RMB 60 million. CPIC Property subscribed capital contribution of RMB 3.693 million, and CPIC Online Services subscribed capital contribution of RMB 0.393 million respectively, and the shareholding percentage remained unchanged.

On 14 April 2020, additional capital contributions from another shareholder of Jiaxing Yishang increased the paid-in capital of Jiaxing Yishang from RMB 500 million to RMB 500.501 million. After this capital injection, CPIC Life's shareholding in Jiaxing Yishang was diluted to 94.72%.

Pursuant to the Notice of Shanghai Heji Business Management Limited Liability Partnership's payment to limited partners for the distribution of proceeds during the second phase of the project, Heji returned the capital of RMB 300 million to CPIC Property in March 2020, the total paid-in capital of Heji became RMB 202 million. CPIC Property's shareholding in Heji decreased from 99.60% to 99.01%.

On 7 May 2020, Pacific Medical & Healthcare, a subsidiary of CPIC Life, entered into an investment cooperation agreement of Xin'an Technology with Quzhou Financial Holdings Group Co., Ltd. and some other investment companies. Pacific Medical & Healthcare purchased 9% shares of Xin'an Technology with a consideration of RMB 6.7086 million and then subscribed additional shares of Xin'an Technology proportionally with a consideration of RMB 2.25 million. On 23 June 2020, Xin'an Technology completed the relevant capital modification registration and the total registered capital increased to RMB 13.354 million.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

CPIC Life entered into an agreement of Yangtze River Delta Fund with Shanghai Guofang FOF Equity Investment Management Co., Ltd. and some other investment companies. CPIC Life subscribed capital contribution of RMB 2,000 million. As at 31 December 2020, CPIC Life had paid RMB 1,195 million and held 27.75% of ownership interest.

In August 2020, Genharmony Tongyi, a structured entity held by CPIC Life, entered into an equity transaction contract with Shanghai Lingang Economic Development (Group) Co., Ltd ("Lingang Economic"), purchased 20% shares of Lingang GLP with a consideration of RMB 1,057 million. In October 2020, Genharmony Tongyi entered into an equity transaction contract with Lingang Economic, purchased 20% shares of Hi-Tech with a consideration of RMB 1,856 million. In December 2020, Genharmony Tongyi entered into an equity transaction contract with Lingang Yunhui and Lingang Economic, signed articles of association and shareholders agreement of Lingang Yunhui with Lingang Economic, purchased 20% shares of Lingang Yunhui with a consideration of RMB 55 million.

The Company established Pacific-Guangci Memorial Hospital Equity Investment Plan ("Plan"). On 15 December 2020, CPIC Asset Management, the asset manager of the Plan, signed a contract with Guangci Hospital, Ruijin Hospital of Shanghai Jiao Tong University School of Medicine and Libergood (H.K.) Guangci Ltd on the capital injection to Guangci Hospital. The Plan subscribed the Guangci Hospital's newly-increased registered capital of RMB 10,573.3 thousand with a consideration of RMB 90,666.6 thousand. After this subscription, the Company held 40% shares of Guangci Hospital through the Plan.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

Nature of investment in associates as at 31 December 2020

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Juche	Shanghai	-	37.42%	37.80%	5,882	5,882	Internet
Zhongdao	Shanghai	-	26.37%	26.67%	63,000	58,000	Road rescue
Zhizhong Hospital	Shanghai	-	15.41%	20.00%	500,000	500,000	Oncology,medical laboratory, clinical fluid, etc.
Dedao	Shanghai	-	25.00%	25.00%	20,000	20,000	Computer information technology, technical development in the field of automotive software technology, etc
Better Sharing [(1)]	Shanghai	-	6.73%	6.82%	60,000	60,000	Technical development in the field of computer information technology, technical consulting, etc.
Beijing Miaoyijia	Beijing	-	19.66%	20.00%	75,009	69,190	Information transmission, software and information technology services
Lianren Digital Health	Shanghai	-	24.57%	25.00%	2,000,000	2,000,000	Information technology services
Xin'an Technology[(2)]	Quzhou	-	8.85%	9.00%	13,354	13,354	Network technology development services
Lingang GLP	Shanghai	-	19.65%	20.00%	US$ 119,990 thousnd	US$ 119,990 thousand	Real estate
Hi-Tech	Shanghai	-	19.65%	20.00%	453,250	453,250	Business services
Lingang Yunhui	Shanghai	-	19.65%	20.00%	275,000	275,000	Real estate
Guangci Hospital	Shanghai	-	40.00%	40.00%	26,433	26,433	Health care services: internal medicine, surgery, Obstetrics and Gynecology, paediatrics,etc.
Heji[(3)]	Shanghai	-	97.53%		N/A	202,000	Enterprise management, industrial investment, investment management, assets management, consulting, etc.
CHEMCHINA Debt Investment Plan[(4)]	N/A	-	70.55%		N/A	3,000,000	Debt investment plan
Sichuan Railway Investment Plan [(5)]	N/A	-	38.17%		N/A	600,000	Debt investment plan

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

Nature of investment in associates as at 31 December 2020 (continued)

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Ningbo Zhilin[6]	Ningbo	-	88.46%		N/A	2,684,798	Investment management, assets management
Yunnan Energy Investment Plan [7]	N/A	-	92.94%		N/A	3,800,000	Debt investment plan
Jiaxing Yishang [8]	Jiaxing	-	93.10%		N/A	500,501	Equity investment
Yangtze River Delta Fund	Shanghai	-	27.28%		N/A	4,194,159	Equity investment

Note:

(1) CPIC Property has significant influence over Better Sharing by accrediting a director to the company. Therefore, Better Sharing is accounted under equity method.

(2) According to the articles of association of Xin'an Technology, Pacific Medical & Healthcare has significant influence over Xin'an Technology by accrediting a director to the company. Therefore, Xin'an Technology is accounted under equity method.

(3) CPIC Property holds over 50% shares of Heji. Since CPIC Group cannot direct the relevant activities of Heji according to the partnership agreement of Heji, Heji is accounted under equity method.

(4) CPIC Life and Changjiang Pension hold over 50% shares of CHEMCHINA Debt Investment Plan. Since CPIC Group cannot direct the relevant activities of CHEMCHINA Debt Investment Plan according to the Agreement of Investment Plan, CHEMCHINA Debt Investment Plan is accounted under equity method.

(5) CPIC Life and Changjiang Pension hold shares of Sichuan Railway Investment Plan. Changjiang Pension is the issuer and manager of Sichuan Railway Investment Plan. Since CPIC Group has significant influence over Sichuan Railway Investment Plan, Sichuan Railway Investment Plan is accounted under equity method.

(All amounts expressed in RMB million unless otherwise specified)

22. INTERESTS IN ASSOCIATES (continued)

(6) CPIC Life holds over 50% shares of Ningbo Zhilin. Since CPIC Group cannot direct the relevant activities of Ningbo Zhilin according to the partnership agreement of Ningbo Zhilin, Ningbo Zhilin is accounted under equity method.

(7) CPIC Life and Changjiang Pension hold over 50% shares of Yunnan Energy Investment Plan. Since CPIC Group cannot direct the relevant activities of Yunnan Energy Investment Plan according to the Agreement of Investment Plan, Yunnan Energy Investment Plan is accounted under equity method. Yunnan Energy Investment Plan was terminated on 1 February 2021.

(8) CPIC Life holds over 50% shares of Jiaxing Yishang. Since CPIC Group cannot direct the relevant activities of Jiaxing Yishang according to the partnership agreement of Jiaxing Yishang, Jiaxing Yishang is accounted under equity method.

Summarised financial information for principal associates

	31 December 2020/2020			
	Total assets as at 31 December	Total liabilities as at 31 December	Total revenue in current year	Net profit in current year
Ningbo Zhilin	2,922	32	124	109
CHEMCHINA Debt Investment Plan	3,007	2	178	162
Yunnan Energy Investment Plan	3,809	2	240	233

Summarised financial information for other associates

	2020	2019
Net profit/(loss)	557	(209)
Other comprehensive income	-	-
Total comprehensive income/(loss)	557	(209)
Total comprehensive (loss)/income attributable to the Group	(12)	6
Total carrying amount of the Group’s investment as at the year end	6,205	2,268

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES

	31 December 2020	31 December 2019
Share of net assets		
Shanghai Ruiyongjing Real Estate Development Co., Ltd. (“Ruiyongjing Real Estate”)	9,833	9,834
Others	56	45
	9,889	9,879

Particulars of the joint venture as at 31 December 2020 are as follows:

Name	Place of incorporation	Percentage of ownership interest Direct	Indirect	Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd. (“Binjiang-Xiangrui”)	Shanghai	-	35.16%	35.70%	150,000	30,000	Real estate
Taiyi (Shanghai) Information Technology Co., Ltd.	Shanghai	-	48.00%	48.00%	10,000	10,000	Used car information service platform
Hangzhou Dayu Internet Technology Co., Ltd.	Hangzhou	-	20.25%	20.25%	13,333	13,333	Technical development, technical service and technical consulting
Aizhu (Shanghai) Information Technology Co., Ltd.	Shanghai	-	35.00%	35.00%	10,000	6,950	Network technology, technical consulting and technical service
Pacific Euler Hermes Insurance Sales Co., Ltd.	Shanghai	-	50.24%	50.00%	50,000	50,000	Insurance sales
Shanghai Dabaoguisheng Information Technology Co., Ltd.	Shanghai	-	33.42%	34.00%	100,000	22,200	Third party operation services of insurance industry
Ruiyongjing Real-Estate (1)	Shanghai	-	68.80%	57.14%	14,050,000	14,050,000	Real estate
Pacific Orpea (Shanghai) Senior Care Management Co., Ltd. (the “Pacific Orpea”) (2)	Shanghai	-	55.04%	60.00%	10,000	10,000	Operation and management of pension industry, technical consulting

(All amounts expressed in RMB million unless otherwise specified)

23. INVESTMENT IN JOINT VENTURES (continued)

Note:

(1) CPIC Life holds over 50% of the ownership interest of Ruiyongjing Real Estate. Since CPIC Group cannot direct the relevant activities of Ruiyongjing Real Estate according to the Articles of Association of Ruiyongjing Real Estate, Ruiyongjing Real Estate is accounted under equity method.

(2) CPIC Senior Living Investment holds over 50% of the ownership interest of Pacific Orpea. Since CPIC Group cannot direct the relevant activities of Pacific Orpea according to the Articles of Association of Pacific Orpea, Pacific Orpea is accounted under equity method.

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

	2020 (RMB thousand)	**2019 (RMB thousand)**
The joint ventures' net profit/(loss)	25,357	(12,523)

As at 31 December 2020, the Group's investment in joint ventures had no impairment.

Commitments related to investment in joint ventures are mentioned in Note 52.

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

	31 December 2020	**31 December 2019**
Listed		
Debt investments		
- Government bonds	1,309	749
- Finance bonds	5,571	5,725
- Corporate bonds	8,343	9,308
Sub-total	15,223	15,782
Unlisted		
Debt investments		
- Government bonds	159,173	108,981
- Finance bonds	89,754	94,551
- Corporate bonds	65,401	75,980
Sub-total	314,328	279,512
Less: Impairment provisions	(191)	(47)
Net Value	329,360	295,247

(All amounts expressed in RMB million unless otherwise specified)

25. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2020	31 December 2019
Debt investments		
- Finance bonds	1,999	2,000
- Debt investment plans	187,440	151,446
- Wealth management products	156,286	138,528
- Preferred shares	32,000	32,000
- Loans	2,772	236
Sub-total	380,497	324,210
Less: Impairment provisions	(323)	(197)
Net Value	380,174	324,013

As at 31 December 2020, CPIC Asset Management, a subsidiary of the Company, had 91 existing debt investment plans issued by it with a total value of RMB 141.755 billion. Of these, the existing amounts of investments classified as loans and receivables with a book value of approximately RMB 67.491 billion were recognised on the Group's consolidated financial statement (As at 31 December 2019, CPIC Asset Management, a subsidiary of the Company, had 81 existing debt investment plans issued by it with a total value of RMB 117.469 billion. Of these, the existing amounts of investments classified as loans and receivables with a book value of approximately RMB 54.941 billion were recognised on the Group's consolidated financial statement). As at 31 December 2020, Changjiang Pension, a subsidiary of the Company, had 64 existing debt investment plans issued by it with a total value of RMB 112.714 billion. Of these, the existing amounts of investments classified as loans and receivables with a book value of approximately RMB 40.520 billion were recognised on the Group's consolidated financial statement (As at 31 December 2019, Changjiang Pension, a subsidiary of the Company, had 57 existing debt investment plans issued by it with a total value of RMB 101.912 billion. Of these, the existing amounts of investments classified as loans and receivables with a book value of approximately RMB 34.816 billion were recognised on the Group's consolidated financial statement). Meanwhile, as at 31 December 2020, the Group also had investments in debt investment plans classified as loans and receivables launched by other insurance asset management companies with a book value of approximately RMB 79.429 billion (As at of 31 December 2019: approximately RMB 61.689 billion). The amount of debt investment plans guaranteed by a third party or by pledge for that invested by the Group is about RMB 138.458 billion. For debt investment plans launched by CPIC Asset Management and Changjiang Pension and invested by the Group, the Group did not provide any guarantees or financial support. The Group's maximum exposure to loss in the debt investment plans is limited to their carrying amounts.

26. RESTRICTED STATUTORY DEPOSITS

	31 December 2020	31 December 2019
At the beginning of the year	6,658	6,738
Movement	200	(80)
At the end of the year	6,858	6,658

In accordance with relevant provision of Insurance Law of the PRC, CPIC Property, CPIC Life, Changjiang Pension, CPIC Allianz Health and PAAIC should place 20% of its issued capital as restricted statutory deposits, respectively.

(All amounts expressed in RMB million unless otherwise specified)

26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2020		
	Amount	Storage	Period
CPIC Property			
China Minsheng Bank	1,162	Term deposits	5 years
China Zheshang Bank	1,100	Term deposits	5 years
Industrial Bank	440	Term deposits	5 years and 1 month
Bank of Communications	368	Term deposits	5 years
China Minsheng Bank	274	Term deposits	5 years and 1 month
Bank of Communications	250	Term deposits	5 years and 1 month
Bank of Shanghai	200	Term deposits	5 years
China CITIC Bank	100	Term deposits	5 years
Subtotal	3,894		
CPIC Life			
China Guangfa Bank	500	Term deposits	5 years
China Construction Bank	364	Term deposits	3 years
Agricultural Bank of China	320	Term deposits	3 years
Bank of Nanjing	260	Term deposits	5 years and 1 month
China Minsheng Bank	240	Term deposits	5 years and 1 month
Subtotal	1,684		
Changjiang Pension			
Bank of Hangzhou	300	Term deposits	5 years and 1 month
Bank of Communications	200	Term deposits	5 years and 1 month
Bank of Nanjing	200	Term deposits	5 years and 1 month
China CITIC Bank	100	Term deposits	5 years and 1 month
Subtotal	800		
CPIC Allianz Health			
China Zheshang Bank	200	Term deposits	5 years
Bank of Communications	140	Term deposits	5 years
Subtotal	340		
PAAIC			
China CITIC Bank	60	Term deposits	3 years
Agricultural Bank of China	60	Term deposits	3 years
Shanghai Pudong Development Bank	10	Term deposits	3 years
Bank of Communications	10	Term deposits	3 years
Subtotal	140		
Total	6,858		

(All amounts expressed in RMB million unless otherwise specified)

26. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2019		
	Amount	Storage	Period
CPIC Property			
China Minsheng Bank	1,162	Term deposit	5 years
China Zheshang Bank	1,100	Term deposit	5 years
Industrial Bank	440	Term deposit	5 years and 1 month
Bank of Communications	368	Term deposit	5 years
China Minsheng Bank	274	Term deposit	5 years and 1 month
Bank of Communications	250	Term deposit	5 years and 1 month
Bank of Shanghai	200	Term deposit	5 years
China CITIC Bank	100	Term deposit	5 years
Subtotal	3,894		
CPIC Life			
China Guangfa Bank	500	Term deposit	5 years
Agricultural Bank of China	320	Term deposit	3 years
Bank of Nanjing	260	Term deposit	5 years and 1 month
China Minsheng Bank	240	Term deposit	5 years and 1 month
Bank of Communications	200	Term deposit	3 years
China Construction Bank	164	Term deposit	5 years
Subtotal	1,684		
Changjiang Pension			
Bank of Hangzhou	300	Term deposit	5 years and 1 month
Bank of Communications	200	Term deposit	5 years and 1 month
China CITIC Bank	100	Term deposit	5 years and 1 month
Subtotal	600		
CPIC Allianz Health			
China Zheshang Bank	200	Term deposit	5 years
Bank of Communications	140	Term deposit	5 years
Subtotal	340		
PAAIC			
China CITIC Bank	60	Term deposit	3 years
Agricultural Bank of China	60	Term deposit	3 years
Shanghai Pudong Development Bank	10	Term deposit	3 years
Bank of Communications	10	Term deposit	3 years
Subtotal	140		
Total	6,658		

(All amounts expressed in RMB million unless otherwise specified)

27. TERM DEPOSITS

Maturity Period	31 December 2020	31 December 2019
Within 3 months (including 3 months)	3,426	21,997
3 months to 1 year (including 1 year)	26,965	2,939
1 to 2 years (including 2 years)	16,550	15,800
2 to 3 years (including 3 years)	75,520	16,470
3 to 4 years (including 4 years)	48,355	41,080
4 to 5 years (including 5 years)	22,000	48,770
Over 5 years	150	700
Total	192,966	147,756

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	31 December 2020	31 December 2019
Listed		
Equity investments		
- Stocks	127,216	90,373
- Funds	6,511	8,056
Debt investments		
- Government bonds	7,526	7,476
- Finance bonds	5,589	5,389
- Corporate bonds	64,249	64,302
Sub-total	211,091	175,596
Unlisted		
Equity investments		
- Funds	57,223	40,369
- Wealth management products	1,218	452
- Other equity investments	75,071	51,554
- Preferred shares	13,131	13,621
Debt investments		
- Government bonds	84,040	72,170
- Finance bonds	32,017	36,294
- Corporate bonds	120,597	118,781
- Wealth management products	1,770	2,985
Sub-total	385,067	336,226
Total	596,158	511,822

(All amounts expressed in RMB million unless otherwise specified)

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	**31 December 2019**
Listed		
Equity investments		
- Stocks	70	237
- Funds	4	88
Debt investments		
- Government bonds	38	11
- Finance bonds	342	253
- Corporate bonds	2,328	2,558
Sub-total	2,782	3,147
Unlisted		
Equity investments		
- Funds	411	232
- Wealth management products	228	277
- Other equity investments	8,641	595
Debt investments		
- Corporate bonds	390	666
- Wealth management products	18	11
- Debt investment plans	3	3
Sub-total	9,691	1,784
Total	12,473	4,931

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss as at 31 December 2020 amounted to RMB 8,890 million (31 December 2019: RMB 886 million). The rest are trading assets, with no material limitation in realisation.

30. DERIVATIVE FINANCIAL ASSETS

	31 December 2020	**31 December 2019**
Derivative financial assets		
Foreign exchange forward contracts	140	-

At 31 December 2020, the derivative financial assets were mainly foreign exchange forward contracts with a notional amount equivalent to RMB 3,274 million (31 December 2019: none).

(All amounts expressed in RMB million unless otherwise specified)

31. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2020	31 December 2019
Securities - bonds		
Inter-bank market	9,886	25,028
Stock exchange	4,441	3,017
	14,327	28,045

The Group does not sell or re-pledge the collateral underlying the securities purchased under agreements to resell.

32. INTEREST RECEIVABLES

	31 December 2020	31 December 2019
Interest receivables from debt investments	13,604	13,398
Interest receivables from deposits	5,386	4,675
Interest receivables from loans	1,616	1,453
Interest receivables from securities purchased under agreements to resell	1	6
Sub-total	20,607	19,532
Less: Bad debt provision	(44)	(39)
	20,563	19,493

33. REINSURANCE ASSETS

	31 December 2020	31 December 2019
Reinsurers' share of insurance contracts (Note 40)	27,719	25,560

(All amounts expressed in RMB million unless otherwise specified)

34. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

	31 December 2020	**31 December 2019**
Net deferred income tax (liabilities)/assets, at beginning of year	(2,051)	1,211
Recognised in profit or loss (Note 14(a))	1,100	121
Recognised in other comprehensive income (Note 14(b))	(3,259)	(3,383)
Net deferred income tax liabilities, at end of year	(4,210)	(2,051)

	31 December 2020	**31 December 2019**
Insurance contract liabilities	1,684	1,267
Provision for asset impairment	1,491	787
Commission and brokerage expenses	402	473
Changes in fair value of financial instruments	(7,468)	(4,216)
Adjustment in fair value arising from acquisition of subsidiaries	(892)	(921)
Others	573	559
Net deferred income tax liabilities	(4,210)	(2,051)
Represented by:		
Deferred income tax assets	845	860
Deferred income tax liabilities	(5,055)	(2,911)

(All amounts expressed in RMB million unless otherwise specified)

35. INSURANCE RECEIVABLES

	31 December 2020	31 December 2019
Insurance receivables	30,692	23,946
Provision for impairment of insurance receivables	(820)	(690)
	29,872	23,256

An aging analysis of the insurance receivables is as follows:

	31 December 2020	31 December 2019
Within 3 months (including 3 months)	14,785	11,599
Over 3 months and within 1 year (including 1 year)	10,544	8,680
Over 1 year	4,543	2,977
	29,872	23,256

Insurance receivables include premium receivables from policyholders or agents and receivables from reinsurers.

The credit terms for premium receivables from life insurance policyholders are 60 days. CPIC Property normally collects premium receivables from agents on a monthly or quarterly basis, and certain premiums are collected by CPIC Property in installments. According to the Group's credit policy, the credit terms for premium receivables cannot be longer than the insurance coverage period. The Group and reinsurers normally settle receivables and payables on a quarterly basis.

The Group's insurance receivables relate to a large number of counterparties, and there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

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

	31 December 2020	31 December 2019
Insurance receivables that are individually determined to be impaired	63	64
Related provision for impairment	(53)	(54)
	10	10

(All amounts expressed in RMB million unless otherwise specified)

36. OTHER ASSETS

	31 December 2020	**31 December 2019**
Receivable for securities	5,133	3,963
Due from a related-party (1)	1,614	1,614
Receivables from external parties	1,373	1,042
Prepaid tax	1,292	4
Due from agents	278	276
Co-insurance receivables	101	123
Others	5,066	4,375
	14,857	11,397

(1) As at 31 December 2020, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related tax expenses amounted to approximately RMB 1,614 million (31 December 2019: RMB 1,614 million).

37. CASH AND SHORT-TERM TIME DEPOSITS

	31 December 2020	**31 December 2019**
Cash at banks and on hand	18,641	13,530
Time deposits with original maturity of no more than three months	1,132	358
Other monetary assets	1,105	984
	20,878	14,872

The Group’s bank balances denominated in RMB amounted to RMB 18,708 million as at 31 December 2020 (31 December 2019: RMB 13,416 million). Under PRC’s foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business after obtaining approval from foreign exchange regulatory authorities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term time deposits approximate their fair values.

As at 31 December 2020, RMB 1,079 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2019: RMB 959 million).

As at 31 December 2020, RMB 438 million in the Group's cash and short-term time deposits balance were restricted for special-purpose use (31 December 2019: RMB 371 million).

(All amounts expressed in RMB million unless otherwise specified)

38. ISSUED CAPITAL

	31 December 2020	**31 December 2019**
Number of shares issued and fully paid at RMB 1 each (million)	9,620	9,062

In June 2020, the Company issued 102,873,300 GDRs on the LSE and listed on the LSE. In July 2020, the Company further issued 8,794,991 GDRs. Each GDR represents five A shares of the Company. Total proceeds received amounted to approximately RMB 13,915 million, and the issued capital of the Company was increased by approximately RMB 558 million. The remaining balance of approximately RMB 13,148 million was credited to the capital reserve (capital premium) after deducting the underwriting fee, issuing agency fee and other related fees amounting to approximately RMB 209 million. The capital verification was performed by PricewaterhouseCoopers Zhong Tian LLP (Yanzi [2020] No. 0858).

39. RESERVES AND RETAINED PROFITS

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

(a) Capital reserves

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

In 2020, the Company issued 111,668,291 GDRs and listed on the LSE (Note 38).

(b) Surplus reserves

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

(i) Statutory surplus reserves (the “SSR”)

According to the PRC Company Law and the Articles of Association of the Company and its subsidiaries in the PRC, the Company and its subsidiaries are required to set aside 10% of their net profit (after offsetting the accumulated losses incurred in previous years) determined under the Accounting Standard for Business Enterprises - Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (“PRC GAAP”), to the SSR until the balance reaches 50% of the respective registered capital.

Subject to the approval of shareholders, the SSR may be used to offset the accumulated losses, if any, and may also be converted into capital, provided that the balance of the SSR after such capitalisation is not less than 25% of the registered capital.

(All amounts expressed in RMB million unless otherwise specified)

39. RESERVES AND RETAINED PROFITS(continued)

(b) Surplus reserves(continued)

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

The balance of SSR reaches 50% of the respective registered capital after the Company set aside RMB 279 million to the SSR in 2020.

(ii) Discretionary surplus reserves (the "DSR")

After making necessary appropriations to the SSR, the Company and its subsidiaries in the PRC may also appropriate a portion of their net profit to the DSR upon the approval of the shareholders in general meetings.

Subject to the approval of the shareholders, the DSR may be used to offset accumulated losses, if any, and may be converted into capital.

Of the Group's retained profits in the consolidated financial statements, RMB 15,647 million as at 31 December 2020 (31 December 2019: RMB 12,576 million) represents the Company's share of its subsidiaries' surplus reserve fund. The Company's share of surplus reserve fund appropriated by subsidiaries in year 2020 amounted to RMB 3,071 million (2019: RMB 2,634 million).

According to the resolution of the 10th meeting of the 6th Board of Directors of CPIC Property on 20 April 2020, CPIC Property proposed to appropriate RMB 2,500 million of DSR from retained profits. The proposal was approved by the general meeting of shareholders of CPIC Property on 8 May 2020.

(c) General reserves

In accordance with the relevant regulations, general reserves should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance, banking, trust, securities, futures, fund management, leasing and financial guarantee businesses, etc. Based on the applicable PRC financial regulations, the Company's insurance subsidiaries would need to make appropriations for such reserve based on their respective year-end net profits determined in accordance with PRC GAAP in their annual financial statements. The Company's subsidiaries operating in fund management should make appropriation for such reserve based on asset management product management fees. Such reserve is not available for profit distribution or transfer to issued capital.

Of the Group's reserves, RMB 16,829 million as at 31 December 2020 (31 December 2019: RMB 14,329 million) represents the Company's share of its subsidiaries' general reserves.

(All amounts expressed in RMB million unless otherwise specified)

39. RESERVES AND RETAINED PROFITS (continued)

(d) Other reserves

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

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs, or PRC GAAP where the overseas listing place permits. Pursuant to the resolution of the 9th meeting of the 9th Board of Directors of the Company held on 26 March 2021, a final dividend of approximately RMB 12,506 million (equivalent to annual cash dividend of RMB 1.2 per share (including tax) and the 30th Anniversary Special Dividend of RMB 0.1 per share (including tax)) was proposed after the appropriation of statutory surplus reserves. The profit distribution plan is subject to the approval of the general shareholders' meeting.

40. INSURANCE CONTRACT LIABILITIES

	31 December 2020		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
Long-term life insurance contracts	1,108,990	(12,929)	1,096,061
Short-term life insurance contracts			
- Unearned premiums	4,206	(358)	3,848
- Claim reserves	5,482	(709)	4,773
	9,688	(1,067)	8,621
Property and casualty insurance contracts			
- Unearned premiums	64,594	(7,179)	57,415
- Claim reserves	41,904	(6,544)	35,360
	106,498	(13,723)	92,775
	1,225,176	(27,719)	1,197,457
Incurred but not reported claim reserves	10,872	(1,469)	9,403

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES (continued)

	31 December 2019		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
Long-term life insurance contracts	963,542	(12,334)	951,208
Short-term life insurance contracts			
- Unearned premiums	4,608	(317)	4,291
- Claim reserves	4,587	(687)	3,900
	9,195	(1,004)	8,191
Property and casualty insurance contracts			
- Unearned premiums	57,367	(6,068)	51,299
- Claim reserves	37,917	(6,154)	31,763
	95,284	(12,222)	83,062
	1,068,021	(25,560)	1,042,461
Incurred but not reported claim reserves	9,276	(1,469)	7,807

(a) Long-term life insurance contract liabilities

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
At 1 January 2019	831,352	(11,668)	819,684
Increase	192,620	(2,659)	189,961
Decrease			
- Claims paid	(49,326)	1,993	(47,333)
- Surrender	(11,104)	-	(11,104)
At 31 December 2019	963,542	(12,334)	951,208
Increase	209,627	(2,926)	206,701
Decrease			
- Claims paid	(49,758)	2,331	(47,427)
- Surrender	(14,421)	-	(14,421)
At 31 December 2020	1,108,990	(12,929)	1,096,061

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES (continued)

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
At 1 January 2019	3,803	(172)	3,631
Premiums written	17,473	(1,456)	16,017
Premiums earned	(16,668)	1,311	(15,357)
At 31 December 2019	4,608	(317)	4,291
Premiums written	18,981	(2,013)	16,968
Premiums earned	(19,383)	1,972	(17,411)
At 31 December 2020	4,206	(358)	3,848

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
At 1 January 2019	3,733	(307)	3,426
Claims incurred	9,569	(725)	8,844
Claims paid	(8,715)	345	(8,370)
At 31 December 2019	4,587	(687)	3,900
Claims incurred	10,977	(616)	10,361
Claims paid	(10,082)	594	(9,488)
At 31 December 2020	5,482	(709)	4,773

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES (continued)

(c) Property and casualty insurance contract liabilities

Movements of unearned premiums

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
At 1 January 2019	45,652	(5,609)	40,043
Premiums written	134,650	(16,706)	117,944
Premiums earned	(122,935)	16,247	(106,688)
At 31 December 2019	57,367	(6,068)	51,299
Premiums written	149,722	(18,856)	130,866
Premiums earned	(142,495)	17,745	(124,750)
At 31 December 2020	64,594	(7,179)	57,415

Movements of claim reserves

	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (Note 33)	Net
At 1 January 2019	35,131	(5,711)	29,420
Claims incurred	73,286	(8,963)	64,323
Claims paid	(70,500)	8,520	(61,980)
At 31 December 2019	37,917	(6,154)	31,763
Claims incurred	86,998	(9,997)	77,001
Claims paid	(83,011)	9,607	(73,404)
At 31 December 2020	41,904	(6,544)	35,360

41. INVESTMENT CONTRACT LIABILITIES

At 1 January 2019	62,255
Deposits received	17,028
Deposits withdrawn	(8,058)
Fees deducted	(224)
Interest credited	3,005
Others	1,500
At 31 December 2019	75,506
Deposits received	14,994
Deposits withdrawn	(8,220)
Fees deducted	(262)
Interest credited	3,344
Others	1,694
At 31 December 2020	87,056

(All amounts expressed in RMB million unless otherwise specified)

42. BONDS PAYABLE

On 23 March 2018, CPIC Property issued a 10-year capital replenishment bond with a total face value of RMB 5 billion in the interbank market. CPIC Property has a conditional option to redeem the bond conditionally at the end of the fifth interest-bearing year. The capital replenishment bond pays interests at an initial coupon rate of 5.10% per annum. If CPIC Property does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 6.10%.

On 27 July 2018, CPIC Property issued a 10-year capital replenishment bond with a total face value of RMB 5 billion in the interbank market. CPIC Property has a conditional option to redeem the bond conditionally at the end of the fifth interest-bearing year. The capital replenishment bond pays interests at an initial coupon rate of 4.99% per annum. If CPIC Property does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 5.99%.

	31 December 2019	Issuance	Premium amortisation	Redemption	31 December 2020
CPIC Property	9,988	-	3	-	9,991

43. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2020	**31 December 2019**
Bonds		
Inter-bank market	77,797	64,588
Stock exchange	13,028	13,778
	90,825	78,366

As at 31 December 2020, bond investments of approximately RMB 97,065 million (31 December 2019: RMB 83,246 million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

(All amounts expressed in RMB million unless otherwise specified)

44. OTHER LIABILITIES

	31 December 2020	31 December 2019
Annuity and other insurance payables	23,477	23,260
Payables related to asset-backed securities	13,140	4,540
Salary and staff welfare payable	6,711	5,573
Payables to third-party investors of consolidated structured entities	4,411	2,250
Payables for securities purchased but not settled	4,182	3,488
Commission and brokerage payable	4,003	4,364
Accrued expenses	2,839	1,720
Tax payable other than income tax	1,815	1,617
Payables for purchases	1,281	1,249
Deposits	1,021	1,136
Reimbursement payables	785	371
Insurance security fund	632	701
Interest payable	594	516
Co-insurance payable	520	393
Others	3,924	3,766
	69,335	54,944

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES

(a) Long-term life insurance contracts

Key assumptions

Judgements are required in the process of determining the liabilities and making the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Life insurance contract estimates are based on current assumptions or those made when signing contracts. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, expense assumptions and policy dividend assumptions.

(All amounts expressed in RMB million unless otherwise specified)

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities

The analysis below is performed to show the reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross long-term life insurance contract liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities; however, for the purpose of demonstrating the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	As at 31 December 2020			
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact on equity	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(23,901)	23,901	-2.20%
	-25 basis points	25,844	(25,844)	2.38%
Mortality rates	+10%	2,142	(2,142)	0.20%
	-10%	(2,130)	2,130	-0.20%
Morbidity rates	+10%	18,502	(18,502)	1.70%
	-10%	(19,017)	19,017	-1.75%
Surrender rates	+10%	(2,030)	2,030	-0.19%
	-10%	2,348	(2,348)	0.22%
Expenses	+10%	7,176	(7,176)	0.66%
	-10%	(7,176)	7,176	-0.66%
Policy dividend	+5%	17,617	(17,617)	1.62%

(All amounts expressed in RMB million unless otherwise specified)

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities (continued)

	As at 31 December 2019			
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact on equity	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(21,281)	21,281	-2.24%
	-25 basis points	23,011	(23,011)	2.42%
Mortality rates	+10%	1,905	(1,905)	0.20%
	-10%	(1,889)	1,889	-0.20%
Morbidity rates	+10%	16,096	(16,096)	1.69%
	-10%	(16,543)	16,543	-1.74%
Surrender rates	+10%	(1,512)	1,512	-0.16%
	-10%	1,822	(1,822)	0.19%
Expenses	+10%	6,803	(6,803)	0.72%
	-10%	(6,803)	6,803	-0.72%
Policy dividend	+5%	16,858	(16,858)	1.77%

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in an identical fashion.

(b) Property and casualty and short-term life insurance contracts

Key assumptions

The calculation for claim reserves is based on the Group's past claim development experience, including assumptions in respect of average claim costs, claim expenses, inflation factors and number of claims for each accident period. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future (for example changes in external factors such as one-off events, public attitudes to claims, market factors such as economic conditions, judicial decisions and government legislation, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures).

Other key assumptions include risk margin, delays in settlement, etc.

(All amounts expressed in RMB million unless otherwise specified)

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Sensitivities

The property and casualty and short-term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative changes, uncertainty in the estimation process, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2020 by RMB 1,768 million and RMB 239 million (31 December 2019: RMB 1,588 million and RMB 195 million), respectively.

Claim development tables

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
	2016	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	57,960	59,974	64,450	71,637	81,244	
One year later	57,071	57,147	64,051	71,010		
Two years later	55,725	55,300	63,170			
Three years later	55,167	54,609				
Four years later	54,845					
Current estimate of cumulative claims	54,845	54,609	63,170	71,010	81,244	324,878
Cumulative payments to date	(54,065)	(53,143)	(60,442)	(64,351)	(53,935)	(285,936)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						2,962
Total gross claim reserves included in the consolidated balance sheet						41,904

(All amounts expressed in RMB million unless otherwise specified)

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Net property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
	2016	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	50,934	52,415	56,073	62,405	71,681	
One year later	50,251	50,539	55,809	61,783		
Two years later	49,406	48,720	55,001			
Three years later	48,841	48,058				
Four years later	48,492					
Current estimate of cumulative claims	48,492	48,058	55,001	61,783	71,681	285,015
Cumulative payments to date	(47,985)	(46,975)	(53,098)	(56,417)	(47,840)	(252,315)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						2,660
Total net claim reserves included in the consolidated balance sheet						35,360

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2016	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	2,496	3,301	4,112	4,628	4,696	
One year later	2,488	3,189	3,796	4,307		
Two years later	2,473	3,231	3,798			
Three years later	2,480	3,250				
Four years later	2,479					
Current estimate of cumulative claims	2,479	3,250	3,798	4,307	4,696	18,530
Cumulative payments to date	(2,478)	(3,243)	(3,788)	(4,161)	(2,967)	(16,637)
Risk adjustment and others						3,589
Total gross claim reserves included in the consolidated balance sheet						5,482

(All amounts expressed in RMB million unless otherwise specified)

45. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2016	**2017**	**2018**	**2019**	**2020**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	2,438	3,068	3,355	3,058	3,440	
One year later	2,414	2,960	3,210	3,163		
Two years later	2,365	2,993	3,216			
Three years later	2,374	2,999				
Four years later	2,386					
Current estimate of cumulative claims	2,386	2,999	3,216	3,163	3,440	15,204
Cumulative payments to date	(2,386)	(2,993)	(3,209)	(3,075)	(2,350)	(14,013)
Risk adjustment and others						3,582
Total net claim reserves included in the consolidated balance sheet						4,773

46. RISK MANAGEMENT

(a) Insurance risk

(i) Category of insurance risks

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount as well as time of any resulting claim. The major risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlement exceed the carrying amount of insurance contract reserves, which are affected by factors such as claim frequency, severity of claim, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected;

Severity risk – the possibility that the cost of the events will differ from those expected;

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(a) Insurance risk (continued)

(i) Category of insurance risks (continued)

The businesses of the Group mainly comprise long-term life insurance contracts (mainly including life insurance and long-term health insurance), short-term life insurance contracts (mainly including short-term health insurance and accident insurance) and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Meanwhile, insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

In order to manage insurance risks more effectively, the Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. The reinsurance contract basically covers all insurance contracts with risk liability. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

(ii) Concentration of insurance risks

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analysed by premium income in Note 6.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk principally comprises three types of risks, namely interest rate risk arising from market interest rates, price risk arising from market prices and currency risk arising from foreign exchange rates.

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

- A market risk policy of the Group setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the risk management committee of the Group. The policy is reviewed regularly by the management of the Group for pertinence and for changes in the risk environment.
- With proper asset allocation and risk limits on portfolio level, the Group ensures both that assets are sufficient for specific policyholder liabilities and that assets are held to deliver income and gains expected by policyholders.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

Since the Group operates principally in Mainland China, the Group has only limited exposure to currency risk, which arises primarily from certain insurance policies denominated in foreign currencies, bank deposits and securities denominated in the US Dollars or the HK Dollars. The Group manages currency risk by keeping foreign exchange positions under control.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

The following tables summarise the Group’s exposure to foreign currency exchange rate risk at the balance sheet date by categorizing financial assets, financial liabilities, reinsurance assets and insurance contract liabilities by major currency.

	As at 31 December 2020				
	RMB	**USD (in RMB)**	**HKD (in RMB)**	**Other Currencies (in RMB)**	**Total**
Held-to-maturity financial assets	329,119	241	-	-	329,360
Investments classified as loans and receivables	380,174	-	-	-	380,174
Term deposits	179,295	13,671	-	-	192,966
Available-for-sale financial assets	585,627	7,032	2,638	861	596,158
Derivative financial assets	-	140	-	-	140
Financial assets at fair value through profit or loss	11,850	600	23	-	12,473
Reinsurance assets	27,394	-	325	-	27,719
Cash and short-term time deposits	18,708	1,194	961	15	20,878
Others	146,350	1,439	471	-	148,260
	1,678,517	24,317	4,418	876	1,708,128
Insurance contract liabilities	1,224,548	-	628	-	1,225,176
Investment contract liabilities	87,056	-	-	-	87,056
Policyholders’ deposits	70	-	-	-	70
Bonds payable	9,991	-	-	-	9,991
Securities sold under agreements to repurchase	90,825	-	-	-	90,825
Lease liabilities	3,420	-	10	-	3,430
Others	84,821	518	313	-	85,652
	1,500,731	518	951	-	1,502,200

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December 2019			
	RMB	**USD (in RMB)**	**HKD (in RMB)**	**Total**
Held-to-maturity financial assets	294,997	250	-	295,247
Investments classified as loans and receivables	324,013	-	-	324,013
Term deposits	146,940	816	-	147,756
Available-for-sale financial assets	505,447	4,143	2,232	511,822
Financial assets at fair value through profit or loss	4,759	-	172	4,931
Reinsurance assets	25,336	-	224	25,560
Cash and short-term time deposits	13,416	879	577	14,872
Others	143,782	1,630	242	145,654
	1,458,690	7,718	3,447	1,469,855
Insurance contract liabilities	1,067,682	-	339	1,068,021
Investment contract liabilities	75,506	-	-	75,506
Policyholders' deposits	70	-	-	70
Bonds payable	9,988	-	-	9,988
Securities sold under agreements to repurchase	78,366	-	-	78,366
Lease liabilities	3,650	-	18	3,668
Others	72,873	590	223	73,686
	1,308,135	590	580	1,309,305

The Group has no significant concentration of currency risk.

Sensitivities

The analysis below is performed for reasonably possible movements in foreign exchange rate with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit before tax and equity.

Sensitivity analysis below shows changes in spot and forward exchange rates, and reflects the pre-tax impact on profit before tax and equity arising from monetary financial assets and liabilities denominated in foreign currency as at the dates indicated.

Currency	**Changes in exchange rate**	**31 December 2020**	
		Impact on profit before tax	Impact on equity
USD, HKD and other currencies	+ 5%	774	1,270
USD, HKD and other currencies	- 5%	(774)	(1,270)

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivities (continued)

Currency	**Changes in exchange rate**	**31 December 2019**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	223	506
USD and HKD	- 5%	(223)	(506)

The impact on equity arising from monetary financial assets and liabilities denominated in foreign currency shown above is the total impact from both profit before tax and fair value change.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group’s interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and floating rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is generally repriced once a year. Interest on fixed rate instruments is priced on initial recognition of related financial instruments and remains constant until maturity date.

The Group is not exposed to significant concentration risks arising from interest rate risk on interest-bearing financial instruments.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise major interest-bearing financial instruments of the Group by contractual/estimated re-pricing date or maturity date. Other financial instruments not included in the following tables are interest free and not exposed to interest rate risk:

	As at 31 December 2020					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Held-to-maturity financial assets	9,619	22,194	25,396	272,151	-	329,360
Investments classified as loans and receivables	27,238	55,098	135,163	162,675	-	380,174
Restricted statutory deposits	880	3,216	2,762	-	-	6,858
Term deposits	30,391	92,070	70,355	150	-	192,966
Available-for-sale debt investments	68,626	57,600	38,438	151,124	-	315,788
Debt investments at fair value through profit or loss	1,930	1,026	159	4	-	3,119
Securities purchased under agreements to resell	14,327	-	-	-	-	14,327
Policy loans	62,364	-	-	-	-	62,364
Deposits with original maturity of no more than three months	1,132	-	-	-	19,746	20,878
Financial liabilities:						
Investment contract liabilities	1,384	2,110	3,019	80,543	-	87,056
Policyholders' deposits	70	-	-	-	-	70
Bonds payable	-	-	-	9,991	-	9,991
Securities sold under agreements to repurchase	90,825	-	-	-	-	90,825

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

	As at 31 December 2019					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Held-to-maturity financial assets	16,236	16,793	28,406	233,812	-	295,247
Investments classified as loans and receivables	55,478	61,527	73,504	131,504	2,000	324,013
Restricted statutory deposits	404	2,638	3,616	-	-	6,658
Term deposits	24,796	32,270	89,850	700	140	147,756
Available-for-sale debt investments	66,380	52,207	42,656	146,154	-	307,397
Debt investments at fair value through profit or loss	2,154	732	595	21	-	3,502
Securities purchased under agreements to resell	28,045	-	-	-	-	28,045
Policy loans	57,194	-	-	-	-	57,194
Deposits with original maturity of no more than three months	358	-	-	-	14,514	14,872
Financial liabilities:						
Investment contract liabilities	75,506	-	-	-	-	75,506
Policyholders' deposits	70	-	-	-	-	70
Bonds payable	-	-	-	9,988	-	9,988
Securities sold under agreements to repurchase	78,366	-	-	-	-	78,366

Interest rates on floating rate bonds/liabilities are re-priced when the benchmark interest rates are adjusted.

Sensitivities

The analysis below is performed for reasonably possible movements in interest rate with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit before tax and equity. Since almost all financial instruments of the Group that bear interest rate risks are financial instruments denominated in RMB, the sensitivity analysis below only shows the pre-tax impact of RMB financial instruments on the Group's profit before tax and equity when RMB interest rate changes.

Sensitivities on fixed-rate financial instruments

As at the balance sheet dates, the Group's fixed-rate financial instruments exposed to interest rate risk mainly include financial assets at fair value through profit or loss and available-for-sale financial assets. The following tables show the pre-tax impact on profit before tax (fair value change on held-for-trading bonds) and equity (fair value change on held-for-trading bonds combined with fair value change on available-for-sale bonds).

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivities (continued)

Sensitivities on fixed-rate financial instruments(continued)

	31 December 2020	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(18)	(6,273)
-50 basis points	18	6,916

	31 December 2019	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(24)	(5,619)
-50 basis points	22	5,732

The above impact on equity represents adjustments to profit before tax and changes in fair value of fixed-rate financial instruments.

Sensitivities on floating-rate financial instruments

The following tables show the pre-tax impact that floating-rate financial assets and liabilities have on the Group's profit before tax and equity due to changes in interest rate as at the balance sheet dates.

	31 December 2020	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	88	88
-50 basis points	(88)	(88)

	31 December 2019	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	76	76
-50 basis points	(76)	(76)

The above impact on equity represents adjustments of floating-rate financial assets and liabilities to profit before tax.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), regardless of whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's price risk policy requires it to manage such risk by setting and monitoring investment objectives, adopting related strategies and managing fluctuations arising from price risk in operating performance.

Equity investments exposed to market price risk mainly consist of stocks and equity investment funds. The Group applies the five-day market price value-at-risk ("VAR") technique to estimate its risk exposure to listed stocks and equity investment funds. VAR calculation is made based on the normal market condition and a 95% confidence level.

As at 31 December 2020, the estimated impact on equity investment for listed stocks and equity investment funds, using the VAR technique was RMB 5,394 million (31 December 2019: RMB 3,183 million).

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

Due to the restriction of China Banking and Insurance Regulatory Commission (the "CBIRC"), majority of the Group's financial assets are government bonds, agency bonds, corporate bonds, term deposits, debt investment plans and wealth management products. Term deposits are saved in national commercial banks or comparatively sound financial institutions, and most of corporate bonds, debt investment plans and wealth management products are guaranteed by qualified institutions. Hence, the related credit risk of the investment should be regarded as relatively low. Meanwhile, the Group will perform credit assessments and risk appraisals for each investment before signing contracts, and determine to invest in those programs released by highly rated issuers and project initiators.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

For securities purchased under agreements to resell and policy loans, there is a security pledge and the maturity period is less than one year. Premium receivables from life insurance are mainly renew premium within grace period. Hence, the related credit risk should not have significant impact on the Group's consolidated financial statements as at 31 December 2020 and 31 December 2019. The credit risk associated with the premium receivables from property and casualty insurance mainly arises from corporate customers. The Group grants a short credit period and arranges instalment payment to reduce the credit risk. The Group performs regular credit assessment of the reinsurance companies. Reinsurance of the Group is mainly placed with highly rated reinsurance companies.

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

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

	As at 31 December 2020						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
Held-to-maturity financial assets	329,129	-	-	-	-	231	329,360
Investments classified as loans and receivables	380,033	-	-	-	-	141	380,174
Term deposits	192,966	-	-	-	-	-	192,966
Available-for-sale debt investments	312,546	-	-	-	-	3,242	315,788
Debt investments at fair value through profit or loss	3,119	-	-	-	-	-	3,119
Interest receivables	20,563	-	-	-	-	-	20,563
Reinsurance assets	27,719	-	-	-	-	-	27,719
Insurance receivables	27,538	-	-	-	-	2,334	29,872
Cash and short-term time deposits	20,878	-	-	-	-	-	20,878
Others	97,560	-	-	-	-	265	97,825
Total	1,412,051	-	-	-	-	6,213	1,418,264

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	As at 31 December 2019						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
Held-to-maturity financial assets	294,992	-	-	-	-	255	295,247
Investments classified as loans and receivables	323,746	-	-	-	-	267	324,013
Term deposits	147,756	-	-	-	-	-	147,756
Available-for-sale debt investments	305,424	-	-	-	-	1,973	307,397
Debt investments at fair value through profitor loss	3,502	-	-	-	-	-	3,502
Interest receivables	19,493	-	-	-	-	-	19,493
Reinsurance assets	25,560	-	-	-	-	-	25,560
Insurance receivables	21,133	-	-	-	-	2,123	23,256
Cash and short-term time deposits	14,872	-	-	-	-	-	14,872
Others	102,727	-	-	-	-	178	102,905
Total	1,259,205	-	-	-	-	4,796	1,264,001

Liquidity risk

Liquidity risk is the risk of capital shortage in the performance of obligations associated with financial liabilities.

Liquidity risk may result from the surrender, reduction or early termination of insurance contracts in other forms, the indemnity and payment, and the daily expenses of the Group. Where permitted by the regulatory framework and market environment, the Group seeks to manage the liquidity risk mainly by matching the term of investment assets with the maturity of corresponding insurance liabilities and maintaining sufficient liquidity of investment assets, so as to repay debts and provide funds for investment activities in a timely manner.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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

- Setting up a liquidity risk policy for the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored, and exposures and breaches of the policy are reported to the Company's risk management committee. The policy is regularly reviewed by the management of the Group for pertinence and for changes in the risk environment;
- Setting out guidelines on asset allocation, portfolio limit structures and the maturity profiles of assets, in order to ensure that sufficient funding is available for the Group to meet insurance and investment contract obligations;
- Setting up emergency funding plans which specify the sources of emergency funds, the minimum amount of daily reserve funds, and the specific events that would trigger such plans.

The tables below summarise the maturity profiles of the financial assets, financial liabilities and insurance contract liabilities of the Group based on contractual and expected remaining undiscounted cash flows:

	As at 31 December 2020					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	23,717	104,517	483,906	-	612,140
Investments classified as loans and receivables	-	38,025	255,852	198,146	-	492,023
Derivative financial assets	-	4	136	-	-	140
Restricted statutory deposits	-	1,201	6,525	-	-	7,726
Term deposits	-	42,809	173,326	156	-	216,291
Available-for-sale financial assets	241	40,927	167,704	285,804	258,720	753,396
Financial assets at fair value through profit or loss	61	542	2,854	1,396	7,846	12,699
Securities purchased under agreements to resell	-	14,334	-	-	-	14,334
Insurance receivables	5,111	14,474	10,382	725	-	30,692
Cash and short-term time deposits	19,742	1,136	-	-	-	20,878
Others	1,711	75,178	1,619	-	-	78,508
Total	26,866	252,347	722,915	970,133	266,566	2,238,827
Liabilities:						
Insurance contract liabilities	-	131,590	54,174	1,039,412	-	1,225,176
Investment contract liabilities	-	10,046	29,173	107,421	-	146,640
Policyholders' deposits	-	70	-	-	-	70
Bonds payable	-	505	2,276	11,460	-	14,241
Securities sold under agreements to repurchase	-	91,024	-	-	-	91,024
Lease liabilities	-	1,434	2,206	285	-	3,925
Others	48,221	35,054	1,685	98	-	85,058
Total	48,221	269,723	89,514	1,158,676	-	1,566,134

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2019					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	29,029	96,981	404,187	-	530,197
Investments classified as loans and receivables	-	62,932	188,337	165,689	-	416,958
Restricted statutory deposits	-	807	7,030	-	-	7,837
Term deposits	-	35,021	137,314	700	-	173,035
Available-for-sale financial assets	263	33,753	167,461	284,590	183,261	669,328
Financial assets at fair value through profit or loss	63	231	2,452	1,621	879	5,246
Securities purchased under agreements to resell	-	28,061	-	-	-	28,061
Insurance receivables	4,194	11,236	7,867	649	-	23,946
Cash and short-term time deposits	14,514	358	-	-	-	14,872
Others	1,887	66,420	1,623	-	-	69,930
Total	20,921	267,848	609,065	857,436	184,140	1,939,410
Liabilities:						
Insurance contract liabilities	-	124,370	63,037	880,614	-	1,068,021
Investment contract liabilities	-	8,566	24,484	101,810	-	134,860
Policyholders' deposits	-	70	-	-	-	70
Bonds payable	-	505	2,176	12,064	-	14,745
Securities sold under agreements to repurchase	-	78,503	-	-	-	78,503
Lease liabilities	-	1,341	2,369	358	-	4,068
Others	49,483	21,612	1,964	111	-	73,170
Total	49,483	234,967	94,030	994,957	-	1,373,437

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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

	As at 31 December 2020		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	8,156	321,204	329,360
Investments classified as loans and receivables	18,529	361,645	380,174
Derivative financial assets	4	136	140
Term deposits	30,391	162,575	192,966
Available-for-sale financial assets	285,952	310,206	596,158
Financial assets at fair value through profit or loss	8,944	3,529	12,473
Cash and short-term time deposits	20,878	-	20,878
Others	75,021	1,619	76,640
Sub-total	447,875	1,160,914	1,608,789
Liabilities:			
Insurance contract liabilities	131,590	1,093,586	1,225,176
Investment contract liabilities	1,384	85,672	87,056
Policyholders’ deposits	70	-	70
Bonds payable	-	9,991	9,991
Securities sold under agreements to repurchase	90,825	-	90,825
Lease liabilities	1,299	2,131	3,430
Others	83,275	1,783	85,058
Sub-total	308,443	1,193,163	1,501,606

	As at 31 December 2019		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	14,625	280,622	295,247
Investments classified as loans and receivables	46,434	277,579	324,013
Term deposits	24,936	122,820	147,756
Available-for-sale financial assets	203,542	308,280	511,822
Financial assets at fair value through profit or loss	1,033	3,898	4,931
Cash and short-term time deposits	14,872	-	14,872
Others	66,579	1,623	68,202
Sub-total	372,021	994,822	1,366,843
Liabilities:			
Insurance contract liabilities	124,370	943,651	1,068,021
Investment contract liabilities	1,155	74,351	75,506
Policyholders’ deposits	70	-	70
Bonds payable	-	9,988	9,988
Securities sold under agreements to repurchase	78,366	-	78,366
Lease liabilities	1,270	2,398	3,668
Others	71,095	2,075	73,170
Sub-total	276,326	1,032,463	1,308,789

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequacy or failure on business processes, human error, information system failure. When controls fail to perform, operational risks can cause damage to reputation, give rise to legal or regulatory matters, or lead to financial loss to the Group.

The Group is exposed to many types of operational risks, including inadequate, or failure to obtain, proper authorisations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

Through the establishment and implementation of internal control manuals, continuous optimisation of information systems, and monitoring and response to potential risks, the Group has established a long-term internal control mechanism to mitigate the impact of operational risks on the Group.

The following internal control measures are in place to mitigate the Group's exposure to operational risk:

- Setting up effective segregation of duties, access controls, authorisation and reconciliation procedures and user and authority controls for information system;
- Adopting supervisory measures such as compliance checks, risk investigations and internal audits;
- Regularly carrying out risk and internal control self-assessment and implementing rectification of defects;
- Implementing staff education and appraisals.

(d) Mismatching risk of assets and liabilities

Mismatching risk of assets and liabilities is the risk due to the Group's inability to match its assets with its liabilities on the basis of duration, cash flow and investment return. Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its medium and long term life insurance liabilities. When the current regulatory and market environment permits, the Group will increase the profile of securities with fixed investment returns and lengthen the duration of its assets to narrow the gap of duration and investment returns of the existing assets and liabilities.

In order to further enhance the management of matching of assets and liabilities, the Group has the Asset-Liability Management Committee to make significant decisions on asset-liability management. The committee has an asset-liability working group which analyses the extent of assets and liabilities matching.

(e) Capital management risks

Capital management risk primarily refers to the risk of insufficient solvency as a result of the operation and administration of the Company or certain external events. The CBIRC monitors capital management risks primarily through a set of solvency regulatory rules to ensure insurance companies can maintain sufficient solvency margins.

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

It is the Group's objective to maintain a strong credit rating and adequate solvency in order to support its business objectives and to maximise shareholders value. The specific measures are as follows:

- Managing its capital requirements by assessing shortfalls between reported and targeted capital levels on a regular basis;
- Stepping up efforts to maintain multiple sources of financing in order to meet solvency margin needs arising from future expansion in business activities;
- Continuously and proactively adjusting the portfolio of insurance business, optimising asset allocation and improving asset quality to enhance operating performance and the profitability.

The Group has formally implemented China Risk Oriented Solvency System since 1 January 2016 by reference to the 'Notice on the Formal Implementation of China Risk Oriented Solvency System by CIRC'.

The table below summarises the core capital, actual capital and minimum required capital of the Group and its major insurance subsidiaries determined according to the above solvency rules.

Group	**31 December 2020**	**31 December 2019**
Core capital	500,766	453,838
Actual capital	510,766	463,838
Minimum required capital	177,288	157,481
Core solvency margin ratio	282%	288%
Comprehensive solvency margin ratio	288%	295%

CPIC Property	**31 December 2020**	**31 December 2019**
Core capital	44,208	38,900
Actual capital	54,208	48,900
Minimum required capital	19,672	16,713
Core solvency margin ratio	225%	233%
Comprehensive solvency margin ratio	276%	293%

CPIC Life	**31 December 2020**	**31 December 2019**
Core capital	377,203	357,883
Actual capital	377,203	357,883
Minimum required capital	155,860	139,354
Core solvency margin ratio	242%	257%
Comprehensive solvency margin ratio	242%	257%

(All amounts expressed in RMB million unless otherwise specified)

46. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

CPIC Allianz Health	**31 December 2020**	**31 December 2019**
Core capital	1,294	1,084
Actual capital	1,294	1,084
Minimum required capital	949	702
Core solvency margin ratio	136%	155%
Comprehensive solvency margin ratio	136%	155%

PAAIC	**31 December 2020**	**31 December 2019**
Core capital	1,821	1,684
Actual capital	1,821	1,684
Minimum required capital	614	557
Core solvency margin ratio	297%	303%
Comprehensive solvency margin ratio	297%	303%

47. STRUCTURED ENTITIES

The Group uses structured entities in the normal course of business for a number of purposes, for example, structured transactions for institutions, to provide finance to public and private section infrastructure projects, and to generate fees for managing assets on behalf of third-party investors. These structured entities are operated based on the contracts. Refer to Note 2.2(3) for the Group's consolidation consideration related to structured entities.

The following table shows the total assets of various types of unconsolidated structured entities and the amount of funding provided by the Group to these unconsolidated structured entities. The table also shows the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities. The maximum exposure is contingent in nature and approximates the sum of funding provided by the Group.

(All amounts expressed in RMB million unless otherwise specified)

47. STRUCTURED ENTITIES (continued)

As at 31 December 2020, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

		31 December 2020				
		Size	Funding provided by the Group	Group's maximum exposure	Carrying amount of Group's investment	Interest held by the Group
Pension funds and endowment assurance products managed by affiliated parties		375,294	-	-	-	Management fee
Insurance asset management products managed by affiliated parties		323,433	122,622	123,505	122,942	Investment income and management fee
Securities Investment Fund managed by affiliated parties		57,261	6,263	6,403	6,403	Investment income and management fee
Insurance asset management products managed by third parties	Note 1		101,083	104,640	104,363	Investment income
Trust products managed by third parties	Note 1		149,596	149,644	149,288	Investment income
Bank wealth management products and asset management products managed by third parties	Note 1		3,151	3,266	3,266	Investment income
Securities Investment Fund managed by third parties	Note 1		42,646	52,559	52,559	Investment income
Total			425,361	440,017	438,821	

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

The Group's interests in unconsolidated structured entities are included in wealth management products, funds, debt investment plans and other equity investments under financial assets at fair value through profit or loss, wealth management products, funds and other equity investments under available-for-sale financial assets, debt investment plans and wealth management products under investments classified as loans and receivables, and investments in associates and joint ventures.

(All amounts expressed in RMB million unless otherwise specified)

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The Group's financial liabilities mainly include securities sold under agreements to repurchase, policyholders' deposits, investment contract liabilities and bonds payable, etc.

Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and estimated fair values of held-to-maturity financial assets, investments classified as loans and receivables, and bonds payable whose fair values are not presented in the consolidated balance sheet.

	As at 31 December 2020	
	Carrying amount	Fair value
Financial assets:		
Held-to-maturity financial assets	329,360	348,481
Investments classified as loans and receivables	380,174	380,235
Financial liabilities:		
Bonds payable	9,991	10,571

	As at 31 December 2019	
	Carrying amount	Fair value
Financial assets:		
Held-to-maturity financial assets	295,247	317,317
Investments classified as loans and receivables	324,013	324,104
Financial liabilities:		
Bonds payable	9,988	10,703

As permitted by HKFRS 7, the Group has not disclosed fair values for certain investment contract liabilities with DPF because fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

The carrying amounts of other financial assets and financial liabilities approximate their fair values.

(All amounts expressed in RMB million unless otherwise specified)

49. FAIR VALUE MEASUREMENT

Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. The fair value hierarchy prioritises the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

(a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities (“Level 1”);
(b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (“Level 2”); and
(c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) (“Level 3”).

The level of fair value calculation is determined by the lowest level input with material significant in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyse and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities. Debt securities traded among Chinese interbank market are classified as Level 2 when they are valued at recent quoted price from Chinese interbank market or from valuation service providers. Substantially most financial instruments classified within Level 2 of the fair value hierarchy of the Group are debt investments denominated in RMB. Fair value of debt investments denominated in RMB is determined based upon the valuation results by the China Central Depositary & Clearing Co., Ltd. All significant inputs are observable in the market.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement, and valuation methodologies such as discounted cash flow models and other similar techniques. The Group’s valuation team may choose to apply internally developed valuation method to the assets or liabilities being measured, determine the main inputs for valuation, and analyse the change of the valuation and report it to management. Key inputs involved in internal valuation services are not based on observable market data. They reflect assumptions made by management based on judgements and experiences.

(All amounts expressed in RMB million unless otherwise specified)

49. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Stocks	70	-	-	70
- Funds	307	108	-	415
- Bonds	2,596	502	-	3,098
- Others	-	228	8,662	8,890
	2,973	838	8,662	12,473
Available-for-sale financial assets				
- Stocks	120,263	6,953	-	127,216
- Funds	37,688	26,046	-	63,734
- Bonds	16,661	295,319	2,038	314,018
- Others	-	9,752	81,438	91,190
	174,612	338,070	83,476	596,158
Derivative financial assets	-	140	-	140
Assets for which fair values are disclosed				
Held-to-maturity financial assets (Note 48)	6,452	342,029	-	348,481
Investments classified as loans and receivables (Note 48)	-	2,110	378,125	380,235
Investment properties(Note 20)	-	-	11,470	11,470
Liabilities for which fair values are disclosed				
Bonds payable (Note 48)	-	-	10,571	10,571

(All amounts expressed in RMB million unless otherwise specified)

49. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Stocks	196	41	-	237
- Funds	230	90	-	320
- Bonds	2,572	916	-	3,488
- Others	-	277	609	886
	2,998	1,324	609	4,931
Available-for-sale financial assets				
- Stocks	84,308	6,065	-	90,373
- Funds	31,104	17,321	-	48,425
- Bonds	22,112	280,326	1,974	304,412
- Others	-	5,810	62,802	68,612
	137,524	309,522	64,776	511,822
Assets for which fair values are disclosed				
Held-to-maturity financial assets (Note 48)	7,948	309,114	255	317,317
Investments classified as loans and receivables (Note 48)	-	2,141	321,963	324,104
Investment properties(Note 20)	-	-	11,887	11,887
Liabilities for which fair values are disclosed				
Bonds payable (Note 48)	-	-	10,703	10,703

In 2020, due to changes in availability of quoted prices (unadjusted) in active markets, the Group transferred certain bonds securities between Level 1 and Level 2. In 2020, the Group transferred the bonds securities with a carrying amount of RMB 14,263 million from Level 1 to Level 2 and RMB 9,139 million from Level 2 to Level 1. In 2019, the Group transferred the bonds with a carrying amount of RMB7,113 million from Level 1 to Level 2 and RMB 6,286 million from Level 2 to Level 1.

(All amounts expressed in RMB million unless otherwise specified)

49. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	As at 31 December 2020						
	Beginning of year	Increase	Decrease	Transferred to Level 3	Net unrealised loss recognised in profit or loss	Net unrealised gain recognised in other comprehensive income	End of year
Financial assets at fair value through profit or loss							
- Wealth management products	11	7	-	-	-	-	18
- Debt Investment plans	3	-	-	-	-	-	3
- Other equity investments	595	8,034	-	-	12	-	8,641
Available-for-sale financial assets			-	-			
- Preferred shares	13,621	-	(499)	-	-	9	13,131
- Other equity investments	49,181	25,271	(7,871)	-	(157)	1,882	68,306
- Finance Bonds	1,974	253	-	-	(197)	9	2,039

	As at 31 December 2019						
	Beginning of year	Increase	Decrease	Transferred to Level 3	Net unrealised loss recognised in profit or loss	Net unrealised gain recognised in other comprehensive income	End of year
Financial assets at fair value through profit or loss							
- Wealth management products	5	6	-	-	-	-	11
- Debt Investment plans	2	1	-	-	-	-	3
- Other equity investments	581	14	-	-	-	-	595
Available-for-sale financial assets							
- Preferred shares	7,765	5,725	-	-	-	131	13,621
- Other equity investments	37,330	9,057	-	-	(8)	2,802	49,181
- Finance Bonds	-	-	-	1,974	-	-	1,974

(All amounts expressed in RMB million unless otherwise specified)

49. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

Valuation techniques

The fair value of the unquoted debt investments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities, with appropriate adjustment where applicable.

The fair value of the unquoted equity investments (including preferred shares) has been determined using valuation techniques such as discounted cash flow method, comparison method of listed companies, recent transaction prices of the same or similar instruments etc., with appropriate adjustments have been made where applicable, for example, for lack of liquidity using option pricing models. The valuation requires management to use major assumptions and parameters as unobservable inputs to the model. The major assumptions include estimated time period prior to the listing of the unquoted equity instruments, and the major parameters include discount rate from 3.20% to 7.91% etc.

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

50. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

	2020	2019
Profit before tax	29,238	27,966
Investment income	(82,740)	(65,730)
Foreign currency loss/(income)	1,428	(56)
Finance costs	2,760	2,854
Charge of impairment losses on insurance receivables and other assets, net	152	115
Depreciation of property and equipment	1,791	1,708
Depreciation of investment properties	335	334
Depreciation of right-of-use assets	1,534	1,311
Amortisation of other intangible assets	725	597
Amortisation of other assets	18	15
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(4)	(15)
	(44,763)	(30,901)
Increase in reinsurance assets	(2,159)	(2,093)
Increase in insurance receivables	(6,616)	(4,244)
(Increase)/decrease in other assets	(2,172)	3,656
Increase in insurance contract liabilities	145,020	135,293
Increase in other operating liabilities	24,180	16,599
Cash generated from operating activities	113,490	118,310

(All amounts expressed in RMB million unless otherwise specified)

51. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had the following major transactions with related parties:

(a) Sale of insurance contracts

	2020	2019
Shareholders who individually own more than 5% of voting rights of the Company and the shareholders' parent company	7	2

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

(b) Fund subscription and redemption transactions

	2020	2019
Hwabao WP Fund Management Co., Ltd.	1,289	506

(c) Dividends paid

	2020	2019
Shareholders who individually own more than 5% of voting rights of the Company	4,571	3,749

(d) Compensation of key management personnel

	2020	2019
Salaries, allowances and other short-term benefits	29	35
Deferred bonus (1)	-	4
Total compensation of key management personnel	29	39

(1) This represents the amount under the Group's deferred bonus plans mentioned in Note 12. This represents the amount under the Group's deferred bonus plans which in order to motivate senior management and certain key employees.

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

(All amounts expressed in RMB million unless otherwise specified)

51. RELATED PARTY TRANSACTIONS (continued)

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

	2020	2019
Binjiang-Xiangrui		
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc.	-	59
Rental fees for leasing office buildings of Binjiang-Xiangrui	79	19
Total	79	78
Ruiyongjing Real Estate		
Loans	2,318	236

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

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

The Group mainly operates in an economic environment predominated by enterprises that are controlled, jointly controlled or significantly influenced by the PRC government through its authorities, affiliates or other organisations (collectively "government-related entities"). The Company is also a government-related entity.

In 2019 and 2020, the Group had certain transactions with some government-related entities primarily related to insurance, investment and other activities (including, but not limited to, issuing insurance policies, provision of asset management or other services, and the sale, purchase, issuance and redemption of bonds or equity instruments).

Management considers that those transactions with other government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are controlled, jointly controlled or significantly influenced by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

52. COMMITMENTS

(a) Capital commitments

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

		31 December 2020	31 December 2019
Contracted, but not provided for	(1)(2)(3)(4)(5)(6)	9,508	3,485
Authorised, but not contracted for	(1)(2)(3)(5)	7,872	3,115
		17,380	6,600

(All amounts expressed in RMB million unless otherwise specified)

52. COMMITMENTS (continued)

(a) Capital commitments (continued)

As at 31 December 2020, major projects with capital commitments are as follows:

(1) The Company resolved to establish IT Backup Centre and Customer Support Centre in Chengdu High-tech Zone and the expected total capital expenditure is approximately RMB 2,000 million. As at 31 December 2020, the cumulative amount incurred by the Company amounted to RMB 1,720 million. Of the balance, RMB 2 million was disclosed as a capital commitment contracted but not provided for and RMB 278 million was disclosed as a capital commitment authorised but not contracted for.

(2) CPIC Property and a third party bade for the use right of the land located at Huangpu District, Shanghai. And in February 2013, two parties set up a project company named Binjiang-Xiangrui as the owner of the land use right to this parcel of land and construction development subject. Total investment of this project approximated RMB 2,090 million. As at 31 December 2020, the cumulative amount incurred by CPIC Property amounted to RMB 1,626 million. Of the balance, RMB 111 million was disclosed as a capital commitment contracted but not provided for and RMB 353 million was disclosed as a capital commitment authorised but not contracted for.

(3) CPIC Life and other two parties joined together to bid for the use right of the land located at Huangpu District, Shanghai. All parties set up a project company named Ruiyongjing Real Estate as the owner of the land use right to this parcel of land and construction development subject. The estimated total investment of the project is approximately RMB 19,500 million in July 2018. Pursuant to the resolutions of the 8th meeting of the 6th Board of Directors and the first general meeting of shareholders of CPIC Life in 2020, CPIC Life agreed the total investment of the project above to be increased to RMB 21,400 million and to provide additional loan of no more than RMB 250 million for Ruiyongjing Real Estate. The registered capital of the joint venture is RMB 14,050 million, of which CPIC Life shall make a contribution of RMB 9,835 million, representing 70% of the registered capital. In addition, CPIC Life will provide shareholder’s loans to the joint venture, which are estimated to be approximately RMB 7,600 million. The total amount of the above two contributions to be made by CPIC Life is estimated to be RMB 17,435 million. As at 31 December 2020, the cumulative amount incurred by CPIC Life amounted to RMB 12,452 million. Of the balance, RMB 383 million was disclosed as a capital commitment contracted but not provided for and RMB 4,600 million was disclosed as a capital commitment authorised but not contracted for.

(4) CPIC Life and a third party jointly established Jiaxing Yishang. The total investment of this project approximated RMB 950 million. As at 31 December 2020, the cumulative amount incurred by the CPIC Life amounted to RMB 474 million. Of the balance, RMB 476 million was disclosed as a capital commitment contracted but not provided for.

(All amounts expressed in RMB million unless otherwise specified)

52. COMMITMENTS (continued)

As at 31 December 2020, major projects with capital commitments are as follows: (continued)

(a) Capital commitments (continued)

(5) CPIC Life obtained the use rights of five parcels of land respectively located at Wenjiang District in Chengdu, Sichuan, at Lin’an District in Hangzhou, Zhejiang, at Jimei District in Xiamen, Fujian, at Qixia District in Nanjing, Jiangsu and at Putuo District in Shanghai, and set up five project companies named Chengdu Project Company, Hangzhou Project Company, Xiamen Project Company, Nanjing Project Company and Shanghai (Putuo) Project Company accordingly as the owners of the land use rights to the parcels of land and construction development subjects for the construction project “CPIC Home”. The estimated total investment of the five projects is approximately RMB 6,219 million. As at 31 December 2020, the cumulative amount incurred amounted to RMB 1,611million. Of the balance, RMB 2,057 million was disclosed as a capital commitment contracted but not provided for and RMB 2,551 million was disclosed as a capital commitment authorised but not contracted for.

(6) CPIC Life and a third party jointly established Taijiashan Health Industry Equity Investment Fund (Shanghai) Partnership (LLP) (“Taijiashan”). The total investment of this project is approximately RMB 5,000 million. As at 31 December 2020, CPIC Life has not yet made the capital contribution. Of the balance, RMB 5,000 million was disclosed as a capital commitment contracted but not provided for.

(All amounts expressed in RMB million unless otherwise specified)

52. COMMITMENTS (continued)

(b) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2020	31 December 2019
Within 1 year (including 1 year)	866	886
1 to 2 years (including 2 years)	589	577
2 to 3 years (including 3 years)	331	385
3 to 5 years (including 5 years)	397	235
More than 5 years	28	86
	2,211	2,169

53. CONTINGENT LIABILITIES

In light of the nature of the insurance business, the Group makes estimates for contingencies and legal proceedings in the ordinary course of business, both in the capacity as plaintiff or defendant in litigation and as claimant or respondent in arbitration proceedings. Legal proceedings mostly involve claims on the Group's insurance policies. Provisions have been made for the probable losses to the Group, including those claims where directors can reasonably estimate the outcome of the litigations taking into account legal advice, if any. No provision is made for contingencies and legal proceedings when the outcome cannot be reasonably estimated or the probability of loss is extremely low.

In addition to the legal proceedings of the above natures, as at 31 December 2020, the Group was the defendant in certain pending litigations. Provisions were made for the possible losses based on best estimate by the directors and the Group would only be contingently liable for any claim that is in excess of what had been provided. No provision was made for contingencies and legal proceedings when the outcome cannot be reasonably estimated or the probability of loss is extremely low.

(All amounts expressed in RMB million unless otherwise specified)

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Company	31 December 2020	31 December 2019
ASSETS		
Cash at bank and on hand	271	83
Financial assets at fair value through profit or loss	11	10
Securities purchased under agreements to resell	110	108
Interest receivables	648	499
Term deposits	21,190	2,000
Available-for-sale financial assets	32,369	29,143
Held-to-maturity financial assets	-	300
Investments classified as loans and receivables	12,971	12,449
Long-term equity investments	65,072	64,979
Investment properties	3,289	3,331
Fixed assets	1,310	1,750
Construction in progress	59	-
Right-of-use assets	317	11
Intangible assets	330	343
Other assets	487	1,191
Total assets	138,434	116,197
LIABILITIES AND EQUITY		
Liabilities		
Securities sold under agreements to repurchase	1,272	1,540
Commissions and brokerage payable	1	1
Employee benefits payable	245	247
Taxes payable	11	86
Lease liabilities	330	11
Deferred income tax liabilities	432	194
Other liabilities	530	828
Total liabilities	2,821	2,907
Equity		
Issued capital	9,620	9,062
Capital reserves	79,312	66,164
Other comprehensive income	1,548	867
Surplus reserves	4,810	4,531
Retained profits	40,323	32,666
Total equity	135,613	113,290
Total liabilities and equity	138,434	116,197

KONG Qingwei	FU Fan
Director	Director

(All amounts expressed in RMB million unless otherwise specified)

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

The movements in reserves and retained profits of the Company are set out below:

Company	2020					
	Issued capital	Capital reserves	Other comprehensive income	Surplus reserves	Retained profits	Total equity
At 1 January 2020	9,062	66,164	867	4,531	32,666	113,290
Amount of change this year	558	13,148	681	279	7,657	22,323
Net profit	-	-	-	-	18,810	18,810
Other comprehensive income	-	-	681	-	-	681
Total comprehensive income	-	-	681	-	18,810	19,491
Capital contribution and withdrawal by shareholders	558	13,148	-	-	-	13,706
Capital contribution by shareholders	558	13,148	-	-	-	13,706
Profit Distribution	-	-	-	279	(11,153)	(10,874)
Appropriations to surplus reserves	-	-	-	279	(279)	-
Profit distribution to shareholders	-	-	-	-	(10,874)	(10,874)
At 31 December 2020	9,620	79,312	1,548	4,810	40,323	135,613

Company	2019					
	Issued capital	Capital reserves	Other comprehensive income	Surplus reserves	Retained profits	Total equity
At 1 January 2019	9,062	66,164	56	4,531	25,761	105,574
Amount of change this year	-	-	811	-	6,905	7,716
Net profit	-	-	-	-	15,967	15,967
Other comprehensive income	-	-	811	-	-	811
Total comprehensive income	-	-	811	-	15,967	16,778
Profit Distribution	-	-	-	-	(9,062)	(9,062)
Profit distribution to shareholders	-	-	-	-	(9,062)	(9,062)
At 31 December 2019	9,062	66,164	867	4,531	32,666	113,290

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

There is no material difference in recognition and measurement between PRC GAAP and the significant accounting policies as disclosed in Note 2.2 in preparation of the above balance sheet and reserve movement of the Company, other than that the Company's investment in subsidiaries are stated at cost less any impairment losses and the results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

There is no difference between the consolidated financial statements prepared in accordance with HKFRS and PRC GAAP by the Group in the equity as at 31 December 2020 and 31 December 2019 and no difference in the net profit for the respective years then ended.

(All amounts expressed in RMB million unless otherwise specified)

55. POST BALANCE SHEET EVENTS

The Company and CPIC Life purchased 8% and 14.949% shares of CPIC Allianz Health from Allianz SE respectively by entering into the “Agreement on Transfer of Shares in CPIC Allianz Health”. After this transaction, the Company’s and CPIC Life’s shareholding in CPIC Allianz Health increased to 85.051% and 14.949% respectively. CPIC Allianz Health completed the relevant company registration in January 2021.The consideration of this transaction had been paid as at the approval date the financial statements. CPIC Allianz Health obtained the approval from CBIRC in March 2021 to change its name to Pacific Health Insurance Co., Ltd.

CPIC Capital Company Limited, a wholly-owned subsidiary set up by CPIC Asset Management, obtained the business license in March 2021. The registered capital is RMB 100 million.

The Group does not have other significant post balance sheet events.

56. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved and authorised for issue by the Company’s directors on 26 March 2021.