

CHINA LIFE INSURANCE CO LTD

Form 20-F

April 24, 2019

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As filed with the Securities and Exchange Commission on April 24, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report \_\_\_\_\_**

**Commission file number 001-31914**

**(Exact name of Registrant as specified in its charter)**

**China Life Insurance Company Limited**

**(Translation of Registrant's name into English)**

**People's Republic of China**

**(Jurisdiction of incorporation or organization)**

**16 Financial Street**

**Xicheng District**

**Beijing 100033, China**

**(Address of principal executive offices)**

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**Beijing 100033, China**

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**(Name, Telephone, Email and/or Facsimile Number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>American depositary shares</b>	<b>New York Stock Exchange</b>
<b>H shares, par value RMB 1.00 per share</b>	<b>New York Stock Exchange*</b>

\* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares, each representing 5 H shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None.**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None.**

**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2018, 7,441,175,000 H shares and 20,823,530,000 A shares, par value RMB 1.00 per share, were issued and outstanding. H shares are listed on the Hong Kong Stock Exchange. A shares are listed on the Shanghai Stock Exchange. Both H shares and A shares are ordinary shares.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.    Yes    No

If this report is an annual report or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.    Yes    No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes    No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).    Yes    No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  
Accelerated filer                      Non-accelerated filer  
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.GAAP                      International Financial Reporting Standards as issued                      Other  
by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.    Item 17    Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes    No

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**FORWARD-LOOKING STATEMENTS**

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements state our intentions, beliefs, expectations or predictions for the future, in particular under Item 4. Information on the Company , Item 5. Operating and Financial Review and Prospects and Item 8. Financial Information Embedded Value .

The forward-looking statements include, without limitation, statements relating to:

future developments in the insurance industry in China;

changes in interest rates and other economic and business conditions in China;

the industry regulatory environment as well as the industry outlook generally;

the amount and nature of, and potential for, future development of our business;

the outcome of litigation and regulatory proceedings that we currently face or may face in the future;

our business strategy and plan of operations;

the prospective financial information regarding our business;

our dividend policy; and

information regarding our embedded value.

In some cases, we use words such as believe , intend , anticipate , estimate , project , forecast , plan , potential , should and expect and similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this annual report, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed under Item 3. Key Information Risk Factors and elsewhere in this annual report, including in conjunction with the forward-looking statements included in this annual report. We undertake no obligation to publicly update or revise any forward-looking statements contained in this annual report, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements contained in this annual report are



qualified by reference to this cautionary statement.

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**CERTAIN TERMS AND CONVENTIONS**

References in this annual report to **we**, **us**, **our**, **the Company** or **China Life** mean China Life Insurance Company Limited and, as the context may require, its subsidiaries. References to **CLIC** mean China Life Insurance (Group) Company and, as the context may require, its subsidiaries, other than China Life. References in this annual report to **AMC** mean China Life Asset Management Company Limited, the asset management company established by us with CLIC on November 23, 2003. References to **CLPCIC** mean China Life Property and Casualty Insurance Company Limited, the property and casualty company established by us with CLIC on December 30, 2006. References to **China Life Pension** mean China Life Pension Company Limited established by us, CLIC and AMC on January 15, 2007.

The statistical and market share information contained in this annual report has been derived from government sources, including the China Insurance Yearbook 2016, the China Insurance Yearbook 2017, the China Insurance Yearbook 2018 and other public sources. The information has not been verified by us independently. Unless otherwise indicated, market share information set forth in this annual report is based on premium information as reported by the CBIRC. The reported information includes premium information that is not determined in accordance with HKFRS, U.S. GAAP or IFRS.

References to **A shares** mean the RMB ordinary shares which have been listed on the Shanghai Stock Exchange since January 9, 2007.

References to the **CIRC** mean the China Insurance Regulatory Commission, which was established in 1998 and merged with the China Banking Regulatory Commission in April 2018. References to the **CBRC** mean the China Banking Regulatory Commission, which was established in 2003 and merged with the CIRC in April 2018. References to **CBIRC** mean the China Banking and Insurance Regulatory Commission, which was established in April 2018 as a result of the merger of CIRC and CBRC. In this annual report, references to the **CIRC** mean the China's insurance regulator prior to April 2018 and references to the **CBIRC** mean the China's insurance regulator after April 2018, as the context may require.

References to **China** or **PRC** mean the People's Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan. References to the **central government** mean the government of the PRC. References to **State Council** mean the State Council of the PRC. References to **MOF** or **Ministry of Finance** mean the Ministry of Finance of the PRC. References to **Ministry of Commerce** mean the Ministry of Commerce of the PRC. References to **SAFE** mean the State Administration of Foreign Exchange of the PRC. References to **SAMR** mean the State Administration for Market Regulation of the PRC.

References to **HKSE** or **Hong Kong Stock Exchange** mean The Stock Exchange of Hong Kong Limited. References to **NYSE** or **New York Stock Exchange** mean the New York Stock Exchange. References to **SSE** or **Shanghai Stock Exchange** mean the Shanghai Stock Exchange.

References to **IFRS** mean the International Financial Reporting Standards as issued by the International Accounting Standards Board, references to **U.S. GAAP** mean the generally accepted accounting principles in the United States, references to **HKFRS** mean the Hong Kong Financial Reporting Standards, issued by the Hong Kong Institute of Certified Public Accountants, and references to **PRC GAAP** mean the PRC Accounting Standards for Business Enterprises applicable to companies listed in the PRC. Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with IFRS.



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References to Renminbi or RMB in this annual report mean the currency of the PRC, references to U.S. dollars or US\$ mean the currency of the United States of America, and references to Hong Kong dollars, H.K. dollars or HK\$ mean the currency of the Hong Kong Special Administrative Region of the PRC.

Unless otherwise indicated, translations of RMB amounts into U.S. dollars for presentation only in this annual report have been made at the rate of US\$ 1.00 to RMB 6.8755, the noon buying rate in the City of New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. No representation is made that Renminbi amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2018 or at all. Translations of foreign currency amounts into RMB amounts for the purpose of preparing our audited consolidated financial statements included elsewhere in this annual report or our previous annual reports have been made at the exchange rates published by the PBOC.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

If there is any discrepancy or inconsistency between the Chinese names of the PRC entities in this annual report and their English translations, the Chinese version shall prevail.

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**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.**

Not applicable.

**ITEM 3. KEY INFORMATION.**

**A. SELECTED FINANCIAL DATA**

**Selected Historical Consolidated Financial Data**

The following tables set forth our selected consolidated financial information for the periods indicated. We have derived the consolidated financial information from our audited consolidated financial statements included elsewhere in this annual report or our previous annual reports.

We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB.

You should read this information in conjunction with the rest of the annual report, including our audited consolidated financial statements and the accompanying notes, Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report and the independent registered public accounting firm's reports.

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	<b>For the year ended December 31,</b>					
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>Consolidated Statement of Comprehensive Income</b>						
	<i>(in millions except for per share data)</i>					
<b>Revenues</b>						
Gross written premiums	331,010	363,971	430,498	511,966	535,826	77,933
Less: premiums ceded to reinsurers	(515)	(978)	(1,758)	(3,661)	(4,503)	(655)
Net written premiums	330,495	362,993	428,740	508,305	531,323	77,278
Net change in unearned premium reserves	(390)	(692)	(2,510)	(1,395)	700	102
Net premiums earned	330,105	362,301	426,230	506,910	532,023	77,380
Investment income	93,548	97,582	109,147	122,727	125,167	18,205
Net realized gains on financial assets	7,120	32,297	6,038	42	(19,591)	(2,849)
Net fair value gains through profit or loss	5,808	10,209	(7,094)	6,183	(18,278)	(2,658)
Other income	4,185	5,060	6,460	7,493	8,098	1,176
<b>Total revenues</b>	<b>440,766</b>	<b>507,449</b>	<b>540,781</b>	<b>643,355</b>	<b>627,419</b>	<b>91,254</b>
<b>Benefits, claims and expenses</b>						
<b>Insurance benefits and claims expenses</b>						
Life insurance death and other benefits	(192,659)	(221,701)	(253,157)	(259,708)	(248,736)	(36,177)
Accident and health claims and claim adjustment expenses	(16,752)	(21,009)	(27,269)	(33,818)	(40,552)	(5,898)
Increase in insurance contract liabilities	(105,883)	(109,509)	(126,619)	(172,517)	(189,931)	(27,624)
Investment contract benefits	(1,958)	(2,264)	(5,316)	(8,076)	(9,332)	(1,357)
Policyholder dividends resulting from participation in profits	(24,866)	(33,491)	(15,883)	(21,871)	(19,646)	(2,857)
Underwriting and policy acquisition costs	(27,147)	(35,569)	(52,022)	(64,789)	(62,705)	(9,120)
Finance costs	(4,726)	(4,320)	(4,767)	(4,601)	(4,116)	(599)
Administrative expenses	(25,432)	(27,458)	(31,854)	(35,953)	(37,486)	(5,452)
Other expenses	(4,151)	(7,428)	(4,859)	(6,426)	(7,642)	(1,111)
Statutory insurance fund contribution	(701)	(743)	(1,048)	(1,068)	(1,097)	(160)
<b>Total benefits, claims and expenses</b>	<b>(404,275)</b>	<b>(463,492)</b>	<b>(522,794)</b>	<b>(608,827)</b>	<b>(621,243)</b>	<b>(90,355)</b>
Share of profit of associates and joint ventures, net	3,911	1,974	5,855	7,143	7,745	1,126
<b>Profit before income tax</b>	<b>40,402</b>	<b>45,931</b>	<b>23,842</b>	<b>41,671</b>	<b>13,921</b>	<b>2,025</b>
Income tax	(7,888)	(10,744)	(4,257)	(8,919)	(1,985)	(289)
<b>Net profit</b>	<b>32,514</b>	<b>35,187</b>	<b>19,585</b>	<b>32,752</b>	<b>11,936</b>	<b>1,736</b>
<b>Attributable to:</b>						

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- Equity holders of the Company	32,211	34,699	19,127	32,253	11,395	1,657
- Non-controlling interests	303	488	458	499	541	79
<b>Basic and diluted earnings per share<sup>(1)</sup></b>	1.14	1.22	0.66	1.13	0.39	0.06

<sup>(1)</sup> Numbers are based on the weighted average number of 28,264,705,000 shares in issue.

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	<b>For the year ended December 31,</b>					
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
	<i>(in millions except for per share data)</i>					
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>						
Fair value gains/(losses) on available-for-sale securities	70,342	54,080	(44,509)	(15,003)	(24,591)	(3,577)
Amount transferred to net profit from other comprehensive income	(7,120)	(32,297)	(6,038)	(42)	19,549	2,843
Portion of fair value changes on available-for-sale securities attributable to participating policyholders	(11,035)	(12,767)	17,372	5,605	(32)	(5)
Share of other comprehensive income of associates and joint ventures under the equity method	120	353	(864)	20	735	107
Exchange differences on translating foreign operations		10	21	(865)	598	87
Income tax relating to components of other comprehensive income	(13,023)	(2,242)	8,242	2,359	1,716	250
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>	<b>39,284</b>	<b>7,137</b>	<b>(25,776)</b>	<b>(7,926)</b>	<b>(2,025)</b>	<b>(295)</b>
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>						
<b>Other comprehensive income for the year, net of tax</b>	<b>39,284</b>	<b>7,137</b>	<b>(25,776)</b>	<b>(7,926)</b>	<b>(2,025)</b>	<b>(295)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>71,798</b>	<b>42,324</b>	<b>(6,191)</b>	<b>24,826</b>	<b>9,911</b>	<b>1,441</b>
Attributable to:						
- Equity holders of the Company	71,443	41,775	(6,647)	24,341	9,325	1,356
- Non-controlling interests	355	549	456	485	586	85



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	As of December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US\$
<b>Consolidated Statement of Financial Position</b>	<i>(in millions)</i>					
<b>Assets</b>						
Property, plant and equipment	25,348	26,974	30,389	42,707	47,281	6,877
Investment properties	1,283	1,237	1,191	3,064	9,747	1,418
Investments in associates and joint ventures	44,390	47,175	119,766	161,472	201,661	29,330
Held-to-maturity securities	517,283	504,075	594,730	717,037	806,717	117,332
Loans	166,453	207,267	226,573	383,504	450,251	65,486
Term deposits	690,156	562,622	538,325	449,400	559,341	81,353
Statutory deposits - restricted	6,153	6,333	6,333	6,333	6,333	921
Available-for-sale securities	607,531	770,516	766,423	810,734	870,533	126,614
Securities at fair value through profit or loss	53,052	137,990	209,124	136,809	138,717	20,176
Securities purchased under agreements to resell	11,925	21,503	43,538	36,185	9,905	1,441
Accrued investment income	44,350	49,552	55,945	50,641	48,402	7,040
Premiums receivable	11,166	11,913	13,421	14,121	15,648	2,276
Reinsurance assets	1,032	1,420	2,134	3,046	4,364	635
Other assets	19,411	23,642	22,013	33,952	33,437	4,862
Deferred tax assets					1,257	183
Cash and cash equivalents	47,034	76,096	67,046	48,586	50,809	7,390
<b>Total assets</b>	<b>2,246,567</b>	<b>2,448,315</b>	<b>2,696,951</b>	<b>2,897,591</b>	<b>3,254,403</b>	<b>473,334</b>
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Insurance contracts	1,603,446	1,715,985	1,847,986	2,025,133	2,216,031	322,308
Investment contracts	72,275	84,106	195,706	232,500	255,434	37,151
Policyholder dividends payable	74,745	107,774	87,725	83,910	85,071	12,373
Interest-bearing loans and borrowings	2,623	2,643	16,170	18,794	20,150	2,931
Bonds payable	67,989	67,994	37,998			
Financial liabilities at fair value through profit or loss	10,890	856	2,031	2,529	2,680	390
Derivative financial liabilities					1,877	273
Securities sold under agreements to repurchase	46,089	31,354	81,088	87,309	192,141	27,946
Annuity and other insurance balances payable	25,617	30,092	39,038	44,820	49,465	7,194
Premiums received in advance	15,850	32,266	35,252	18,505	46,650	6,785
Other liabilities	20,062	26,514	36,836	47,430	58,426	8,498
Deferred tax liabilities	19,375	16,953	7,768	4,871		
Current income tax liabilities	52	5,347	1,214	6,198	2,630	383

Statutory insurance fund	223	217	491	282	558	81
<b>Total liabilities</b>	<b>1,959,236</b>	<b>2,122,101</b>	<b>2,389,303</b>	<b>2,572,281</b>	<b>2,931,113</b>	<b>426,313</b>
<b>Equity</b>						
Share capital	28,265	28,265	28,265	28,265	28,265	4,111
Other equity instruments		7,791	7,791	7,791	7,791	1,133
Reserves	145,919	163,381	145,007	145,675	149,293	21,714
Retained earnings	109,937	123,055	122,558	139,202	133,022	19,347
<b>Attributable to equity holders of the Company</b>	<b>284,121</b>	<b>322,492</b>	<b>303,621</b>	<b>320,933</b>	<b>318,371</b>	<b>46,305</b>
<b>Non-controlling interests</b>	<b>3,210</b>	<b>3,722</b>	<b>4,027</b>	<b>4,377</b>	<b>4,919</b>	<b>716</b>
<b>Total equity</b>	<b>287,331</b>	<b>326,214</b>	<b>307,648</b>	<b>325,310</b>	<b>323,290</b>	<b>47,021</b>
<b>Total liabilities and equity</b>	<b>2,246,567</b>	<b>2,448,315</b>	<b>2,696,951</b>	<b>2,897,591</b>	<b>3,254,403</b>	<b>473,334</b>

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**Table of Contents****Exchange Rate Information**

We prepare our consolidated financial statements in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars, and U.S. dollars into Renminbi, at RMB 6.8755 to US\$ 1.00, the noon buying rate on December 31, 2018 in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. You should not assume that Renminbi amounts could actually be converted into U.S. dollars at these rates or at all. Translations of foreign currency amounts into RMB amounts for the purpose of preparing our audited consolidated financial statements included elsewhere in this annual report or our previous annual reports have been made at the exchange rates published by the PBOC.

Since July 21, 2005, the PRC government has followed a managed floating exchange rate system that allows the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Under this system, the PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. On August 11, 2015, the PBOC adjusted the quotation mechanism of the Renminbi central parity to also consider demand and supply in foreign exchange markets and price movements of major currencies, in addition to the closing price on the previous working day. On May 26, 2017, the PBOC introduced a counter-cyclical factor into its formula that determines a central parity of Renminbi against the U.S. dollar. Under the current mechanism, the central parity of the Renminbi against the U.S. dollar is determined based on the closing rate, changes in a basket of currencies and the counter-cyclical factor. See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results. In 2018, the Renminbi depreciated by approximately 5.23% against the U.S. dollar. It remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital account items, such as foreign direct investments, loans or securities, requires the approval of the SAFE and other relevant authorities. Although experimental policies were introduced in certain pilot areas such as the Shanghai free trade zone to reduce foreign exchange control, restrictions on the convertibility of Renminbi into foreign currency are still in force in most parts of China.

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$ 7.80 to US\$ 1.00. The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and the three Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited and the Bank of China (Hong Kong) Limited, certificates of debts, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of HK\$ 7.80 to US\$ 1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of debts to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK\$ 7.80 to US\$ 1.00 since the link was first established. The Hong Kong government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Exchange rates between the

Hong Kong dollar and other currencies are influenced by the linked rate between the U.S. dollar and the Hong Kong dollar.

**B. CAPITALIZATION AND INDEBTEDNESS**

Not Applicable.

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**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not Applicable.

**D. RISK FACTORS**

Our business, financial condition and results of operations can be affected materially and adversely by any of the following risk factors. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations.

**Risks Relating to Our Business**

*Our investments are subject to risks.*

*We are exposed to potential investment losses if there is an economic downturn in China.*

Until November 2006, we were only permitted to invest the premiums and other income we receive in investments in China. We obtained the approval to invest overseas with our foreign currency denominated funds in November 2006. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . However, we have continued to make our investments mainly in China and, as of December 31, 2018, approximately 97.84% of our total investment assets were in China. In particular, as of December 31, 2018, approximately 44.92% of our total investment assets consisted of debt securities including Chinese government bonds, government agency bonds, corporate bonds, subordinated bonds and other debt securities as permitted by relevant government agencies; approximately 18.02% of our total investment assets consisted of term deposits with Chinese banks, of which 56.03% were placed with the five largest Chinese state-owned commercial banks; and approximately 14.51% of our total investment assets consisted of loans provided to Chinese entities and individuals, including policy loans, investment in debt investment plans and trust schemes. A serious downturn in the Chinese economy may lead to investment losses, which would reduce our earnings.

*The PRC securities markets are still emerging markets, which may expose us to risks of loss from our investments there.*

As of December 31, 2018, we had RMB 424,657 million (US\$ 61,764 million) invested in equity securities, among which RMB 134,152 million (US\$ 19,512 million) were invested in PRC securities markets, including securities investment funds and shares traded on the securities markets in China. These securities investment funds and shares are primarily invested in equity securities that are issued by Chinese companies and traded on China's stock exchanges. The PRC securities markets are still emerging markets and are characterized by evolving regulatory, accounting and disclosure requirements. This may from time to time result in significant price volatility, unexpected losses or lack of liquidity. These factors could cause us to incur losses on our publicly traded investments. Also, as one of the largest institutional investors in China, we may from time to time hold significant positions in many securities in which we invest, and any decision to sell or any perception in the market that we are a major seller of a security could adversely affect the liquidity and market price of that security.

*Defaults on our debt investments may materially and adversely affect our profitability.*

Approximately 44.92% of our investment assets as of December 31, 2018 were comprised of debt securities. The issuers whose debt securities we hold may fail to pay or otherwise default on their obligations due to bankruptcy, a

lack of liquidity, a downturn in the economy, operational failures or other reasons. Losses due to these defaults could reduce our profitability.

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***Defaults on our investments in loans may materially and adversely affect our profitability.***

Approximately 14.51% of our investment assets as of December 31, 2018 were comprised of loans, including policy loans, investments in debt investment plans and trust schemes. The borrowers to whom we provided loans may fail to pay or otherwise default on their obligations due to bankruptcy, a lack of liquidity, a downturn in the economy, operational failures or other reasons. Losses due to these defaults could reduce our profitability.

***Investments in new investment channels may not lead to improvements in our rate of investment return or we may incur losses.***

The CBIRC has in recent years significantly broadened the investment channels of Chinese life insurance companies. We have considered these alternative channels when making investments. For example, we made our first domestic private equity fund investment in 2011. In 2012, we made a direct equity investment and, in 2013, we began making investments in commercial real estate properties. In 2014, we made our first overseas real estate investment, first overseas private equity fund investment and first domestic preferred shares investment. In 2016, we made our first investment in shares traded on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect between China's mainland markets and the Hong Kong Stock Exchange, and we also made our first investment in interbank negotiable certificates of deposit. However, our experience with these new investment channels, especially overseas channels, is limited, and these new channels are still subject to evolving regulatory requirements, which may increase the risk exposure of our investments. For example, since January 2013, debt investment plans are no longer required to be filed with and reviewed by the CBIRC, and in March 2014, the CBIRC warned insurance companies of risks in debt investment plans. The CBIRC noted, among other things, that issuers of some debt investment plans are not properly backed by their parent companies which are supposed to guarantee the payments if the plans face financial difficulties. Parent companies of some issuers do not engage in operating activities that can generate cash inflows and do not have effective control over their subsidiaries. As a result, the consolidated financial statements of these companies may not fully reflect their capacity to make payments when the plans face financial difficulties. As of December 31, 2018, the total amount of our investment in debt investment plans was RMB 75,717 million (US\$ 11,013 million). These factors could cause us to incur losses for our investments in these new investment channels or limit our ability to improve our rate of investment return.

***We may incur foreign exchange and other losses for our investments denominated in foreign currencies.***

A portion of our investment assets are held in foreign currencies. We are authorized by the CBIRC to invest our assets held in foreign currencies in the overseas financial markets as permitted by the CBIRC. Thus, our investment results may be subject to foreign exchange gains and losses due to changes in exchange rates as well as the volatility and various other factors of overseas capital markets, including, among others, increase in interest rates. We recorded RMB 194 million (US\$ 28 million) in foreign exchange losses for the year ended December 31, 2018, resulting mainly from the change in foreign exchange rates applicable to our assets and liabilities held in foreign currencies. However, it remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi. Future movements in the exchange rate of RMB against the U.S. dollar and other foreign currencies may adversely affect our results of operations and financial condition.

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*We are exposed to changes in interest rates.*

*Changes in interest rates may affect our profitability.*

Our profitability is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including economic growth rate, inflation, governmental monetary and tax policies, domestic and international economic and political conditions, financial regulatory requirements and other factors beyond our control. If interest rates were to increase significantly in the future, surrenders and withdrawals of life insurance and annuity policies and contracts may increase as policy holders may seek other investments with higher perceived returns. This process may result in cash outflows requiring that we sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. However, if interest rates were to decline in the future, the income we realize from our investments may decrease, affecting our profitability. In addition, as instruments in our investment portfolio mature, we might have to reinvest the funds we receive in investments bearing low interest rates, which may also affect our profitability. See Item 11 Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk .

For our long-term life insurance products including annuity products, we are obligated to pay contractual benefits to our policyholders or the beneficiaries based on a guaranteed interest rate, which is established when the product is priced. These products expose us to the risk that changes in interest rates may change our spread , or the difference between the amount of return that we are able to earn on our investments and the amount of return that we are required to pay based on a guaranteed interest rate under the policies.

On June 10, 1999, the CIRC set the maximum guaranteed interest rate which insurance companies could commit to pay on new policies at 2.50% (compounded annually) and, in response, we set the guaranteed interest rates on our products at a range of between 1.50% and 2.50%. In August 2013, February 2015 and September 2015, the CIRC removed the 2.50% cap on the guaranteed interest rates for traditional non-participating insurance policies, universal life insurance policies and participating life insurance policies, respectively. From October 1, 2015, the guaranteed interest rates of all long-term life insurance products are to be decided by insurance companies at their discretion in accordance with the principle of prudence, but CBIRC approval is required for products with guaranteed interest rates above the maximum valuation rate set by the CBIRC. This maximum valuation rate varies by product. Although the removal of the 2.50% cap has not resulted in any material impact on the profitability of our insurance policies in force, it could result in the increase of the guaranteed interest rates of our new products and the decrease of our spread. We cannot assure you that the removal of the 2.50% cap will not lead to a material adverse effect on our business, results of operations or financial condition.

As of December 31, 2018, the average guaranteed rate of return for all of our long-term insurance policies in force was 2.64%, while our investment yields for the years ended December 31, 2018, 2017 and 2016 were 3.29%, 5.16% and 4.69%, respectively. See Item 4. Information on the Company Business Overview Investments Investment Results . If the rates of return on our investments were to fall below the minimum rates we guarantee, our profitability would be materially and adversely affected.



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***Because of the general lack of long-term fixed income securities in the Chinese capital markets, we are unable to match closely the duration of our assets and liabilities, which increases our exposure to interest rate risk.***

Like other insurance companies, we seek to manage interest rate risk through managing, to the extent possible, the average duration of our investment assets and the insurance policy liabilities they support. Matching the duration of our assets to their related liabilities reduces our exposure to changes in interest rates, because the effect of the changes largely will be offset against each other. However, the limited availability of long-duration investment assets in the markets in which we invest, has resulted in, and in the future may result in, the duration of our assets being shorter than that of our liabilities, particularly with respect to liabilities with durations of more than 20 years. Furthermore, the Chinese financial markets currently do not provide adequate financial derivative products for us to hedge our interest rate risk. We believe that with the development of the Chinese capital markets and the gradual easing of the investment restrictions imposed on insurance companies in China, our ability to match the duration of our assets to that of our liabilities will improve. We also seek to manage the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to us in the prevailing investment environment. However, until we are able to match more closely the duration of our assets and liabilities, we will continue to be exposed to interest rate changes, which may materially and adversely affect our business and earnings.

***Our growth is dependent on our ability to attract and retain productive agents.***

A substantial portion of our business is conducted through our exclusive agents. Because of differences in productivity, some of our sales agents are responsible for a disproportionately high percentage of our sales of individual products. If we are unable to retain and build on this core group of highly productive agents, our business could be materially and adversely affected. Increasing competition for agents from other insurance companies and business institutions and increasing labor costs in China may also force us to increase the compensation of our agents, which would increase our operating costs and reduce our profitability. In addition, on January 6, 2013, the CIRC issued the Regulatory Rules on Insurance Sales Personnel, or the Sales Personnel Rules, which became effective on July 1, 2013. Among other things, the Sales Personnel Rules provide that exclusive agents must have at least a college degree, instead of a junior high school degree as previously required by the CIRC. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries . The CIRC has authorized its local branches to set the education degree requirements for exclusive agents by considering local conditions. We believe that if more CBIRC branches were to impose the requirement of having a college degree or above on new qualified exclusive agents, we cannot guarantee that we will not have difficulty in attracting and retaining productive agents in the future. In addition, as the market competition for qualified agents increases, our costs of attracting and retaining qualified agents may increase.

***If we are unable to develop other distribution channels for our products, our growth may be materially and adversely affected.***

Commercial banks are rapidly emerging as some of the fastest growing distribution channels in China. Many newly established domestic and foreign-invested life insurance companies have been focusing on commercial banks as one of their main distribution channels. In addition, with the relaxation of the regulatory restrictions of ownership by commercial banks in insurance companies, the number of insurance companies owned or controlled by commercial banks is increasing. Among the six largest Chinese state-owned commercial banks, five banks and the controlling shareholder of the remaining one have set up their own life insurance companies. These insurance companies are able to benefit from their holding relationships with these commercial banks to develop bancassurance as their main distribution channels. We do not have exclusive arrangements with any of the commercial banks through which we sell life insurance and annuity products, and thus our sales may be materially and adversely affected if one or more

commercial banks choose to favor our competitors' products over our own. In addition, as the bancassurance market becomes increasingly competitive, commercial banks may demand higher commission rates, which could increase our cost of sales and reduce our profitability. If we are unable to continue to develop our alternative distribution channels, our growth may be materially and adversely affected.

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***Agent and employee misconduct is difficult to detect and deter and could harm our reputation or lead to regulatory sanctions or litigation costs.***

Agent or employee misconduct could result in violations of law by us, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

engaging in misrepresentation or fraudulent activities when marketing or selling insurance policies or annuity contracts to customers;

hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or

otherwise not complying with laws or our control policies or procedures.

We cannot always deter agent or employee misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We have experienced agent and employee misconduct that has resulted in litigation and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations, financial condition or prospects.

***Our business is dependent on our ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals.***

The success of our business is dependent to a large extent on our ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance market in China, including members of our senior management, qualified underwriting personnel, actuaries, information technology specialists and experienced investment managers. As of the date of this annual report, we do not carry key personnel insurance for any of these personnel. We compete to attract and retain these key personnel with other life insurance companies and financial institutions, some of which may offer better compensation arrangements. Existing insurers are expanding their operations and the number of other financial institutions is growing. As the insurance and investment businesses continue to expand in China, we expect that competition for these personnel will increase in the future. Although we have not had difficulty in attracting and retaining qualified key personnel in the past, we cannot guarantee that this will continue to be the case. If we were unable to continue to attract and retain key personnel, our business and financial performance could be materially and adversely affected.

***Differences in future actual operating results from the assumptions used in pricing and establishing reserves for our insurance and annuity products may materially affect our earnings.***

Our earnings depend significantly upon the extent to which our actual operating results are consistent with the assumptions used in pricing and establishing the reserves for insurance contracts in our financial statements. Our assumptions include those for discount rate, mortality, morbidity, lapse rate and expenses. To the extent that trends in actual experiences are less favorable than our underlying assumptions used in establishing these reserves, and these trends are expected to continue in the future, we could be required to increase our reserves. Any such increase could

have a material adverse effect on our profitability and, if significant, our financial condition.

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We establish the reserves for insurance contracts based on the use of assumptions for discount rate, mortality, morbidity, lapse rate and expenses. These assumptions are based on our previous experience and the data published by other Chinese life insurers, as well as judgments made by the management. These assumptions may deviate from our actual experience, and, as a result, we cannot determine precisely the amounts which we will ultimately pay to fulfill our obligations under the insurance contracts or when these payments will need to be made. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. The discount rate assumption is affected by certain factors, such as further macro-economy, monetary and exchange rate policies, capital market results and availability of investment channels to invest our insurance funds. We review and update the assumptions used to evaluate the reserves periodically, and establish the reserves for insurance contracts based on such assumptions. If the reserves originally established for future policy benefits prove inadequate, we must increase our reserves established for future policy benefits, which may have a material effect on our earnings and our financial condition.

We have data available for a shorter period of time than life insurance companies operating in some other countries do and, as a result, less claims experience on which to base some of the assumptions used in establishing our reserves. For a discussion of how we establish our assumptions for mortality, morbidity and lapse rate, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies . Given the limited nature of this experience, it is possible that our actual claims could vary significantly from the assumptions used.

***Our risk management and internal reporting systems, policies and procedures may leave us exposed to unidentified or unanticipated risks, which could materially and adversely affect our businesses or result in losses.***

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our current methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not fully predict future exposures, which could be significantly greater than what the historical measures indicate. In addition, risk management depends upon the evaluation of information regarding markets, customers or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. In addition, a significant portion of business information needs to be centralized from our many branch offices. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Failure or the ineffectiveness of these systems could materially and adversely affect our business or result in losses.

We are likely to offer a broader and more diverse range of insurance and investment products in the future as the insurance market in China continues to develop. At the same time, we anticipate that we may invest in a significantly broader range of asset classes. The combination of these factors will require us to continue to enhance our risk management capabilities and is likely to increase the importance of our risk management policies and procedures to our results of operations and financial condition. If we fail to adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

***Catastrophes could materially reduce our earnings and cash flow.***

We could in the future experience catastrophic losses that may have an adverse impact on the business, results of operations and financial condition of our insurance business. Catastrophes can be caused by various events, including terrorist attacks, earthquakes, hurricanes, floods, fires and epidemics, such as severe acute respiratory syndrome, or SARS.



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We establish liabilities for claims arising from a specific catastrophe after assessing the exposure and damages arising from the event. Although we have purchased catastrophe reinsurance in order to reduce our catastrophe exposure, we cannot assure you that any significant catastrophic event will not have a material adverse effect on us.

***Current or future litigation, arbitration and regulatory proceedings could result in financial losses or harm our businesses.***

We are involved in litigation and arbitration proceedings involving our insurance operations on an ongoing basis. In addition, the CBIRC as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning our compliance with PRC laws and regulations. These litigation, arbitration and administrative proceedings have in the past resulted in payments of insurance benefits, damage awards, settlements or administrative sanctions, including fines, which have not been material to us. We currently have control procedures in place to monitor our litigation, arbitration and regulatory exposure and take appropriate actions. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings . While we cannot predict the outcome of any pending or future litigation, arbitration, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation, arbitration or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Legal and Regulatory Proceedings .

***The embedded value information we present in this annual report is based on several assumptions and may vary significantly as those assumptions are changed.***

In order to provide investors with an additional tool to understand our economic value and business results, we have disclosed information regarding our embedded value, as discussed in the section entitled Item 8. Financial Information Embedded Value . The embedded value is an estimate of our economic value (excluding the value attributed to new business after the valuation date) and is based on a discounted cash flow valuation determined using commonly applied actuarial methodologies. Standards with respect to the calculation of embedded value are still evolving, however, and there is no universal standard which defines the form, calculation method or presentation format of the embedded value of an insurance company. Assumptions used in embedded value calculations include rate of investment return, discount rate, mortality, morbidity, expenses and surrender rate, as well as certain macro factors, many of which are beyond our control. These assumptions may deviate significantly from our actual experience and therefore the embedded value is consequently not inherently predictive. Furthermore, since our actual market value is determined by investors based on a variety of information available to them, the embedded value should not be construed to be a direct reflection of our performance. The inclusion of the embedded value in this annual report should not be regarded as a representation by us, our management or any other person as to our future profitability. Because of the technical complexity involved in embedded value calculations and the fact that embedded value estimates vary materially as key assumptions are changed, you should read the discussion under the section entitled Item 8. Financial Information Embedded Value in its entirety. You should use special care when interpreting embedded value results and should not place undue reliance solely on them. See also Forward-Looking Statements .

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**Table of Contents*****A computer system failure, cyber-attacks or other security breaches may disrupt our business, damage our reputation and adversely affect our results of operations and financial condition.***

We use computer systems to store, retrieve, evaluate and utilize customer and company data and information. Our business is highly dependent on our ability to access these systems to perform necessary business functions such as developing and selling insurance products, providing customer support, policy management, filing and paying claims, managing our investment portfolios and producing financial statements. Although we have designed and implemented a variety of security measures and backup plans to prevent or limit the effect of failure, our computer systems may be vulnerable to disruptions as a result of natural disasters, man-made disasters, criminal activities, pandemics or other events beyond our control. In addition, our computer systems may be subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. The failure of our computer systems for any reason could disrupt our operations and may adversely affect our business, results of operations and financial condition. Although we have not experienced such a computer system failure or security breach in the past, we cannot assure you that we will not encounter a failure or security breach in the future.

We retain confidential information on our computer systems, including customer information and proprietary business information. In addition, for business purposes, from time to time customer information is transmitted between our computer systems and those of third parties, such as third-party agents selling insurance products for us. Any compromise of the security or other errors of our computer systems or those arising during the information transmission process that result in the disclosure of personally identifiable customer information could damage our reputation, expose us to litigation, increase regulatory scrutiny and require us to incur significant technical, legal and other expenses.

***United States Foreign Account Tax Compliance Act***

The Foreign Account Tax Compliance Act, or FATCA, generally requires a foreign financial institution, or FFI, to enter into an FFI agreement under which it will agree to identify and provide the United States Internal Revenue Service, or the IRS, with information regarding accounts, including certain insurance policies, held by U.S. persons and U.S.-owned foreign entities, or be subject to a 30% withholding tax on withholdable payments, which include, among other items, payments of U.S.-source interest and dividends and gross proceeds from the sale or other disposition of property that may produce U.S.-source interest or dividends. Proposed regulations promulgated on December 13, 2018, or the proposed FATCA regulations, eliminate withholding on payments of gross proceeds from the sale or other disposition of property that may produce U.S.-source interest or dividends. In addition, an FFI that has entered into an FFI agreement may be required to withhold on certain foreign passthru payments that it makes to FFIs that have not entered into their own FFI agreements or to account holders who do not respond to requests to confirm their U.S. person status and/or do not agree to allow the FFI to report certain account related information to the IRS. Under the proposed FATCA regulations, withholding on foreign passthru payments will begin no earlier than the date that is two years after the date of publication in the Federal Register of final regulations that define the term foreign passthru payment. Consequently, the scope of any withholding on foreign passthru payments is uncertain at this time.

The United States and the PRC have agreed in substance on the terms of an intergovernmental agreement, or IGA, that is intended to facilitate the type of information reporting required under FATCA. Under the agreed terms, instead of reporting directly to the IRS, Chinese FFIs are required to report specified account information directly to the PRC tax authority, which will then pass that information to the IRS. While compliance with the IGA will not eliminate the risk of withholding described above, it is expected to reduce that risk for FFIs that are resident in China. Although the IGA has not yet been officially signed, the PRC and the United States have agreed to treat the IGA as in effect from June 26, 2014, provided that the PRC continues to demonstrate firm resolve to sign the IGA as soon as possible. If the



United States and the PRC ultimately fail to reach a final agreement on the terms of the IGA, then the FATCA reporting and withholding regime described in the prior paragraph will apply to Chinese FFIs.

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We will closely monitor developments regarding FATCA and the IGA. If we are required to comply with the terms of the IGA or FATCA, as applicable, we expect that our compliance costs will increase. If we do not comply with the terms of the IGA or FATCA, as applicable, then certain payments to us will be subject to withholding under FATCA. However, since the text of the IGA has not been released, and regulations and other guidance remain under development, the future impact of this law on us is uncertain.

***The auditors' reports included in this annual report are prepared by relying on audit work which is not inspected by the Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.***

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board (United States), or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within China and our independent registered public accounting firm is based in China, the PCAOB is currently unable to conduct inspections of the work of our auditor as it relates to those operations without the approval of the Chinese authorities, and thus our auditor's work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspection of audit work performed in China prevents the PCAOB from regularly evaluating the audit work of any auditor that was performed in China including those performed by our auditor. As a result, investors may be deprived of the full benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions the SEC and the PCAOB will take to address this issue.

***We may be adversely affected if additional remedial measures are imposed on the four China-based accounting firms which reached settlement with the SEC in the administrative proceedings brought by the SEC against them.***

In December 2012, the SEC initiated administrative proceedings against five accounting firms in China, alleging that they refused to produce audit work papers and other documents related to certain China-based companies under investigation by the SEC for potential accounting fraud. In January 2014, an SEC administrative law judge ruled in favor of the SEC, issuing an initial decision which censured each of the five accounting firms for failure to provide their audit work papers to the SEC and ordered a six-month suspension of the China-based affiliates of four of the five accounting firms' right to practice before the SEC. The accounting firms have appealed the decision of the administrative law judge to the SEC, and the decision will not come into force unless and until an order of finality is issued by the SEC. We are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. However, the China affiliate of the independent registered public accounting firm that has issued the auditor's report included in our annual reports filed with the SEC for the 2013, 2014 and 2015 fiscal years, which is also our independent registered public accounting firm for the 2016, 2017 and 2018 fiscal years, is one of the five accounting firms named in the SEC's proceedings.



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In February 2015, four of the five accounting firms, including the China affiliate of the independent registered public accounting firm that has issued the auditor's report included in our annual report filed with the SEC for the 2013, 2014 and 2015 fiscal years, which is also our independent registered public accounting firm for the 2016, 2017 and 2018 fiscal years, each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to audit documents of China-based companies via the CSRC. If future document productions fail to meet the specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure, including an automatic six-month bar on the performance of certain audit work, commencement of a new proceeding or the resumption of the current proceeding by the SEC. While we cannot predict if the SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties, if they are subject to additional remedial measures, we may be adversely affected, along with other U.S.-listed companies in China audited by these accounting firms. If none of the China-based auditors are able to continue to perform audit work for China-based companies listed in the U.S., we will not be able to meet the reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which may ultimately result in our deregistration by the SEC and delisting of our ADSs from the NYSE.

**Risks Relating to the PRC Life Insurance Industry**

*We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business.*

We face competitive pressures from both domestic and foreign-invested life insurance companies operating in China, as well as from property and casualty insurance companies, which may compete with our accident and short-term health insurance businesses, and other financial institutions that sell other financial investment products in competition with ours. In addition, the establishment of other professional health insurance companies and pension annuities companies may also lead to greater competition in the health insurance business and commercial pension insurance business. If we are not able to adapt to these increasingly competitive pressures in the future, our growth rate may decline, which could materially and adversely affect our earnings.

*Competition among domestic life insurance companies is increasing.*

According to statistical and unaudited market share information for the year of 2018 released by the CBIRC on its website, our closest competitors are Ping An Life Insurance Company of China, Ltd., or Ping An Life, China Pacific Life Insurance Co., Ltd., or China Pacific Life, Huaxia Life Insurance Company Limited, or Huaxia Life, and Taiping Life Insurance Company Limited, or Taiping Life. Ping An Life, China Pacific Life, Huaxia Life, Taiping Life and we together accounted for approximately 56% of the life insurance premiums in China in 2018, with our market share in China increasing from 19.7% in 2017 to 20.4% in 2018. Each of Ping An Life, China Pacific Life, Huaxia Life and Taiping Life has operated in the Chinese insurance market for more than ten years, and each has a recognized brand name. According to statistical and market share information derived from China Insurance Yearbook, in 2017, the last year for which the audited market information for separate business segments and geographic markets business is available, Ping An Life had a greater market share than we did in Beijing, Shanghai, Guangdong, Tianjin, Hubei, Chongqing, Qingdao, Liaoning, Dalian, Shenzhen, Xiamen, Hainan and Ningbo. We also face competition from insurance companies owned or controlled by commercial banks.

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Among the six largest Chinese state-owned commercial banks, five banks and the controlling shareholder of the remaining one have set up their own life insurance companies. These insurance companies are able to benefit from their holding relationships with these commercial banks to develop bancassurance as their main distribution channels. In addition, we also face competition from smaller insurance companies, which may have competitive advantages in various regions in which we operate, and new entrants to the group life insurance market, including professional pension companies that are being established pursuant to a set of regulations promulgated by the Ministry of Human Resources and Social Security of the PRC, and new entrants to the health insurance industry, including newly approved and established professional health insurance companies, following Chinese government's adoption of policies that encourage the development of health insurance and improved health care in China.

***Competition from foreign-invested life insurance companies is increasing, as restrictions on their operations in China are relaxed.***

Foreign-invested life insurance companies are insurance companies in which foreign entities hold at least a 25% interest. Foreign-invested life insurers have been permitted to sell health, annuity and group life insurance products nationwide in China since December 2004. According to statistical and unaudited market share information released by the CIRC on its website, foreign-invested insurers had a life insurance market share of approximately 8.1% in 2018. On November 10, 2017, China announced that it will substantially relax foreign ownership limits in life insurance companies. In 2018, China increased the limit on foreign ownership in Chinese life insurance companies to 51% and announced that all foreign ownership restrictions in Chinese life insurance companies will be removed in 2021. We believe that the relaxation of the restrictions on foreign-invested insurers, once implemented, will continue to increase the competitive pressures we are facing.

***We are likely to face increasing competition from property and casualty insurance companies and other companies offering products that compete with our own.***

In addition to competition from life insurance companies, we face competition from other companies that may offer products that compete with our own, including:

*Property and casualty companies.* Beginning on January 1, 2003, property and casualty insurance companies have been permitted to sell short-term health insurance and accident products, but only with regulatory approval. There were 88 property and casualty insurers as of December 31, 2018. We believe property and casualty insurers have the competitive advantage of being able to bundle, or cross-sell, short-term health and accident products with the other non-life insurance products that they are currently selling to their existing and potential customers. We believe this will lead to greater competition in the accident and health insurance sectors. On December 30, 2006, we established a property and casualty company, CLPCIC, with CLIC. While this joint venture mainly focuses on property insurance business, it also develops short-term health insurance and accident business. Its operations may have a negative impact on sales of our short-term health insurance and accident products in the future.

*Mutual fund companies, commercial banks and other financial services providers.* We face increasing competition from other financial services providers, primarily licensed mutual fund companies, commercial banks providing personal banking services and offering various financial products, trust companies and securities brokerage firms licensed to manage separate accounts. These financial service providers provide a variety of financial investment products that may prove to be attractive to the public and thereby adversely

affect the sale of some products we offer, including traditional life insurance policies with a savings feature, participating life insurance policies and annuities.

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***All of our institutional insurance agencies and brokers are required to obtain permits and be registered. If a substantial number of our institutional insurance agencies and brokers fail to meet these qualification and registration requirements or this failure results in policyholders canceling their policies, our business may be materially and adversely affected.***

Institutional insurance agents and insurance brokers are required under the PRC insurance law to register with the administration of industry and commerce, and obtain business licenses with the permits issued by the CBIRC. It also requires non-dedicated institutional insurance agencies to obtain registrations with the administration of industry and commerce with the permits issued by the CBIRC. We cannot assure you that all of our institutional agents will obtain such licenses. The enforcement of this requirement could adversely affect the composition and productivity of our distribution channel, which could have a material adverse effect on our business.

***Further development of regulations in China may impose additional costs or restrictions on our activities.***

We operate in a highly regulated industry. The CBIRC supervises and administers the insurance industry in China. In exercising its authority, it is given certain discretion to administer the law. China's insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Some of these changes may result in additional costs or restrictions on our activities. For example, the CIRC issued notices in September 2016 and May 2017 to further reinforce the regulation of life insurance products by requiring insurance companies to revise or improve the design of a number of insurance products. For instance, insurance companies are required to (i) increase the death coverage for insurance products including individual term life insurance, individual endowment insurance and individual whole life insurance products, and (ii) seek CIRC approval for universal insurance products with a guaranteed interest rate above 3%. CIRC also required that (i) whole life insurance, annuity insurance and care insurance products must not be designed as short-to-medium term products, (ii) the first payment of survival insurance benefits for endowment products and annuity products must only occur after five years since the policy has become effective, and the annual payment or partial payment must not exceed 20% of the paid premiums, and (iii) insurance companies must not design universal insurance products or investment-linked insurance products in the form of riders. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of products . These new requirements apply to a number of key products sold by us. Although these requirements are consistent with our long-term development strategy, revising the design of a number of products during a short period of time may increase our operating costs and may adversely affect our business, results of operations and financial condition.

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In addition, because the terms of our products are subject to regulations, changes in regulations may affect our profitability on the policies and contracts we issue. For instance, under the guidelines issued by the CIRC, the dividends on our participating products must be no less than 70% of the distributable earnings from participating products in accordance with CIRC requirements. If this level were to be increased in the future, our profitability could be materially and adversely affected. Furthermore, in August 2013, February 2015 and September 2015, the CIRC removed the 2.50% cap on the guaranteed interest rates for traditional non-participating insurance policies, universal life insurance policies and participating life insurance policies, respectively. From October 1, 2015, the guaranteed interest rates of all long-term life insurance products are to be decided by insurance companies at their discretion in accordance with the principle of prudence, but CBIRC approval is required for products with guaranteed interest rates above the maximum valuation rate set by the CBIRC, which varies by product. Although the removal of the 2.50% cap has not resulted in any material impact on the profitability of our insurance policies in force, it could result in the increase of the guaranteed interest rates of our new products and the decrease of our spread, and therefore we cannot assure you that the removal of the 2.50% cap will not lead to a material adverse effect on our business, results of operations or financial condition.

***Our ability to comply with minimum solvency requirements is affected by a number of factors, and our compliance may force us to raise additional capital, which could increase our financing costs or be dilutive to our existing investors, or to reduce our growth.***

In February 2015, the CIRC issued the major technical standards for a new set of solvency regulations, the China Risk Oriented Solvency System, or C-ROSS, with the aim of replacing the then current solvency requirements on Chinese insurance companies, or Solvency I. C-ROSS adopts the internationally accepted three-pillar regulatory system which includes quantitative capital requirements, qualitative regulatory requirements and market discipline mechanisms while its regulatory concept, models, methods and parameters are based on Chinese insurance market conditions. C-ROSS was officially implemented by the CIRC on January 1, 2016. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements. Our core solvency adequacy ratio under C-ROSS as of December 31, 2018 was 250.55%, and our comprehensive solvency adequacy ratio under C-ROSS as of December 31, 2018 was 250.56%. While our solvency ratio is currently above the regulatory requirements, if we grow rapidly in the future, or if the required solvency level is raised in the future, we may need to raise additional capital to meet our solvency requirement, including through additional issuance of subordinated debt, which would increase our financing costs, or through additional issuance of shares, which would be dilutive to our existing investors. If we are not able to raise additional capital, we may be forced to reduce the growth of our business.

Furthermore, as we are exposed to potential insurance, market and investment risks, we cannot assure you that our solvency ratio under C-ROSS will always be above the required level. If our solvency ratio under C-ROSS is below the required solvency level, we may need to raise additional capital to meet our solvency requirement, including through additional issuance of subordinated debt, which would increase our financing costs, or through additional issuance of shares, which would be dilutive to our existing investors. If we are not able to raise additional capital, we may be forced to reduce the growth of our business. A failure to meet our Solvency requirement can also lead to various regulatory actions being taken by the CBIRC, which could have a material adverse effect on our business or financial condition. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements.

### **Risks Relating to the Restructuring**

***CLIC has incurred substantial losses on the policies retained by it in the restructuring. If CLIC is unable to meet its obligations to its policyholders, it may seek to increase the level of dividends we pay, sell the China Life shares it***



*owns or take other actions which may have a material adverse effect on the value of the shares our other existing investors own.*

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In connection with the restructuring, CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in an actuarial database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999, and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the reinsurance contracts specified in an annex to the restructuring agreement. See Item 4. Information on the Company History and Development of the Company Our Restructuring . CLIC has incurred substantial losses on these non-transferred policies, primarily because the guaranteed interest rates it had committed to pay on these policies are higher than the investment return it was able to generate on its investment assets. This negative spread on non-transferred policies created substantial losses for CLIC and a resulting negative net worth. The amount of accumulated undistributed profits of CLIC itself is expected to remain negative in the short term.

In connection with the restructuring, CLIC established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. The approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. See Item 4. Information on the Company History and Development of the Company Our Restructuring . In connection with the restructuring, we were advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective, and (3) it has no reason to believe that the MOF will revoke the approval. We cannot assure you, however, that a court would decide in a manner consistent with King & Wood's conclusions.

We cannot predict the amount of funds that will be available to the special purpose fund from CLIC's own operations to satisfy its obligations to its policyholders as they become due. CLIC's cash requirements and available cash resources will be affected by several factors which are subject to uncertainty, including prevailing interest rates and the returns on investment generated by CLIC's assets, as well as the claims, expenses and persistency experience with respect to CLIC's insurance policies. The cash resources available to CLIC will also depend in part on our profitability, which will affect the amount of our tax payments and hence the amount of refund contributed to the fund (if CLIC's application for the extension of the period during which the income tax payments will be rebated is approved; See Item 4. Information on the Company History and Development of the Company Our Restructuring ), the timing and amount of our dividend payments and the market prices of our shares and ADSs, which will affect the proceeds to CLIC from dispositions of our shares. If it is unable to satisfy its obligations to its policyholders from other sources, CLIC may seek, subject to our articles of association and applicable laws, to increase the amount of dividends we pay in order to satisfy its cash flow requirements. Any such increase in our dividend payments would reduce the funds available for reinvestment in our business. In addition, if we are unable to pay dividends in amounts sufficient to satisfy these requirements, CLIC may seek to sell its shareholdings in us or take other actions in order to satisfy these needs. The sale of these holdings or even the market perception of such a sale may materially and adversely affect the price of our shares.

***The transfer of policies to us by CLIC and/or the separation of assets between CLIC and us may be subject to challenge.***

We have been advised by our PRC legal counsel, King & Wood, that (1) the transferred policies have been legally and validly transferred to China Life and (2) following the restructuring, we will not have any continuing obligations to holders of the non-transferred policies who remain policyholders of CLIC and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. We also have been advised by King &

Wood that, although there is no specific law applicable to restructurings, these conclusions are supported by, among other things, the approval of the restructuring and various related matters by the State Council, the MOF and the CIRC; the support provided by the MOF with respect to the non-transferred policies as described above; and contract and other law. We cannot assure you that policyholders of CLIC, holders of transferred policies or other parties will not seek to challenge the transfer of the transferred policies or the separation of assets occurring as a consequence of the restructuring, or that a court would decide in a manner consistent with King & Wood's conclusions. If the transfer of policies to us or the separation of assets were challenged successfully, our financial condition and results of operations would likely be materially and adversely affected.

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***We do not hold exclusive rights to the trademarks in the China Life name (in English and Chinese), the ball logos and other business related slogans and logos, and CLIC, which owns these trademarks, may take actions that would impair the benefits we derive from their use.***

We conduct our business under the China Life brand name, the ball logos, the C mark and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAMR. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us and our branches a royalty-free license to use the China Life brand name, the ball logos and the C mark.

Although CLIC has undertaken in a non-competition agreement with us not to compete with us in China, without our prior consent in writing, in any life, accident and health insurance and any other businesses in China which may compete with our insurance business, CLIC, its subsidiaries and affiliates are permitted to use the brand name and logo in their own businesses, including life insurance business outside China and any other businesses they may enter into in the future within China, including property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses. In addition, they are not precluded from taking actions that may impair the value of the brand name, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Continuing Related Party Transactions with CLIC . The China Life brand name and our reputation could be materially harmed if CLIC fails to make payments when due on outstanding policies retained by CLIC in the restructuring or new policies written by CLIC after the restructuring, if CLIC reduces the rates of return payable on policies retained by CLIC or if CLIC is placed into receivership.

***As our controlling shareholder, CLIC will be able to exert influence on our affairs and could cause us to make decisions or enter into transactions that may not be in your best interests.***

We are controlled by CLIC, whose interests may conflict with those of our other shareholders. As of the date of this annual report, CLIC holds approximately 68.37% of our share capital. As a result of these factors, CLIC, which is wholly owned by the PRC government, will, so long as it holds the majority of our shares, effectively be able to control the composition of our board of directors and, through the board, exercise a significant influence over our management and policies. In addition, subject to our articles of association and applicable laws, CLIC may, so long as it holds the majority of our shares, effectively be able to determine the timing and amount of our dividend payments and approve increases or decreases of our share capital, the issuance of new securities, amendments of our articles of association, mergers and acquisitions and other major corporate transactions. CLIC may also be able to prevent us effectively from taking actions to enforce or exercise our rights under agreements to which we are a party, including the agreements we entered into with CLIC in connection with the restructuring. See Item 7. Major Shareholders and Related Party Transactions . As a majority shareholder, CLIC may be able to take these actions without your approval. In addition, CLIC's control could have the effect of deterring takeovers or delaying or preventing changes in control or changes in management that might be desirable to other shareholders.

**Table of Contents*****CLIC may direct business opportunities elsewhere.***

CLIC has other business interests, including the run-off of the insurance policies retained by it in the restructuring. Notwithstanding a general undertaking pursuant to a non-competition agreement with us not to compete with us in our principal areas of business in China, CLIC is permitted to sell riders to these retained policies and enter into other businesses, including life insurance businesses outside of China and property and casualty (other than businesses that compete with our accident and health businesses) and asset management businesses, both inside and outside of China. In 2006, we formed a property and casualty company with CLIC, in connection with which we granted a waiver to CLIC allowing it to engage in accident and short-term health businesses indirectly through the property and casualty company.

CLIC engages in insurance businesses in Hong Kong, Macau, Singapore and Indonesia through China Life Insurance (Overseas) Co., Limited, or China Life Overseas, its wholly owned subsidiary. CLIC also may continue to engage in insurance business in other regions outside of China in the future. Although it is required under the non-competition agreement to give us a right of first refusal over business opportunities it develops in these areas, we may not be in a position to take advantage of these opportunities at that time, which could harm our business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Continuing Related Party Transactions with CLIC .

In addition, while we provide policy administration and other services to CLIC for the policies retained by CLIC in the restructuring, and provide investment management services to CLIC through our asset management subsidiary, these agreements can be terminated with notice or upon expiration. If CLIC were to terminate its policy administration and asset management arrangements with us and our asset management subsidiary, respectively, our loss of fees could materially and adversely affect us.

**Risks Relating to the People's Republic of China*****China's economic, political and social conditions, as well as government policies, could affect our business.***

Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including, without limitation:

the extent of government involvement;

its level of development;

its growth rate; and

its control of foreign exchange.

The economy of China has been transitioning from one of high-speed growth to one that seeks high-quality development. Although in recent years the Chinese government has implemented measures emphasizing the

utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

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According to data released by the National Bureau of Statistics of China, China's Gross Domestic Product, a key indicator of economic growth, was 6.6% in 2018. In an effort to bolster the economy, the Chinese government may take certain measures, including market-oriented financial reforms. Some of the measures taken by the Chinese government to improve China's economic performance may have a negative effect on our business. For example, our operating results and financial condition could be materially and adversely affected by government monetary policies and changes in interest rate policies, tax regulations and policies and regulations affecting the capital markets and the asset management industry. A slowdown in Chinese growth rates could also adversely affect us by impacting sales of our products, reducing our investment returns, or otherwise.

***The PRC legal system has inherent uncertainties that could limit the legal protections available to you.***

We are organized under the laws of China and are governed by our articles of association. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws and regulations involve uncertainties.

***Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China.***

In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H shares and ADSs and holders of A shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that the venue be changed to Shenzhen, a city in China near Hong Kong. The governing law for any such disputes or claims is Chinese law, unless Chinese law itself provides otherwise. Pursuant to an arrangement of mutual enforcement of arbitration awards between the PRC courts and the Hong Kong courts, Hong Kong arbitration awards are enforceable in China, subject to the satisfaction of certain legal requirements. However, due to the limited number of actions that have been brought in China by holders of shares issued by a Chinese company to enforce an arbitral award, we are uncertain as to the outcome of any action brought in China to enforce a Hong Kong arbitral award made in favor of holders of H shares and ADSs.

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**Table of Contents*****The laws in China differ from the laws in the United States and may afford less protection to our minority shareholders.***

Although Chinese company law provides that shareholders of a Chinese company may, under certain circumstances, sue the company's directors, supervisors and senior management in the interests of the company, limited detailed implementation rules or court interpretations have been issued in this regard. Also, class action lawsuits are generally uncommon in China. In addition, PRC company law imposes limited obligations on a controlling shareholder with respect to protection of the interests of minority shareholders, although overseas listed joint stock companies, such as ourselves, are required to adopt certain provisions in their articles of association that are designed to protect minority shareholder rights. These mandatory provisions provide, among other things, that the rights of any class of shares, including H shares, may not be varied without a resolution approved by holders of shares in the affected class holding no less than two-thirds of the shares of the affected class entitled to vote, and provide that in connection with a merger or division involving our company, a dissenting shareholder may require us to purchase the dissenters' shares at a fair price. Disputes arising from these protective provisions would likely have to be resolved by arbitration. See Holders of H shares and ADSs generally are required to resolve disputes with us, our senior management and holders of our A shares only through arbitration in Hong Kong or China.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report.***

We are a company incorporated under the laws of China, and substantially all of our assets are located in China. In addition, most of our directors, supervisors, executive officers and some of the experts named in this annual report reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our directors, supervisors or executive officers or some of the experts named in this annual report, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Our PRC legal counsel, King & Wood, has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. Our Hong Kong legal adviser, Latham & Watkins, has also advised us that Hong Kong has no statutory arrangement for the reciprocal enforcement of judgments with the United States although it may be possible for a civil action to be brought in Hong Kong based on a monetary judgment of the courts of the United States. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible. Furthermore, an original action may be brought in the PRC against us, our directors, supervisors, executive officers or the experts named in this annual report only if the actions are not required to be arbitrated by PRC law and our articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

***Holders of H shares may be subject to PRC taxation.***

Under current PRC tax laws, regulations and rulings, dividends paid by us to individual holders of H shares outside of the PRC are subject to PRC individual income tax at rates not exceeding 20%, depending on the applicable tax treaties between the home country of the individual holder of H shares and the PRC. When paying dividends to non-resident enterprise holders of H shares outside of the PRC, such dividends are subject to an enterprise income tax, which is currently levied at a rate of 10%. Such non-resident enterprise holders of H shares may be entitled to tax reductions or exemptions according to applicable tax treaties. In addition, to date, relevant tax authorities have not collected capital gains tax on the gains realized by individuals upon the sale or other disposition of H shares. If relevant tax authorities



promulgate implementation rules on the taxation of capital gains realized by individuals upon the sale or other disposition of H shares, individual holders of H shares may be required to pay capital gains tax. See Item 10. Additional Information Taxation The People's Republic of China .

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***Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results.***

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to allow us to make payments on declared dividends, if any, on our H shares, and payments of interest and principal on our debt held in foreign currencies.

Under China's existing foreign exchange regulations, we are able to pay dividends and interest and principal in foreign currencies without prior approval from the SAFE by complying with various procedural requirements. The Chinese government, however, may, at its discretion, restrict access in the future to foreign currencies for current account transactions. If this were to occur, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Under this system, the PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. On August 11, 2015, the PBOC adjusted the quotation mechanism of the Renminbi central parity to also consider demand and supply in foreign exchange markets and price movements of major currencies, in addition to the closing price on the previous working day. On May 26, 2017, the PBOC introduced the counter-cyclical factor into its formula that determines a central parity of Renminbi against the U.S. dollar. Under the current mechanism, the central parity of the Renminbi against the U.S. dollar is determined based on the closing price, changes in a basket of currency exchange rates and the counter-cyclical factor. From July 21, 2005 to April 13, 2018, the Renminbi appreciated by approximately 28.9% against the U.S. dollar. In 2018, the Renminbi depreciated by 5.23% against the U.S. dollar. A portion of our assets and liabilities are held in foreign currencies and may be subject to foreign exchange gains and losses due to changes in exchange rates. We recorded RMB 194 million (US\$ 28 million) in foreign exchange losses for the year ended December 31, 2018, resulting mainly from the change in foreign exchange rates applicable to our assets and liabilities held in foreign currencies. Any future appreciation of the Renminbi may materially and adversely affect the value of, and any dividends payable on, our H shares in foreign currency terms. Our financial condition and results of operations also may be affected by changes in the value of certain currencies other than the Renminbi.

***Payment of dividends is subject to restrictions under Chinese law.***

Under Chinese law, dividends may be paid only out of distributable profits. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. See Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Policy on Dividend Distributions .

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**ITEM 4. INFORMATION ON THE COMPANY**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

We were formed as a joint stock life insurance company pursuant to the PRC company law on June 30, 2003 under the corporate name of \_\_\_\_\_ in connection with the restructuring.

**General Information**

Our principal executive offices are located at 16 Financial Street, Xicheng District, Beijing 100033, China. Our telephone number is (86-10) 6363-3333. Our official website address is [www.e-chinalife.com](http://www.e-chinalife.com). The information on our website is not a part of this annual report. We have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

**Our Restructuring**

Upon the approval of the State Council and the CIRC, we were formed on June 30, 2003 as a joint stock company in connection with the restructuring by CLIC, our controlling shareholder. The restructuring was effected through a plan of restructuring, which was approved by the CIRC on August 21, 2003, and a restructuring agreement we entered into with CLIC on September 30, 2003, with retroactive effect to June 30, 2003, which we refer to in this annual report as the effective date. Pursuant to PRC law and the restructuring agreement, we enjoyed the rights and benefits and assumed the obligations and liabilities arising from the restructuring from and after the effective date.

In connection with the restructuring:

CLIC transferred to us (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the CIRC on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in an actuarial database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above, together with the applicable reinsurance contracts specified in an annex to the restructuring agreement. We refer to these policies in this annual report as the transferred policies . All other insurance policies were retained by CLIC. We refer to these policies as the non-transferred policies . We assumed all obligations and liabilities of CLIC under the transferred policies. CLIC continues to be responsible for its liabilities and obligations under the non-transferred policies following the effective date.

Cash, specified investment assets and various other assets were also transferred to us.

CLIC agreed not to, directly or indirectly through its subsidiaries and affiliates, participate, operate or engage in life, accident and health insurance businesses and any other business in China which may compete with our insurance business. CLIC also undertook (1) to refer to us any corporate business opportunity that falls within our business scope and which may directly or indirectly compete with our business and (2) to

grant us a right of first refusal, on the same terms and conditions, to purchase any new business developed by CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Continuing Related Party Transactions with CLIC .

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Substantially all of the management personnel and employees who were employed by CLIC in connection with the transferred assets and business were transferred to us. Some management and personnel remained with CLIC.

CLIC retained the trademarks used in our business, including the China Life name in English and Chinese and the ball logos, and granted us and our branches a royalty-free license to use these trademarks. CLIC and its subsidiaries and affiliates will be entitled to use these trademarks, but CLIC may not license or transfer these trademarks to any other third parties. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Continuing Related Party Transactions with CLIC .

CLIC's contracts with its agents and other intermediaries were transferred to us.

We entered into various agreements under which we provide policy administration services to CLIC for the non-transferred policies, manage CLIC's investment assets and lease office space from CLIC for our branch and field offices. See Item 7. Major Shareholders and Related Party Transactions .

In connection with the restructuring, CLIC established, together with the MOF, a special purpose fund for the purpose of paying claims under the non-transferred policies. Under the administrative measures for the special purpose fund as amended in May 2012, the special purpose fund will be funded by renewal premiums paid on the non-transferred policies over time; tax rebates received by CLIC; proceeds from the investments of the special purpose fund; shareholder dividends paid in cash to CLIC by its subsidiaries and shareholding enterprises; proceeds from the disposition by CLIC of its shares in its subsidiaries and shareholding enterprises over time; cash income from the disposition of assets by CLIC; financial assets owned by CLIC; long-term equity investment held by CLIC; and funds injected by the MOF in the event of a deficiency in the special purpose fund. The special purpose fund is co-administered by CLIC and the MOF. The special purpose fund will be available to satisfy CLIC's operating expenses, including the payment of benefits and claims obligations arising from the non-transferred policies, as well as expenses incurred in operating the special purpose fund, including third-party management fees, professional fees and such other purposes as the management committee of the special purpose fund may agree, as well as capital expenses as approved by the MOF. A management committee of the special purpose fund comprised of four representatives from the MOF and three representatives from CLIC oversees the management of the fund, with specified material items subject to the approval of the MOF. The special purpose fund will be dissolved when all claims and benefits under the non-transferred policies have been paid, or sooner if the management committee so agrees.

The MOF's approval of the special purpose fund issued to CLIC provides that in the event there is any deficiency in the special purpose fund for so long as the fund is in existence as described above to meet any payment obligation arising out of the non-transferred policies, the MOF will provide support through the injection of funds to ensure the payments of benefits and claims to the policyholders of the non-transferred policies. We have been advised by our PRC legal counsel, King & Wood, that (1) the MOF has the authority to issue this approval regarding the special purpose fund, (2) the approval is valid and effective and (3) it has no reason to believe that the MOF will revoke the approval. We cannot assure you, however, that a court would decide in a manner consistent with King & Wood's conclusions.

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In accordance with generally applicable tax laws and regulations, CLIC, AMC and ourselves will file income tax returns and pay our respective income taxes as separate and independent taxpayers. In accordance with a circular issued by the MOF, a portion of the income tax payments made by CLIC and us during the period of January 1, 2003 to December 31, 2010 is required to be rebated to CLIC. All of the income tax payments made by AMC may also be rebated to CLIC, if the current shareholding structure of AMC remains unchanged. In 2011 CLIC applied for the extension of the period during which the income tax payments will be rebated, but no substantive progress had been made as of the date of this annual report.

We have been advised by our PRC legal counsel, King & Wood, that following the restructuring we would not have any continuing obligations to holders of the non-transferred policies and that there is no legal basis on which holders of the non-transferred policies can make a claim against China Life. King & Wood based its conclusion on, among other things, the following factors: (1) after the restructuring, China Life was established as a separate legal entity and China Life's assets and liabilities should be regarded as distinct and separate from those of CLIC; (2) there is no contractual relationship, direct or indirect, between the holders of the non-transferred policies and China Life; (3) the restructuring (including the transfer of the transferred policies to China Life) has been approved by the CIRC and has been conducted without infringing upon the rights of the holders of non-transferred policies; (4) the arrangements made under the restructuring agreement, in particular the MOF's support as described above, are expected to enable CLIC to satisfy its obligations under the non-transferred policies; and (5) PRC regulatory authorities have no legal power to direct China Life to assume CLIC's obligations under the non-transferred policies or to indemnify the holders of the non-transferred policies.

See Item 3. Key Information Risk Factors Risks Relating to the Restructuring .

## **Developments After Restructuring**

On November 23, 2003, we established an asset management company, AMC, with CLIC, in connection with the restructuring. AMC manages our investment assets and, separately, substantially all of those of CLIC. On December 30, 2006, we established a property and casualty company, CLPCIC, with CLIC. On January 15, 2007, we established a pension insurance company, China Life Pension, with CLIC and AMC.

In December 2003, we successfully completed our initial public offering of H shares, including H shares in the form of American depositary shares, or ADSs, and raised approximately RMB 24,707 million in aggregate net proceeds. Upon completion of our initial public offering, our H shares became listed on the Hong Kong Stock Exchange and ADSs each representing 40 of our H shares became listed on the New York Stock Exchange. The ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares on December 29, 2006 and was further reduced from 15 H shares to 5 H shares on May 26, 2015.

In December 2006, we issued 1,500,000,000 new ordinary domestic shares through public offering on the SSE at the offering price of RMB 18.88 per share, raising RMB 28,320 million in aggregate gross proceeds. The A shares have been listed on the SSE since January 9, 2007. Prior to the offering, CLIC held 19,323,530,000 ordinary domestic shares, or CLIC A shares, which have been registered with the China Securities Depository and Clearing Corporation Limited as circulative A shares with restrictive trading following the A share offering. CLIC has undertaken that for a period of 36 months commencing on January 9, 2007 it will not transfer or put on trust the CLIC A shares held by it or allow such CLIC A shares to be repurchased by China Life. On January 11, 2010, 19,323,530,000 CLIC A shares were released from trading restrictions.



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In July 2015, we issued Core Tier 2 Capital Securities in the principal amount of US\$ 1,280 million to qualified investors who meet applicable regulatory requirements at an initial distribution rate of 4.00%.

In March 2019, we issued bonds in the principal amount of RMB 35 billion for capital replenishment in the national inter-bank bond market. The bonds have a 10-year maturity and a fixed coupon rate of 4.28% per annum. We have a conditional right to redeem the bonds on the fifth anniversary of issuance. The proceeds from the issuance of the bonds will be used to replenish our capital so as to enhance our solvency according to applicable laws and approvals from regulatory authorities.

We incurred capital expenditures of RMB 14,755 million (US\$ 2,146 million), RMB 17,055 million, and RMB 5,892 million in 2018, 2017 and 2016, respectively. These capital expenditures mainly comprised of the addition of properties for our own use.

## **SEC's Website and Our Website**

The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our official website address is [www.e-chinalife.com](http://www.e-chinalife.com). The information on our website is not a part of this annual report.

## **B. BUSINESS OVERVIEW**

We are the leading life insurance company in China. We provide a broad range of insurance products, including individual and group life insurance, annuity, health insurance and accident insurance products. We had nearly 285 million insurance policies in force as of December 31, 2018, including individual and group life insurance policies, annuity contracts, health insurance and accident insurance policies. As of December 31, 2018, the average guaranteed rate of return for all of our long-term insurance policies in force was 2.64%. For the financial year ended December 31, 2018, our lapse rate was approximately 4.69%. The policy persistency rates, which measure the ratio of the insurance policies that are still effective after a certain period, were 91.1% for 14 months after issuance and 86.0% for 26 months after issuance.

Effective January 1, 2014, we realigned our previously reported individual life insurance, group life insurance, short term insurance, supplementary major medical insurance and other segments into four newly identified segments, namely life insurance, health insurance, accident insurance and other. Our management has conducted its analysis and evaluation of our operating results based on the new reporting segments. In connection with this realignment, segment operating results for the fiscal year ended December 31, 2013 have been revised to conform to current year segment operating results presentation. For a detailed discussion, see our consolidated financial statements included elsewhere in this annual report.

The information below is organized in accordance with our identified segments.

### **Life Insurance**

We offer life insurance and annuity products to individuals and groups. We market our individual life insurance and annuity products primarily through a distribution force comprised of approximately 1,439,000 exclusive agents operating in 17,451 field offices throughout China, as well as other non-dedicated agencies located at branch offices of banks and other organizations. We offer group life insurance and annuity products to the employees of companies and institutions through approximately 82,700 direct sales representatives, as well as insurance agencies and insurance brokerage companies. Gross written premiums generated by our life insurance and annuity products, totaled RMB



437,540 million (US\$ 63,638 million) for the year ended December 31, 2018, RMB 429,822 million for the year ended December 31, 2017, and RMB 361,905 million for the year ended December 31, 2016, constituting 81.66%, 83.96% and 84.07% of our total gross written premiums for those periods. Gross written premiums generated by our life insurance and annuity products for 2018 increased by 1.80% from 2017.

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The following table sets forth selected financial and other data regarding our life insurance and annuity business as of the dates or for the periods indicated.

	As of or for the year ended December 31,				Compound annual growth rate (2016-2018)
	2016 RMB	2017 RMB	2018 RMB	2018 US\$	
	<i>(in millions, except as otherwise indicated)</i>				
Gross written premiums	361,905	429,822	437,540	63,638	9.95%
Liabilities of insurance contracts	1,762,363	1,914,597	2,081,822	302,788	8.69%
Liabilities of investment contracts	183,773	218,436	240,152	34,929	14.31%

**Products**

We offer a wide variety of life insurance and annuity products to individuals, providing a wide range of coverage for the whole length of a policyholder's life. Our individual life insurance and annuity products consist of whole life and term life insurance, endowment insurance and annuities. We also offer group annuity products and group whole life and term life insurance products to enterprises and institutions. We market these products as an important part of our group customers' overall employee benefit plans. We believe we are the market leader in the development of group annuity products.

We offer both non-participating and participating products. There were approximately 230 million non-participating policies and 55 million participating policies as of December 31, 2018, among which approximately 128 million non-participating policies and 37 million participating policies were sold to individuals.

The following table sets forth selected financial information regarding our life insurance and annuity products.

	For the year ended December 31,				Compound annual growth rate (2016-2018)
	2016 RMB	2017 RMB	2018 RMB	2018 US\$	
	<i>(in millions, except as otherwise indicated)</i>				
<b>Gross written premiums</b>					
Whole life and term life insurance	33,395	40,606	49,520	7,202	21.77%
Endowment	188,415	198,418	126,318	18,372	(18.12%)
Annuities	140,095	190,798	261,702	38,063	36.68%

**Whole Life and Term Life Insurance***Non-participating whole life and term life insurance*

We offer non-participating whole life and term life insurance products.



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Non-participating whole life insurance products provide a guaranteed benefit, pre-determined by the contract, upon the death of the insured, in return for the periodic payment of fixed premiums over a pre-determined period. Premium payments may be required for the length of the contract period, to a specified age or for a specified period, and are typically level throughout the period.

Non-participating term life insurance products provide a guaranteed benefit upon the death of the insured within a specified time period in return for the periodic payment of fixed premiums. Specified coverage periods generally range from 5 to 30 years or expire at specified ages. Death benefits may be level over the period or increasing. Premiums are typically at a level amount for the coverage period. Term life insurance products are sometimes referred to as pure protection products, in that there are normally little or no savings or investment elements. Unlike endowment products, term life insurance policies expire without maturity benefits.

### *Participating whole life insurance*

We also offer participating whole life insurance products, which, in addition to the benefit payment of traditional whole life insurance policies, also provide a participation feature in the form of dividends. The policyholder is entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products. We offer participating whole life insurance products only to individual customers.

### ***Endowment***

#### *Non-participating endowment products*

Non-participating endowment products provide to the insured various guaranteed benefits if the insured survives specified maturity dates or periods stated in the policy, and provide to a beneficiary guaranteed benefits upon the death of the insured within the coverage period, in return for the periodic payment of premiums. Specified coverage periods generally range from 5 to 30 years or end at specified ages. Premiums are typically at a level amount for the coverage period.

#### *Participating endowment products*

We also offer participating endowment products, which are endowment policies that also provide a participation feature in the form of dividends. Policyholders are entitled to share a portion of the distributable earnings from participating products, as determined by us based on formulas prescribed by the CIRC. Under guidelines issued by the CIRC, the dividends must be no less than 70% of the distributable earnings from participating products.

China Life Xin Fu Yi Sheng Participating Endowment and China Life Fu Lu Shuang Xi Participating Endowment generated the most income of our participating endowment products in 2018. China Life Xin Fu Yi Sheng Participating Endowment generated RMB 17,729 million (US\$ 2,579 million) of net premiums in 2018, representing 4.06% of the net premiums of our life insurance business, and China Life Fu Lu Shuang Xi Participating Endowment generated RMB 16,666 million (US\$ 2,424 million) of net premiums in 2018, representing 3.81% of the net premiums of our life insurance business. The net premiums earned from our participating endowment products decreased by RMB 14,132 million (US\$ 2,055 million), or 11.94%, to RMB 104,258 million (US\$ 15,164 million) in 2018 from RMB 118,390 million in 2017.

We offer endowment products only to individual customers.



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### ***Annuities***

Annuities are used for both asset accumulation and asset distribution needs. Annuitants pay premiums into our accounts, and receive guaranteed level payments during the payoff period specified in the contracts. We offer both non-participating and participating annuities. For non-participating annuity products, risks associated with the investments are borne entirely by us. A significant portion of our non-participating annuity products imposes charges upon an early surrender or withdrawal of the contract.

Participating annuity products are annuities that provide a participation feature in the form of dividends in addition to the guaranteed annuity benefits. The dividends are determined by us in the same manner as our life insurance policies. Like non-participating annuities, a significant portion of our participating annuity products imposes charges upon an early surrender or withdrawal of the contract. In our universal group annuities, interest accrued on an annuitant's deposits is credited to each participating employee's personal account, or to each participating employee's personal account and employer's group account.

### ***Universal Life Products***

Universal life products are life insurance policies with flexible premium and sum insured as well as transparency on costs. For each universal life policy, we establish a separate account and determine the interest credit rate, mortality and expense charges specifically for such account. The benefits of universal life products are linked to the account value of each separate account.

### ***Personal Tax-deferred Pension Insurance Products***

In May 2018, the Chinese government permitted trial sales of personal tax-deferred pension insurance products in Shanghai, the Fujian province (including Xiamen) and Suzhou Industrial Park, and we commenced our personal tax-deferred pension insurance business. Because such business is still at the trial stage and sales are limited geographically, our premium income from personal tax-deferred pension insurance business remains small.

### ***Marketing and Distribution***

#### ***Individual***

We have historically sold most of our individual life insurance and annuity products to the mass market and will continue to actively serve this market. However, we believe our core individual customer base will evolve as China's economy develops. We will seek to capitalize on the market opportunities in the growing affluent segment of China's population by focusing our marketing efforts on large and medium-sized cities with an aim to attract more medium- and high-end customers, as we believe that the demand for life insurance and annuity products in these areas is greater. In addition, we have been implementing a customer segmentation sales approach which targets different customers with different products with these products in many cases supplemented by our individual accident and health products.

We distribute our individual life and annuity products nationwide through multiple channels. Our primary distribution system is comprised of approximately 1,439,000 exclusive agents in 17,451 field offices throughout China. In addition, we are implementing our customer-oriented market segmentation sales initiatives to all exclusive agents nationwide. While continuing to invest in our exclusive agent force, we have also expanded into other distribution channels, primarily non-dedicated agencies located in approximately 44,000 outlets of commercial banks, to diversify our distribution channels and to achieve higher growth. See [Distribution Channels](#) .



**Table of Contents****Group**

We target our group life insurance and annuity products to large institutional customers in China, including branches of foreign companies, which we believe have a greater awareness of and need for group life insurance and annuity products. We have long-term customer relationships with many of China's largest companies and institutions. We provide large group customers with products having flexible fee and dividend structures, as well as convenient customer service. While continuing to focus on large institutional clients, we also target small- to medium-sized companies to supplement our growth and to increase our profits.

We market our group life insurance and annuity products primarily through our direct sales representatives. We also market our group life insurance and annuity products through commercial banks, insurance agency companies and insurance brokerage companies. See [Distribution Channels](#).

**Health Insurance**

We offer a broad array of health insurance products and services to both individuals and groups, including medical insurance, care insurance, disease insurance and disability income insurance. Our health insurance gross written premiums totaled RMB 83,614 million (US\$ 12,161 million) for the year ended December 31, 2018, RMB 67,708 million for the year ended December 31, 2017, and RMB 54,010 million for the year ended December 31, 2016, constituting 15.60%, 13.23% and 12.55% of our total gross written premiums for those periods. Gross written premiums generated by our health insurance products for 2018 increased by 23.49% from 2017.

Our health insurance business shares our nationwide life insurance sales force and distribution network of exclusive agents. Our policy review and claim adjustment processes are facilitated through a team of supporting personnel with medical training.

The following table sets forth selected financial and other data regarding our health insurance as of the dates or for the periods indicated. The financial results of both our long-term health insurance and short-term health insurance are reflected in the following table.

	As of or for the year ended				Compound annual growth rate (2016-2018)
	2016	2017	2018	2018	
	RMB	RMB	RMB	US\$	
	<i>(in millions, except as otherwise indicated)</i>				
Gross written premiums	54,010	67,708	83,614	12,161	24.42%
Liabilities of insurance contracts	77,837	102,190	125,743	18,289	27.10%
Liabilities of investment contracts	11,933	14,064	15,282	2,223	13.17%

**Products**

We offer health insurance products to both individuals and groups. We classify our health insurance products as short-term products, having policy terms of less than or up to one year, and long-term products, having policy terms longer than one year. We offer both short-term and long-term defined health benefit plans, medical expense reimbursement plans, care insurance plans and disease-specific plans to individuals and groups.





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### ***Defined health benefit plans***

These plans provide a fixed payment based on the number of days of hospitalization for specific diseases or surgical operation. Policyholders either pay premiums in a single payment or on a periodic basis.

### ***Medical expense reimbursement plans***

These plans provide for the reimbursement of a portion of the participant's outpatient or hospitalization treatment fees and expenses. Policyholders pay premiums either in a single payment or on a periodic basis or, for certain group medical expense reimbursement plans, irregularly as determined by the policyholder.

Since 2003, we also started providing medical agency services for the basic social medical insurance plans carried out by local governments. The agency services include checking and reimbursement of medical expenses and medical service investigations. We do not collect premiums but only charge a specified amount of handling fees for these services. As of December 31, 2018, we have carried out more than 500 medical agency services projects in over 20 provinces, providing services to more than 100 million people.

We also commenced our supplementary major medical insurance business in 2013. As part of the Chinese government's overall medical insurance scheme, supplementary major medical insurance reimburses policyholders for a specified percentage of their high medical expenses caused by major illnesses which are in excess of the maximum amounts covered by the basic social medical insurance and will otherwise be borne by the individuals. As of the date of this annual report, the Chinese government has implemented supplementary major medical insurance programs nationwide in China. Local governments use a portion of the basic medical insurance funds to purchase supplementary major medical insurance services from qualified insurance companies through a government tender. Supplementary major medical insurance offers protection to all the policyholders covered by the basic social medical insurance in the pilot areas. As of December 31, 2018, we had carried out over 240 supplementary major medical insurance projects, providing services to over 400 million people.

### ***Care insurance plans***

These plans provide to individuals who have disabilities covered by the insurance contracts with a fixed allowance and reimbursement of expenses for their daily living and medical care. Premium payments are paid either in a single payment or on a periodic basis.

We commenced our care insurance business in 2015. The Chinese government launched pilot long-term care insurance programs beginning in 2016. Under these programs, local governments in pilot areas raise funds through various channels to provide funds or protection services to people who have life disabilities for their daily living and medical care. Some local governments purchase long-term care insurance services from qualified insurance companies through government tender procedures. We also provide services for policy-based long-term care insurance carried out by local governments. As of December 31, 2018, we had carried out 22 policy-based long-term care insurance projects, providing services to over 9 million people.

### ***Disease-specific plans***

These plans provide a payment benefit for various diseases. Premium payments for disease-specific plans are paid either in a single payment or on a periodic basis.



**Table of Contents****Marketing and Distribution**

We offer our health insurance products to both individuals and groups through the same distribution channels we use to market our life insurance products. We market our individual health insurance products through our exclusive agent sales force. We market our group health insurance products primarily through our direct sales representatives. See Distribution Channels .

We market our health insurance products either as primary products, as riders or as supplementary products packaged with our life, annuity or accident insurance products. We conduct extensive health insurance related training programs for our direct sales representatives and our exclusive agents.

**Accident Insurance**

We are the leading accident insurance provider in China. Our accident insurance gross written premiums totaled RMB 14,672 million (US\$ 2,134 million) for the year ended December 31, 2018, RMB 14,436 million for the year ended December 31, 2017, and RMB 14,583 million for the year ended December 31, 2016, constituting 2.74%, 2.82% and 3.39% of our total gross written premiums for those periods. Gross written premiums generated by our accident insurance products for 2018 increased by 1.63% from 2017.

The following table sets forth selected financial and other data regarding our accident insurance as of the dates or for the periods indicated. The financial results of both our long-term accident insurance and short-term accident insurance are reflected in the following table.

	As of or for the year ended				Compound annual growth rate (2016-2018)
	December 31,				
	2016	2017	2018	2018	
	RMB	RMB	RMB	US\$	
	<i>(in millions, except as otherwise indicated)</i>				
Gross written premiums	14,583	14,436	14,672	2,134	0.30%
Liabilities of insurance contracts	7,786	8,346	8,466	1,231	4.28%

**Products**

We offer a broad array of accident insurance products to both individuals and groups.

**Individual accident insurance**

Individual accident insurance products provide a benefit in the event of death or disability of the insured as a result of an accident, or a reimbursement of medical expenses to the insured in connection with an accident. Typically, a death benefit is paid if the insured dies as a result of the accident within 180 days of the accident, and a disability benefit is paid if the insured is disabled, with the benefit depending on the extent of the disability. If the insured receives medical treatment at a medical institution approved by us as a result of an accident, individual accident insurance products may also provide coverage for such medical expenses. We offer a broad array of individual accident insurance products, such as insurance for students and infants against death and disability resulting from accidental injury and comprehensive coverage against accidental injury. We also offer products to individuals requiring special protection, such as accidental death and disability insurance for commercial air travel passengers and automobile

passengers and drivers.

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### ***Group accident insurance***

We offer a number of group accident insurance products and services to businesses, government agencies and other organizations of various sizes. We also offer group accident products targeted at specific groups, such as small-value group accident injury insurance to low-income people in rural areas.

### ***Marketing and Distribution***

We market our individual accident insurance products through our direct sales force and our exclusive agent sales force, as well as intermediaries, such as non-dedicated agencies located at outlets of commercial banks, savings cooperatives, travel agencies, hotels and airline sales counters and insurance agency and insurance brokerage companies. We market our group accident insurance products primarily through our direct sales representatives and the same intermediaries we use to sell our individual accident products. See [Distribution Channels](#) .

We market our accident insurance products either as primary products, as riders or as supplementary products packaged with our life, annuity or health products. Our direct sales representatives market our individual accident products to employees of our institutional customers.

### **Product Development**

In 2018, in line with our general development strategy, we developed and introduced 101 new products, including: 65 long-term insurance products consisting of 15 life insurance products, 18 annuity products, four accident insurance products and 28 health insurance products; and 36 short-term insurance products consisting of 13 life insurance products, two accident insurance products and 21 health insurance products.

With respect to long-term insurance products, we developed and introduced, among others:

for the individual insurance distribution channel, eight products including: insurance product packages of China Life Luck for Children (premium edition) and China Life Luck (premium edition); Kang Ning Whole Life (ultimate edition), which introduces multiple payments for minor illnesses and multiple payments for different categories of critical illnesses; Kang Ning Jia Bao supplementary insurance for existing customers, which provides extended coverage for diseases to existing customers of the Kang Ning series; and Kang Ning Children refundable critical illness insurance for children and annuity insurance products for children, such as Sui Sui Ying, An Xin Bao and Jin Bang Ti Ming, as well as the Supplementary Term Insurance for Children, which are intended to satisfy the needs emerging in the market for children;

for the bancassurance distribution channel, several long-term annuity products including China Life Xin Xi Bao annuity insurance (exclusive edition), China Life Xin Fu Heng Ying annuity insurance and China Life Xin Fu Tian Ying annuity insurance, and the insurance package of Fu You Life, as well as long-term protection-based products such as China Life Le Xin Chuan Fu whole life insurance and China Life Zhen Ai Xiang Ban term insurance, which are intended to further optimize the business structure of the bancassurance distribution channel and enhance business value;

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for the group distribution channel, China Life Wen Jian Yi Sheng group pension annuity insurance (universal), which are intended to satisfy the needs of corporate customers and their employees for planning well for old age through commercial pension products; China Life Individual Tax Deferred Pension Annuity Insurance Type A (2018 edition), China Life Individual Tax Deferred Pension Annuity Insurance Type B (2018 edition) and China Life Individual Tax Deferred Pension Annuity Insurance Type C (2018 edition) which were introduced in response to the government program to build a multi-layer pension insurance system, and are intended to satisfy the needs of individual customers for planning well for old age through commercial pension products that provide preferential tax benefits.

With respect to short-term insurance products, we developed the Beautiful Life series for the basic medical insurance system, which enriches our health insurance product line, and key short-term insurance products such as Xin Lv Zhou, New Oasis and Le Xue Wu You.

**Distribution Channels**

We believe we have the largest distribution force with the most extensive geographic reach compared with any of our competitors. Our distribution network reaches almost every county in China. Throughout China, we have approximately 1,439,000 exclusive agents operating in 17,451 field offices for our individual products and approximately 82,700 direct sales representatives for group products. We have a multi-channel distribution network selling individual and group insurance products through intermediaries, primarily non-dedicated agencies located in approximately 44,000 outlets of commercial banks as of the end of 2018. Commission rates vary by product, based on such factors as the payment terms and period over which the premiums are paid for the product, as well as CIRC regulations. We support our agents and representatives through training programs, sales materials and information technology systems.

***Exclusive agent force***

Our exclusive agent force of approximately 1,439,000 agents is the primary distribution channel for our individual life, annuity, health and accident insurance products.

The following table sets forth information relating to our exclusive agent force as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Number of exclusive agents (approximately)	1,495,000	1,578,000	1,439,000
Number of field offices	17,011	17,100	17,451

Our exclusive agent force is among our most valuable assets, allowing us to more effectively control our distribution and build and maintain long-term relationships with our individual customers. The number of our exclusive agents decreased from 1,578,000 as of the end of 2017 to 1,439,000 as of the end of 2018. During 2018, we continued to improve the quality of our agent force by carrying out performance reviews and dismissing agents with lower productivity, which have led to the decrease of the number of our exclusive agents. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries and Item 3. Key Information Risk Factors Risks Relating to Our business Our growth is dependent on our ability to attract and retain productive agents. We believe that our customers and prospective customers prefer the personal approach of our exclusive agents and, therefore, we believe our exclusive agent force will continue to serve as our core distribution channel.





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We also have developed a special sales force targeting orphan policies (policies which were serviced by former exclusive agents who have since left the company) to improve our service for these policies.

We supervise and provide training to our exclusive agents through more than 3,074 full-time trainers and 177,700 part time trainers. We set product management and customer service standards, and have developed sales risk warning and credit rating systems, which we require all of our field offices and agents to meet, and conduct field tests with a view to ensuring quality. We also have an extensive training program.

We compensate our exclusive agent force through a system of commissions and bonuses to reward performance. Our agents are compensated based on a commission rate that generally decreases over the premium period. For short-term insurance products, our exclusive agents are generally compensated with fixed agent fees. We provide group annuities, group commercial supplemental pension insurance, group life and medical insurance for our exclusive agents. We motivate our agents by rewarding them with performance-based bonuses and by organizing sales-related competitions among different field offices and sales units. We also try to increase the loyalty of our exclusive agents through other methods, such as through participation in sales conferences.

We believe we have the largest exclusive agent sales force in China. We intend to improve the quality and productivity of our individual exclusive agent force and reduce the attrition rate of our agents by taking the following actions:

improving the overall productivity of our exclusive agents by implementing our market segmentation sales approach, managing, supporting and incentivizing the exclusive agents through different levels, and providing standardized sales services to our customers;

motivating our exclusive agents with an improved performance-based evaluation and compensation scheme;

building a more professional exclusive agent force by improving our education and training system and programs, enhancing our training efforts and increasing the number of qualified exclusive agents;

improving the quality of our exclusive agent force and reducing turnover by expanding our recruitment program and strengthening the cultivation, training and performance support for our new exclusive agents;

improving the management of our exclusive agents by developing consistent standards for managing the conduct of our exclusive agents; and

improving the efficiency of our exclusive agents by providing sales support, including establishing a customer service platform and improving and expanding the China Life E-Home sales support system nationwide to further enhance their marketing, time management and customer service capabilities.

***Group distribution channel***

Our group distribution channel is comprised of our direct sales force and intermediaries.



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### ***Direct sales force***

Our direct sales force, which consists of approximately 82,700 direct sales representatives, is our primary distribution system for our group life insurance and annuities, group accident insurance and group health insurance products, as well as our individual accident insurance and individual short-term health insurance products. As of the end of 2018, the number of our direct sales representatives was 82,700, and in particular, the number of direct sales representatives with high productivity reached 54,000, an increase of 4.3% from the end of 2017. In 2018, we continued to improve the quality of the sales force by dismissing direct sales representatives with lower productivity, and further strengthened and improved our group distribution channel.

We believe maintaining our leading position in the group insurance market depends on a professional and qualified direct sales force. We set product management and customer service standards which we require all of our branch offices and direct sales representatives to meet.

We motivate our direct sales representatives by rewarding them with performance-based bonuses and by organizing sales and services-related competitions among different branch offices and sales units.

### ***Intermediaries***

We also offer individual and group products through intermediaries.

We market group products through dedicated insurance agencies and insurance brokerage companies. Dedicated insurance agencies and insurance brokerage companies work with companies primarily to select group insurance providers and group products and services in return for commission fees. Currently, the market of dedicated insurance agencies and insurance brokerage companies in China generally remains underdeveloped. However, we expect that the dedicated insurance agencies and insurance brokerage companies will play a more important role in sales of our group products in the future.

We also sell short-term insurance products through other non-dedicated agencies. Currently, we have non-dedicated agencies operating at outlets of commercial banks, travel agencies, credit cooperatives, small loan companies and airline sales counters. We expect non-dedicated agencies to become an increasingly important distribution channel for individual products.

### ***Bancassurance channel***

We have bancassurance arrangements with major commercial banks in China, and currently generate a significant portion of our total sales through bancassurance. Our distribution channels are primarily comprised of non-dedicated agencies located in approximately 44,000 outlets of commercial banks. We have established strategic alliances with many banks. We intend to improve the attractiveness of our products by providing new products and all-around services to each major bank and providing training and integrated systems support to our banking partners.

### ***Other distribution channels***

We also sell individual products through other newly developed distribution channels including telephone sales and internet-based sales.

The major products sold through our telephone sales channel are individual insurance and health insurance products. As a new sales channel developed in recent years, the sales generated by our telephone sales channel have been

increasing and we believe that its growth will continue.

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The sales volume and number of customers of our internet-based sales channel have been steadily increasing over the past several years due to the improvement of the process for internet-based sales business. We also sell products through our official website as well as the internet-based sales platforms of insurance brokerage companies and other third-party websites.

**Gross written premiums attributable to each distribution channel**

The following table sets forth gross written premiums attributable to each distribution channel, as of the dates indicated.

	<b>For the year ended December 31</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
	<i>(in millions)</i>			
<b>Exclusive agent force</b>	282,136	353,668	408,278	59,382
First-year business of long-term insurance	74,813	90,629	79,513	11,565
Single	283	389	272	40
First-year regular	74,530	90,240	79,241	11,525
Renewal business	199,826	253,586	316,930	46,096
Short-term insurance business	7,497	9,453	11,835	1,721
<b>Group distribution channel</b>	24,915	26,207	26,404	3,840
First-year business of long-term insurance	5,430	4,368	3,487	507
Single	4,571	3,425	2,483	361
First-year regular	859	943	1,004	146
Renewal business	703	999	1,649	240
Short-term insurance business	18,782	20,840	21,268	3,093
<b>Bancassurance channel</b>	108,256	113,505	76,841	11,176
First-year business of long-term insurance	85,882	80,731	31,881	4,637
Single	68,047	59,777	8,642	1,257
First-year regular	17,835	20,954	23,239	3,380
Renewal business	21,813	31,880	43,785	6,368
Short-term insurance business	561	894	1,175	171
<b>Other distribution channels</b>	15,191	18,586	24,303	3,535
First-year business of long-term insurance	811	1,064	937	136
Single	90	80	2	0.3
First-year regular	721	984	935	136
Renewal business	1,160	1,641	2,314	337
Short-term insurance business	13,220	15,881	21,052	3,062
<b>Total</b>	<b>430,498</b>	<b>511,966</b>	<b>535,826</b>	<b>77,933</b>

**Competition**

According to statistical and unaudited market share information for the year of 2018 released by the CBIRC on its website, our nearest competitors were Ping An Life, China Pacific Life, Huaxia Life and Taiping Life in 2018. In

2017, the last year for which the audited market information for separate business segments is available, our nearest competitors were Ping An Life, Anbang Life, China Pacific Life and Taikang Life.

In the life insurance market, Ping An Life, Anbang Life, China Pacific Life, Taikang Life and we collectively represented approximately 52% of total life insurance premiums in 2017. We primarily compete based on the nationwide reach of our sales network, the largest distribution force and the level of services we provide, as well as our strong brand name.

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In the accident insurance market, Ping An Life, Anbang Life, China Pacific Life, Taikang Life and we collectively represented approximately 60% of total accident premiums in 2017. We primarily compete based on the nationwide reach of our sales network and the level of services we provide and our strong brand name, as well as our cooperative arrangements with other companies and institutions.

In the health insurance market, Ping An Life, Anbang Life, China Pacific Life, Taikang Life and we collectively represented approximately 47% of total health premiums in 2017. We primarily compete based on the nationwide reach of our sales network, the level of services we provide, our multi-layered managed care scheme and systems of policy review and claim management, as well as our strong brand name.

The following table sets forth market share information for the year ended December 31, 2017, the most recent year for which official market information for separate business segments is available, in all segments of the life insurance market in which we do business.

	<b>Life premiums market share</b>	<b>Accident premiums market share</b>	<b>Health premiums market share</b>	<b>Total premiums market share</b>
<b>China Life</b>	20%	25%	17%	20%
Ping An Life Insurance Company of China, Ltd. <sup>(1)</sup>	13%	25%	20%	14%
Anbang Life Insurance Co., Ltd.	9%	0%	0%	7%
China Pacific Life Insurance Co., Ltd.	6%	10%	7%	7%
Taikang Life Insurance Co., Ltd.	5%	1%	4%	4%
Others <sup>(2)</sup>	47%	39%	52%	48%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

- (1) For purposes of this annual report, the statistics for Ping An Life Insurance Company of China, Ltd. do not include those of Ping An Health Insurance Company of China, Ltd. and Ping An Annuity Insurance Company of China, Ltd.
- (2) Others include: PICC Life Insurance Co., Ltd., PICC Health Insurance Co., Ltd., Taiping Life Insurance Co., Ltd., Taiping Pension Co., Ltd., Minsheng Life Insurance Co., Ltd., CPIC Allianz Health Insurance Co., Ltd., Ping An Health Insurance Company of China, Ltd., Ping An Annuity Insurance Company of China, Ltd., China United Life Insurance Co., Ltd., Sunshine Life Insurance Corporation Limited, Taikang Pension & Insurance Co., Ltd., New China Life Insurance Co., Ltd. Huatai Life Insurance Co., Ltd., Tianan Life Insurance Company Limited of China, Funde Sino Life Insurance Co., Ltd., Anbang Annuity Insurance Co., Ltd, Union Life Insurance Co., Ltd., Greatwall Life Insurance Co., Ltd., ABC Life Insurance Co., Ltd., Kunlun Health Insurance Co., Ltd., Hexie Health Insurance Co., Ltd., June Life Insurance Co., Ltd., Huaxia Life Insurance Co., Ltd., Sinatay Life Insurance Co., Ltd., Yingda Taihe Life Insurance Co., Ltd., Guohua Life Insurance Co., Ltd., Happy Life Insurance Co., Ltd., Aeon Life Insurance Co., Ltd., China Post Life Insurance Co., Ltd., Zhongrong Life Insurance Co., Ltd., Lian Life Insurance Co., Ltd., Sino-Conflux Insurance Company, Qian Hai Life Insurance Co., Ltd., Soochow Life Insurance Co., Ltd., Hongkang Life Insurance Co., Ltd., Pearl River Life Insurance Co., Ltd., Jixiang Life Insurance Company Limited, Bohai Life Insurance Corporation Limited, Guolian Insurance

Co., Ltd, Shanghai Life Insurance Company Limited, Hengqin Life Insurance Co., Ltd., Fosun United Health Insurance Co., Ltd., Hetai Life Insurance Co., Ltd., Huagui Life Insurance Co., Ltd., Trust Mutual Life Insurance Company, Aixin Life Insurance Co., Ltd., China Merchants Life Insurance Company Limited, Manulife-Sinochem Life Insurance Co., Ltd., CCB Life Insurance Company Limited, Allianz China Life Insurance Co., Ltd., ICBC-AXA Assurance Co., Ltd., BoComm Life Insurance Co., Ltd., Citic-Prudential Life Insurance Co., Ltd., Generali China Life Insurance Co., Ltd., Sun Life Everbright Life Insurance Co., Ltd., ING-BOB Life Insurance Co., Ltd., Founder Meiji Yasuda Life Insurance Co., Ltd., Aviva-COFCO Life Insurance Co., Ltd., Aegon THTF Life Insurance Co., Ltd., CIGNA CMB Life Insurance Co., Ltd., Greatwall Changsheng Life Insurance Co., Ltd, Heng An Standard Life Insurance Co., Ltd., Skandia-BSM Life Insurance Co., Ltd., Sino-US United MetLife Insurance Company Ltd., Cathay Lujiazui Life Insurance Co., Ltd., BOC Samsung Life Insurance Co., Ltd., Sino-French Life Insurance Co., Ltd., Evergrand Life Assurance Co., Ltd., King Dragon Life Insurance Co., Ltd., HSBC Life Insurance Co., Ltd., Shin Kong HNA Life Insurance Co., Ltd., Pramerica Fosun Life Insurance Co., Ltd., Sino-Korea Life Insurance Co., Ltd., ERGO China Life Insurance Co., Ltd. and American International Assurance Co., Ltd. (China).

*Source: China Insurance Yearbook 2018*



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We face competition not only from domestic life insurance companies, but also from non-life insurance companies and foreign-invested life insurers. There were 77 licensed life insurers as of December 31, 2016, 85 as of December 31, 2017 and 91 as of December 31, 2018. Property and casualty insurers were allowed to sell accident and short-term health insurance products with regulatory approval starting from January 2003, which we believe will lead to greater competition in the accident and health insurance sectors, especially in the group accident and group health insurance products. In addition, we believe that China's commitment to accelerate the opening of its insurance sector to foreign investors, including the relaxation on market access requirements applicable to foreign-invested insurance companies and foreign ownership limits in its insurance sector, will further increase competition in China's life insurance market. In 2018, China increased the limit on foreign ownership in Chinese life insurance companies to 51% and announced that all foreign ownership restrictions in Chinese life insurance companies will be removed in 2021. We believe that the relaxation of the restrictions on foreign-invested insurers, once implemented, will continue to increase the competitive pressures we are facing.

See Item 3. Key Information Risk Factors Risks Relating to the PRC Life Insurance Industry We expect competition in the Chinese insurance industry to increase, which may materially and adversely affect the growth of our business .

We also face increasing competition from other financial services providers, primarily licensed mutual fund companies, commercial banks providing personal banking services and operating business of various financial products, trust companies and brokerage houses licensed to manage separate accounts. These financial services providers may be permitted to manage employer-sponsored defined contribution pension plans, which we believe will compete directly with our group annuity products. We also face competition in the sale of our traditional life insurance savings policies, individual participating policies and annuities from financial institutions which offer investment products to the public.

**Business Management*****Customer Support Management***

We seek to provide quality services to our customers and potential customers and to be responsive to their needs, both before and after a sale, through an extensive customer support network. Our customer service network is managed by specialized customer service departments, which are responsible for setting uniform standards and procedures for providing policy-related services to customers, handling inquiries and complaints from customers and training customer services personnel.

We deliver customer services primarily through customer service centers operating in our branch offices and in field offices throughout China and a comprehensive multimedia coordination center. We have upgraded our customer telephone call center to an integrated multimedia coordination center platform that allows customers to access our various service channels, including our telephone call center, official WeChat account, official website and China Life Insurance application. We take advantage of alternative customer services channels, such as cell phone messages and the Internet, complementing the customer services provided by our customer service centers and the multimedia coordination center.

***Customer service centers***

We provide customer support through approximately 2,629 customer service centers nationwide. We provide several types of policy-related services to our customers, which include collecting regular premiums, purchasing riders, reinstating lapsed policies, processing termination of contracts, increasing insured amounts, processing policy loans, paying benefits and updating customer information including information regarding the insureds and beneficiaries of

policies. We have uniform service standards for customer service centers nationwide and require our customer service centers to provide these policy-related services in accordance with the uniform standards to ensure the quality of the services we provide. We have a specialized customer service department to further refine our customer services. The customer service department's role is to provide service to our customers and supervise the quality of service provided by our customer service centers.

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### ***Contact centers***

Our contact centers allow customers to make product and service inquiries, file suggestions and complaints, report claims and losses, make appointments and apply for conservations through telephone and online channels. Our contact centers also allow the customers to access self-services through a smart voice navigation system, an interactive voice response system and intelligent online robots. They also provide follow-up review of policies, notifications and reminder services to customers. With our dedicated, nationwide inquiry line, 95519, our customers can reach us on a 24 hours/7 days basis.

We believe our contact centers have become popular with our customers because of the quality of services we provide and our continuous efforts in innovation. We received the awards of China's Best Customer Contact Center of Year 2017-2018, Best Customer Contact Center for Innovation Practice, Best Customer Contact Center for Service Experience and China's Best Customer Contact Center for Smart Solutions from the Customer Relationship Management Committee of the China Federation of IT Promotion and Customer Contact Center Committee. We also received the Best Call Centers in the World award from the International Customer Management Institute in 2007, 2011 and 2015, respectively, and have obtained the authentication of Chinese national contact center operating performance standards. We will use new technology and new services to innovate and continue to promote the intelligent and digital transformation and upgrading of our multimedia coordination centers. We seek to ensure that we have a sufficient number of lines and staff to service the increasing use of our multimedia coordination centers.

We have established system-wide standards for our contact centers, which we monitor periodically through regular call quality monitoring and customer satisfaction surveys on the contact centers.

### ***Cell phone message services***

We send messages to convey such information as renewal payment reminders, notice of successful premium payment and birthday greetings.

### ***Internet-based services***

Our customers can utilize our Internet-based services for inquiries, complaints and service requests through our website ([www.e-chinalife.com](http://www.e-chinalife.com)). We also use emails to send messages to our customers throughout China, conveying such information as renewal payment reminders.

Our Internet-based services are offered through our China Life Insurance application (formerly China Life E Bao), official WeChat account and other online channels. During 2018, the number of registered users of our online channels increased by 62.9% from 2017, and 98.6% of policy loans and 91.57% of the receipt of policies were handled online including through our China Life Insurance application and official WeChat account.

### ***Supplementary services***

To allow our customers to benefit from superior service and enhance their service experience, we provide several types of supplementary services while continuing to provide quality basic insurance services.

To meet the demand of different customer groups, we have launched four service programs, namely Excellent Teenagers, Healthy Family, Financial Elite and Colorful Life. In 2018, we continued to hold the Little Painters of China Life and China Life 700 Running activities and also organized a series of online and offline customer festival activities. In 2018, we carried out over 36,000 activities and served 27.65 million customers.



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### ***Underwriting and Pricing***

Our individual and group insurance underwriting involves the evaluation of applications for life, accident and health insurance products by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that we are willing to accept. We have established qualification requirements and review procedures for our underwriting professionals. We employ detailed underwriting policies, guidelines and procedures designed to assist our underwriters to assess and quantify risks before issuing a policy to qualified applicants.

We generally evaluate the risk characteristics of each prospective insured. Requests for coverage are reviewed on their merits, and a policy is not issued unless the particular risk or risk portfolio has been examined and approved for underwriting.

We have different authorization limits and procedures depending on the amount of the claim. We also have authorization limits for personnel depending on their qualifications.

In order to maintain high standards of underwriting quality and consistency, we engage in periodic internal underwriting audits.

Individual and group product pricing reflects our insurance underwriting standards. Product pricing on insurance products is based on the expected payout of benefits, calculated through the use of mortality table, morbidity, expenses and investment returns. Those assumptions and other assumptions for calculating expected profit margin are based on our own experience, third party consultation, the experience of reinsurance companies and published data from other institutions. For more information on regulation of insurance products, see [Regulatory and Related Matters Insurance Company Regulation](#) .

We primarily offer products denominated in Renminbi.

### ***Claims Management***

We manage the claims from policyholders through our claims verification staff at our headquarters and branch offices. Typically, upon receiving a claim, a staff person will make a preliminary verification if all materials supporting the claim have been submitted; if so, the claim and its materials will be forwarded to the claim settlement department to confirm liability and to determine whether a claim investigation is needed. Upon confirming the validity of the claim and insurance liability, the amount payable to the insured will be calculated, and the claim will be paid upon completion of approval procedure. Meanwhile, in order to improve the operational efficiency of claims for small-sum medical insurance with low risks, we have built an automatic operation mode to automatically handle the entire process after the acceptance of the claim.

We manage claims management risk through organizational controls and computer systems controls. Our organizational controls include specific limits on authorization for branches at different levels; periodic case inspection and special inspections in particular situations by risk management departments at all levels of our organization; and expense mechanisms linking payout ratios of short-term insurance policies and expense ratios of branches. Except for some health insurance claims below a certain amount, verification of claims by two staff members is also required. We also periodically provide training for our claims verification personnel and conduct appraisals of their performance. Our claims management is strictly processed with computers to streamline claims verification and handling.



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### ***Reinsurance***

We have entered into various reinsurance agreements with China Life Reinsurance Company Ltd., or China Life Re, formerly known as China Reinsurance Company, for the reinsurance of individual risks and group risks. In general, individual and group risks are primarily reinsured either on a surplus basis, whereby we are reinsured for risks above a specified amount, or on a quota share basis. Under our reinsurance policy, the specified amount above which the risks are reinsured varies among different types of insurance products. In general, our reinsurance agreements with China Life Re do not have a definite term, but may be terminated with respect to new business thereunder by either party on a date agreed by both parties with three to six months' notice.

We have also entered into reinsurance agreements separately with other reinsurance companies including the Beijing branch of Munich Reinsurance Company, the Beijing Branch of SCOR, the Shanghai branch of Reinsurance Group of America, the Beijing branch of Swiss Reinsurance Company Limited, the Shanghai branch of Hannover Re, the Shanghai branch of General Re Corporation and Aetna Life & Casualty (Bermuda) Ltd.

In June 2018, we renewed our catastrophe reinsurance in order to reduce our catastrophe exposure.

These reinsurance agreements spread the risk and reduce the effect on us of potential losses. Under the terms of the reinsurance agreements, the reinsurer agrees to assume liabilities for the ceded business in the event the claim is paid. However, we remain liable to our policyholders if the reinsurer fails to meet the obligations assumed by it.

We also accept external auditing of reinsured business by our reinsurers.

### **Investments**

As of December 31, 2018, we had RMB 3,104,014 million (US\$ 451,460 million) of investment assets. As provided by China's insurance laws and regulations, we may invest insurance premiums and other insurance funds in five categories of investment assets, including liquidity assets, fixed income assets, equity assets, real properties and other financial assets, all as defined by the CBIRC and subject to various limitations. Each category of investment assets is also divided into domestic assets and overseas assets. See "Regulatory and Related Matters—Insurance Company Regulation—Regulation of investments". As of December 31, 2018, we have invested our insurance premiums and other insurance funds in term deposits, debt securities, loans, securities investment funds, stocks, resale agreements, investment properties, investments in associates and joint ventures, equity interests of non-listed enterprises and related financial products.

We direct and monitor our investment activities through the application of investment management guidelines and investment plans. Our investment management guidelines and investment plans include: (1) performance goals for the investment fund; (2) specified asset allocations and investment scope based on regulatory provisions, level of indebtedness and market forecasts; (3) specified goals for investment duration and asset-liability matching requirements based on asset-liability matching strategies; (4) specified authorization levels required for approval of significant investment projects; and (5) specified risk management policies and prohibitions. The investment management guidelines and investment plans are reviewed and approved by the board of directors annually.

Investment proposals typically originate from our investment management department, which is in charge of all of our investment assets except for investment in real properties used by us, which is separately managed by our own-use real property investment management department. Material investment decisions are reviewed and approved by our board of directors or shareholder's meeting and other investment proposals are reviewed by our president and senior management for final approval.





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AMC, the asset management company that we established with CLIC, manages a substantial part of our Renminbi investments and, separately, substantially all of the investments retained by CLIC. See Asset Management Business. IHC, a wholly owned subsidiary of CLIC, also manages our investments in unlisted equity interests, real estate and related financial products and securitization financial products. Other related parties are also entrusted to manage a small amount of our assets. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. In addition, as of December 31, 2018, we had also engaged 26 third party domestic investment managers to manage RMB 101,796 million (US\$ 14,806 million) for investment in Chinese open markets and 13 third party overseas investment managers to manage US\$ 1,404 million for investment in overseas open markets.

The following table summarizes information concerning our investment assets as of December 31, 2016, 2017 and 2018.

	2016		As of December 31, 2017		2018	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	<i>(RMB in millions, except as otherwise indicated)</i>					
Cash and cash equivalents	67,046	2.6%	48,586	1.8%	50,809	1.6%
Term deposits	538,325	20.9%	449,400	16.3%	559,341	18.0%
Statutory deposits restricted	6,333	0.2%	6,333	0.2%	6,333	0.2%
Debt securities, held-to-maturity	594,730	23.2%	717,037	26.1%	806,717	26.1%
Debt securities, available-for-sale	399,758	15.5%	455,124	16.5%	496,590	16.0%
Debt securities, securities at fair value through profit or loss	154,406	6.0%	82,891	3.0%	88,003	2.8%
Debt securities	1,148,894	44.7%	1,255,052	45.6%	1,391,310	44.9%
Loans	226,573	8.8%	383,504	13.9%	450,251	14.5%
Equity securities, available for sale	366,665	14.3%	355,610	12.9%	373,943	12.1%
Equity securities, securities at fair value through profit or loss	54,718	2.1%	53,918	2.0%	50,714	1.6%
Equity securities	421,383	16.4%	409,528	14.9%	424,657	13.7%
Resale agreements	43,538	1.7%	36,185	1.3%	9,905	0.3%
Investment properties	1,191	0.0%	3,064	0.1%	9,747	0.3%
Investments in associates and joint ventures	119,766	4.7%	161,472	5.9%	201,661	6.5%
<b>Total investment assets</b>	<b>2,573,049</b>	<b>100.0%</b>	<b>2,753,124</b>	<b>100.0%</b>	<b>3,104,014</b>	<b>100.0%</b>
Average investment assets balance	2,453,932		2,633,087		2,928,569	

**Risk management**

Our primary investment objective is to pursue optimal investment yields while considering macroeconomic factors, risk control and regulatory requirements. We are exposed to five primary sources of investment risk:

interest rate risk, relating to the market price and cash flow variability associated with changes in interest rates;

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credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;

market valuation risk, relating to the changes in market value for our investments, particularly our securities investment fund holdings and shares listed on the Chinese securities exchanges, which are denominated and traded in Renminbi;

liquidity risk, relating to the lack of liquidity in many of the debt and equity securities markets we invest in, due to contractual restrictions on transfer or the size of our investments in relation to the overall market; and

currency exchange risk, relating to the impact of changes in the value of the Renminbi against the U.S. dollar and other currencies on the value of our investments.

Our investment assets are principally comprised of fixed income securities and term deposits, and therefore changes in interest rates have a significant impact on the rate of our investment return. We manage interest rate risk through adjustments to our portfolio mix and terms, and by managing, to the extent possible, the average duration and maturity of our assets and liabilities. However, because of the general lack of long-term fixed income securities in the Chinese financial markets, the duration of some of our assets is lower than our liabilities. We believe that with the development of China's financial markets and the gradual easing of our investment restrictions, our ability to match our assets to our liabilities will improve. Although we have been approved to enter into interest rate swaps, it is still not an effective means for us to hedge our interest rate risk as the Chinese interest rate swap market is still in the early stages of development.

We believe we have a relatively low credit risk, because we mainly invest in fixed income products with high credit ratings. We monitor our credit risk through in-house fundamental analysis of the Chinese economy and the underlying obligors and transaction structures.

We are subject to market valuation risk, particularly because China's bond and stock markets are more volatile than developed markets. We manage valuation risk through industry and issuer diversification and asset allocation.

Since substantially all of our investments are made in China, we are exposed to the effect of changes in the Chinese economy and other factors which affect the Chinese banking industry and securities markets.

We are also subject to market liquidity risk for many of the investments we make, due to the size of our investments in relation to the overall market. We manage liquidity risk through selection of liquid assets and through asset diversification. In addition, we view fundraising through repurchase agreements as a way of managing our short-term liquidity risk.

Our ability to manage our investment risks is limited by the investment restrictions placed on us and the lack of sophisticated investment vehicles for risk management in China's capital markets. The CBIRC allows insurance companies to invest in financial derivative products with the aim to hedge and reduce investment risks. We are considering these alternative ways of investing to further improve our risk management.

Our assets held in foreign currencies are subject to foreign exchange risks resulting from the fluctuations of the value of the Renminbi against the U.S. dollar and other foreign currencies. As we are approved by the CIRC to invest our assets held in foreign currencies in overseas financial markets, the return from overseas investments could, to certain

extent, reduce the foreign exchange risks we are exposed to.

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For further information on our management of interest rate risk and market valuation risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk .

**Investment results**

Our investment yields for the years ended December 31, 2018, 2017 and 2016 were 3.29%, 5.16%, and 4.69%, respectively. Beginning in 2018, we revised the formula to calculate our investment yield to consider the impact of investments in associates and joint ventures on our investment yield. The investment yields for the fiscal years ended December 31, 2017 and December 31, 2016 have also been revised to conform to the revised formula.

The following table sets forth the yields on average assets for each major component of our investment portfolios for the periods indicated.

	As of or for the years ended December 31,					
	2016		2017		2018	
	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount
<i>(RMB in millions, except as otherwise indicated)</i>						
<b>Cash, cash equivalents, statutory deposits and term deposits:</b>						
Investment income	4.4%	27,851	4.3%	23,827	4.1%	22,699
Ending assets: cash and cash equivalents		67,046		48,586		50,809
Ending assets: statutory deposits restricted		6,333		6,333		6,333
Ending assets: term deposits		538,325		449,400		559,341
Ending assets		611,704		504,319		616,483
<b>Debt securities:</b>						
Investment income		48,036		53,895		61,517
Net realized gains on financial assets		46		(123)		357
Net fair value gains through profit or loss		(918)		(1,542)		2,006
Total	4.4%	47,164	4.3%	52,230	4.8%	63,880
Ending assets		1,148,894		1,255,052		1,391,310
<b>Loans:</b>						
Investment income	5.5%	12,018	5.4%	16,320	5.5%	22,894
Ending assets		226,573		383,504		450,251
<b>Equity securities:</b>						
Investment income		20,271		27,939		17,776
Net realized gains on financial assets		5,992		165		(19,948)
Net fair value gains through profit or loss		(6,319)		8,179		(18,938)
Total	4.8%	19,944	8.7%	36,283	(5.1%)	(21,110)
Ending assets		421,383		409,528		424,657
<b>Resale agreements:</b>						
Investment income	3.0%	971	1.9%	746	1.2%	281
Ending assets		43,538		36,185		9,905
<b>Investments properties:</b>						
Investment income	4.9%	60	3.2%	69	1.6%	105

Ending assets		1,191		3,064		9,747
<b>Investments in associate and joint ventures:</b>						
Investment income	7.0%	5,855	5.1%	7,143	4.3%	7,745
Ending assets		119,766		161,472		201,661
<b>Securities sold under agreements to repurchase:</b>						
Interest expense	(2.6%)	(1,460)	(3.7%)	(3,144)	(2.6%)	(3,565)
Ending liabilities		81,088		87,309		192,141
<b>Total investments:</b>						
Investment income		109,147		122,727		125,167

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	As of or for the years ended December 31,					
	2016		2017		2018	
	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount	Yield <sup>(1)</sup>	Amount
Net realized gains on financial assets		6,038		42		(19,591)
Net fair value gains through profit or loss		(7,094)		6,183		(18,278)
Income of Investments properties		60		69		105
Income of Investments in associates and joint ventures		5,855		7,143		7,745
Interest expense of securities sold under agreements to repurchase		(1,460)		(3,144)		(3,565)
Total	4.69%	112,546	5.16%	133,020	3.29%	91,583
Ending assets excluding securities sold under agreements to repurchase		2,491,961		2,665,815		2,911,873

(1) Yields for 2018, 2017 and 2016 are calculated by dividing the total investment income for that year by the average of the ending balances of that year and the previous year.

**Term deposits**

Term deposits consist principally of term deposits with Chinese commercial banking institutions and represented 18.0% of our total investment assets as of December 31, 2018, 16.3% of our total investment assets as of December 31, 2017, and 20.9% of our total investment assets as of December 31, 2016.

We generally place term deposits with state-owned commercial banks and large joint stock commercial banks. The terms of the term deposits vary. They typically allow us to renegotiate terms with the banks upon prepayment, including the methods for the calculation of accrued interest, if any. We make large term deposits to obtain higher yields than can ordinarily be obtained with regular deposits.

The following table sets forth term deposits by contractual maturity dates, as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	Amortized cost	Amortized cost	Amortized cost
	<i>(RMB in millions)</i>		
Due in one year or less	185,835	97,076	158,920
Due after one year and through five years	344,790	349,524	323,021
Due after five years and through ten years	7,700	2,800	77,400
<b>Total term deposits</b>	<b>538,325</b>	<b>449,400</b>	<b>559,341</b>

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The following table sets forth term deposits outstanding to Chinese banking institutions as of the dates indicated.

	As of December 31,		
	2016 Amortized cost	2017 Amortized cost	2018 Amortized cost
	<i>(RMB in millions)</i>		
Industrial & Commercial Bank of China	21,210	10,819	5,378
Agriculture Bank of China	110,242	50,819	42,264
Bank of China	70,792	43,625	40,000
China Construction Bank	42,750	26,070	25,200
Bank of Communications	121,142	132,922	200,534
Other banks	172,189	185,145	245,965
<b>Total term deposits</b>	<b>538,325</b>	<b>449,400</b>	<b>559,341</b>

**Debt securities**

Debt securities in which we are permitted to invest mainly consist of the following categories:

Chinese government bonds;

government agency bonds (including local government bonds issued and repaid by the MOF as agent, central bank notes, financial bonds issued by Chinese state-owned policy banks and RMB-denominated bonds issued by international development institutions);

corporate bonds (including financial bonds issued by commercial banks, corporate bonds, convertible corporate bonds, short-term financing bonds and medium-term notes);

subordinated bonds and debt (including subordinated bonds issued by Chinese state-owned policy banks, subordinated bonds issued by commercial banks, subordinated debt with fixed terms issued by commercial banks and subordinated debt with fixed terms issued by insurance companies); and

tier 2 capital bonds and perpetual capital bonds (including tier 2 capital bonds and perpetual capital bonds issued by Chinese state-owned policy banks, and tier 2 capital bonds and perpetual capital bonds issued by qualified commercial banks).

Debt securities represented 44.9% of our total investment assets as of December 31, 2018, 45.6% of our total investment assets as of December 31, 2017 and 44.7% of our total investment assets as of December 31, 2016.



Based on estimated fair value, Chinese government bonds, Chinese government agency bonds, corporate bonds, subordinated bonds and debt and other debt securities comprised 5.7%, 36.3%, 37.5%, 4.3% and 16.2% of our total available-for-sale debt securities as of December 31, 2018, 5.4%, 34.7%, 43.3%, 3.0% and 13.6% of our total available-for-sale debt securities as of December 31, 2017, and 5.4%, 36.6%, 47.1%, 4.2% and 6.7% of our total available-for-sale debt securities as of December 31, 2016. Except for a small number of debt securities, which collectively had a carrying value of RMB 60,976 million (US\$ 8,869 million) as of December 31, 2018, most of our debt securities are traded on security exchanges or in the unlisted interbank market in China.

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We mainly invest in secured bonds and unsecured bonds rated AA or above by the rating agencies recognized by the CBIRC, such as China Chengxin International Credit Rating Co., Ltd, or Chengxin International, and China Lianhe Credit Rating Co., Ltd. or Lianhe Credit. We also invest in short-term financing bonds rated A-2 or above.

Chengxin International is a member of Moody's Investors Service Inc., with Moody's owning 30% equity interest in Chengxin International. Chengxin International created its own rating structures by making reference to the rating structures and experience of Moody's and Fitch Ratings. AAA is the highest rating. Other approved rating agencies, such as Lianhe Credit, have similar rating structures. Ratings given by these entities are not directly comparable to ratings given by U.S. rating agencies.

The following table sets forth the amortized cost and estimated fair value of debt securities, as of the dates indicated.

	2016		As of December 31,				2017		2018		Estimated fair value
	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	Estimated fair value	% of total	Amortized cost	% of total	
<i>(RMB in millions)</i>											
<b>Available-for-sale:</b>											
Bonds	20,173	1.8%	21,653	1.8%	24,818	2.0%	24,632	2.0%	26,759	1.9%	28,400
Equity securities	140,444	12.4%	146,310	12.5%	164,331	13.0%	157,765	12.8%	172,250	12.5%	180,200
Other debt securities	183,408	16.1%	188,337	16.1%	199,613	15.7%	197,133	16.1%	181,178	13.2%	185,700
Other equity securities	15,948	1.4%	16,708	1.4%	13,588	1.1%	13,495	1.1%	20,953	1.5%	21,500
Other	26,773	2.3%	26,750	2.3%	62,651	4.9%	62,099	5.0%	78,136	5.8%	80,600
<b>Total available-for-sale</b>	<b>386,746</b>	<b>34.0%</b>	<b>399,758</b>	<b>34.1%</b>	<b>465,001</b>	<b>36.7%</b>	<b>455,124</b>	<b>37.0%</b>	<b>479,276</b>	<b>34.9%</b>	<b>496,500</b>
<b>Available-for-sale, equity:</b>											
Bonds	97,196	8.6%	102,595	8.7%	125,866	9.9%	123,712	10.0%	179,943	13.1%	191,000
Equity securities	169,001	14.9%	173,036	14.7%	241,808	19.1%	223,313	18.2%	266,986	19.4%	276,400
Other debt securities	178,444	15.7%	184,461	15.7%	200,869	15.9%	196,536	16.0%	212,709	15.5%	220,200
Other equity securities	150,089	13.2%	159,060	13.6%	148,494	11.7%	149,423	12.1%	147,079	10.7%	155,700
<b>Total available-for-sale, equity</b>	<b>594,730</b>	<b>52.4%</b>	<b>619,152</b>	<b>52.7%</b>	<b>717,037</b>	<b>56.6%</b>	<b>692,984</b>	<b>56.3%</b>	<b>806,717</b>	<b>58.7%</b>	<b>843,500</b>

onds	381	0.0%	380	0.0%	2,139	0.2%	2,081	0.2%	118	0.0%	1
	6,800	0.6%	6,762	0.6%	9,463	0.7%	9,084	0.7%	6,639	0.5%	6,7
s	144,596	12.7%	144,131	12.3%	68,401	5.4%	66,915	5.4%	79,390	5.8%	79,7
	3,133	0.3%	3,133	0.3%	4,819	0.4%	4,811	0.4%	1,346	0.1%	1,3
ir	<b>154,910</b>	<b>13.6%</b>	<b>154,406</b>	<b>13.2%</b>	<b>84,822</b>	<b>6.7%</b>	<b>82,891</b>	<b>6.7%</b>	<b>87,493</b>	<b>6.4%</b>	<b>88,0</b>
	<b>1,136,386</b>	<b>100.0%</b>	<b>1,173,316</b>	<b>100.0%</b>	<b>1,266,860</b>	<b>100.0%</b>	<b>1,230,999</b>	<b>100.0%</b>	<b>1,373,486</b>	<b>100.0%</b>	<b>1,428,1</b>

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The following table shows the amortized cost and estimated fair value of debt securities excluding securities at fair value through profit or loss by contractual maturity dates, as of the dates indicated.

	2016		As of December 31, 2017		2018	
	Amortized cost	Estimated fair value	Amortized cost (RMB in millions)	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	63,665	64,119	64,919	64,884	28,371	28,529
Due after one year and through five years	213,167	218,608	268,090	265,832	304,467	313,067
Due after five years and through ten years	341,479	355,984	460,372	452,122	485,722	506,005
Due after ten years	363,165	380,199	388,657	365,270	467,433	492,532
<b>Total debt securities, excluding those at fair value through profit or loss</b>	<b>981,476</b>	<b>1,018,910</b>	<b>1,182,038</b>	<b>1,148,108</b>	<b>1,285,993</b>	<b>1,340,133</b>

Our investments in debt securities are subject to strict restrictions under relevant Chinese regulation. See Regulatory and Related Matters Regulation of investments . We diversify our corporate bonds by industry and issuer to effectively manage and control concentration risks. As of the date of this annual report, we believe that our corporate bond portfolio does not have significant exposure to a single industry or issuer.

**Loans**

We offer interest-bearing policy loans to our policyholders, who may borrow from us in amounts up to the total cash values of their policies. In general, the loans are secured by the policyholders' rights under the policies. As of December 31, 2018, the total amount of our policy loans was RMB 142,165 million (US\$ 20,677 million), and represented 4.6% of our total investment assets as of that date.

In addition to policy loans, our other loans mainly consist of our investment in debt investment plans and trust schemes. As of and for the year ended December 31, 2016, the total amount of our investment in debt investment plans was RMB 63,028 million, and we had total investment proceeds from such plans of approximately RMB 3,532 million. As of and for the year ended December 31, 2017, the total amount of our investment in debt investment plans was RMB 73,668 million, and we had total investment proceeds from such plans of approximately RMB 3,605 million. As of and for the year ended December 31, 2018, the total amount of our investment in debt investment plans was RMB 75,717 million (US\$ 11,013 million), and we had total investment proceeds from such plans of approximately RMB 4,295 million (US\$ 625 million). As of and for the year ended December 31, 2016, the total amount of our investment in trust schemes was RMB 47,864 million, and we had total investment proceeds from such schemes of approximately RMB 3,066 million. As of and for the year ended December 31, 2017, the total amount of our investment in trust schemes was RMB 163,764 million, and we had total investment proceeds from such schemes of approximately RMB 6,343 million. As of and for the year ended December 31, 2018, the total amount of our investment in trust schemes was RMB 185,105 million (US\$ 26,922 million), and we had total investment proceeds from such schemes of approximately RMB 9,276 million (US\$ 1,349 million).

***Securities investment funds***

Securities investment funds consist of Chinese domestic investment funds and overseas investment funds that primarily invest in securities. As of December 31, 2018, our investment in securities investment funds was RMB 106,271 million (US\$ 15,456 million) and represented 3.4% of our total investment assets as of that date. Our investment in securities investment funds mainly consists of investment in Chinese domestic investment funds.

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We invest in both closed-end securities investment funds, in which the number of shares is fixed and the share value depends on the trading prices, and open-end securities investment funds, in which the number of shares issued by the fund fluctuates and the share value is set by the value of the assets held by the fund. Our investments in securities investment funds are subject to strict restrictions under relevant Chinese regulations. See Regulatory and Related Matters Insurance Company Regulation Regulation of investments . Our holdings in securities investment funds comply with those restrictions.

The following table presents the carrying values of investments in open-end and closed-end securities investment funds as of the dates indicated.

	2016		As of December 31, 2017		2018	
	Carrying value	% of total	Carrying value	% of total	Carrying value	% of total
	<i>(RMB in millions, except as otherwise indicated)</i>					
Open-end	117,027	97.5%	99,012	97.8%	104,107	98.0%
Closed-end	2,946	2.5%	2,224	2.2%	2,164	2.0%
<b>Total</b>	<b>119,973</b>	<b>100.0%</b>	<b>101,236</b>	<b>100.0%</b>	<b>106,271</b>	<b>100.0%</b>

**Stocks**

Investments in stocks consist of investment in publicly offered and listed equity securities that are denominated and traded in Renminbi and investment in stocks listed on specified overseas stock exchanges that are permitted by the CIRC. Our investments in stocks are subject to strict restrictions under relevant Chinese regulations. See Regulatory and Related Matters Insurance Company Regulation Regulation of investments . As of December 31, 2018, the total amount of our investment in common stocks was RMB 178,710 million (US\$ 25,992 million), and represented 5.8 % of our total investment assets as of that date. As of December 31, 2017, the total amount of our investment in common stocks was RMB 173,450 million, and represented 6.3% of our total investment assets as of that date. As of December 31, 2016, the total amount of our investment in common stocks was RMB 140,166 million, and represented 5.4% of our total investment assets as of that date.

**Resale agreements**

We enter into resale agreements, which consist of securities resell activities in resell markets.

The securities purchased under agreements to resell were RMB 9,905 million (US\$ 1,441million) as of December 31, 2018, RMB 36,185 million as of December 31, 2017, and RMB 43,538 million as of December 31, 2016.

**Equity interests in non-listed enterprises and related financial products**

Insurance companies are allowed to invest, directly or indirectly, in equity interests in non-listed enterprises. These investments are categorized either as direct investments , for investments by an insurance company in its name, or as indirect investments , for investments through equity investment funds and other related financial products sponsored and established by an investment management institution. Our investments in equity interests in non-listed enterprises

and related financial products are subject to strict restrictions under relevant Chinese regulations. See Regulatory and Related Matters Insurance Company Regulation Regulation of investments .

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We started to make investments in equity interests in non-listed enterprises in 2006. In November 2017, we entrusted IHC to invest in Ningbo Meishan Bonded Port Area Baishan Investment Management Partnership, or Baidu Fund Partnership. The total capital commitment in the Baidu Fund Partnership is RMB 7.011 billion, of which RMB 5.6 billion was subscribed by us and RMB 1.4 billion was subscribed by Ningbo Meishan Bonded Port Area Baidu Zhixin Asset Management Company, each as a limited partner. The Baidu Fund Partnership will primarily make middle-late-stage investments in private equity transactions in the Internet sector, including Internet, mobile Internet, artificial intelligence, Internet finance, consumption upgrade, and Internet+.

In 2018, we subscribed for additional shares of CLPCIC by contributing RMB 1.52 billion undistributed profits of CLPCIC. In December 2018, we subscribed for an additional 1,871,875,329 shares of China Guangfa Bank, or CGB, for RMB 13.012 billion. Upon closing, we hold 8,600,631,426 shares of CGB, and our shareholding in CGB remains at 43.686%. We are still the largest shareholder of CGB.

In 2018, we invested RMB 8 billion in equity interests in China Power Investment Nuclear Power Co., Ltd.

The following table presents the carrying values of our major investments in equity interests in non-listed enterprises as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>Carrying</b>	<b>Carrying</b>	<b>Carrying</b>
	<b>value</b>	<b>value</b>	<b>value</b>
	<i>(RMB in millions, except as otherwise indicated)</i>		
China Life Property and Casualty Insurance Company Limited	7,929	8,185	7,963
China Guangfa Bank Co., Ltd.	50,299	53,459	72,655
Sinopec Sales Co., Ltd.	10,522	10,172	10,219
Sinopec Sichuan to East China Gas Pipeline Co., Ltd.	20,000	21,347	21,387
Ningbo Meishan Bonded Port Area Baishan Investment Management Partnership		1,680	1,698
China Power Investment Nuclear Power Co., Ltd.			8,036

**Asset Management Business**

On November 23, 2003, in connection with the restructuring, we established an asset management company, AMC, with CLIC, for the purpose of operating the asset management business more professionally in a separate entity and to better attract and retain qualified investment management professionals. AMC manages our investment assets and, separately, substantially all of those of CLIC. For a description of our investment assets, see [Investments](#) .

We own 60% and CLIC owns 40% of AMC. Directors of AMC are appointed by the shareholders at a general meeting. As the controlling shareholder, we effectively control the composition of AMC's board of directors. In 2014, the registered capital of AMC was increased from RMB 3 billion to RMB 4 billion. The proportionate shareholding between CLIC and us remains unchanged.

As of and for the year ended December 31, 2018, AMC had total assets of RMB 10,414 million (US\$ 1,515 million), net assets of RMB 9,243 million (US\$ 1,344 million) and net profit of RMB 1,039 million (US\$ 151 million).





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### **Property and Casualty Business**

In December 2006, we and CLIC established a property and casualty company, CLPCIC, with us owning 40% and CLIC owning the remaining 60%. In 2018, the registered capital of CLPCIC was increased from RMB 15 billion to RMB 18.8 billion, with us and CLIC contributing RMB 1.52 billion and 2.28 billion undistributed profits of CLPCIC, respectively. The proportionate shareholding between CLIC and us remains unchanged.

As of and for the year ended December 31, 2018, CLPCIC had total assets of RMB 83,561 million (US\$ 12,153 million), net assets of RMB 19,907 million (US\$ 2,895 million) and net profit of RMB 121 million (US\$ 18 million).

### **Pension Insurance Business**

In January 2007, we, CLIC and AMC established a pension insurance company, China Life Pension, with us owning 55%, CLIC owning 25% and AMC owning the remaining 20%. In January 2015, the registered capital of China Life Pension was increased from RMB 2.5 billion to RMB 3.4 billion. China Life Pension is currently held 70.74%, 4.41%, 3.53%, 1.33%, and 19.99% by us, CLIC, AMC, China Credit Trust Company Limited and AMP Life Limited, respectively.

China Life Pension has obtained qualifications to serve as investment manager, trustee and account manager of enterprise annuity funds.

As of and for the year ended December 31, 2018, China Life Pension had total assets of RMB 4,593 million (US\$ 668 million), net assets of RMB 3,429 million (US\$ 499 million) and net profit of RMB 352 million (US\$ 51 million).

### **Information Technology**

Our computer systems provide support for many aspects of our businesses, including product development, sales and marketing, business management, cost control and risk control. We have approximately 2,100 experienced engineers, technicians and specialists providing professional and flexible support for our business operations in various aspects, including the design, research and development and operation of our computer systems.

In 2018, we continued to develop our information technology system to provide accessible, mobile and convenient services to our customers, sales teams and employees. We took the following steps:

**Construction of Internet Network.** We built approximately 15,700 new network lines and achieved WIFI coverage for all our service centers. We installed approximately 660,000 sets of smart devices, and built more than 20,000 digital service centers and 3,475 service supervision and coordination centers that allow real-time interaction between us and our branch offices in different provinces, cities and counties. Our research and data center in Beijing was successfully launched for use in 2018. We now have three multi-active data centers in Beijing and Shanghai, which help us provide all cloud-based information services.

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**Construction of Digital Platform.** We have developed an open digital platform to provide various online services. We use big data to analyze customer needs to facilitate the offering of comprehensive insurance plans tailored to various specific needs of customers. We also use data on individual agents to provide relevant information on agents, including, among others, service records, accumulated amounts of insurance coverage sold and quality of service, to help customers know more about our individual agents, which facilitates the development of trust and interaction between the customers and our individual agents. Our digital platform also facilitates efficient interaction among and effective management of our individual agents. Our platform also provides open access to third party business partners, which allows them to offer relevant services on our platform.

**Intelligent Services.** We have built five artificial intelligent platforms including big data, real-time computing, smart voice, face recognition and deep learning, and have adopted intelligent technologies into many aspects of our businesses. We have adopted an electronic signature technology, which allows customers to sign and purchase insurance policies at any time and from any place. We provide intelligent services throughout the whole business operation process, including intelligent underwriting, online preservation and automatic claims settlement. We have also launched an intelligent electronic quick payment service, which enables real-time transfer of funds. We have adopted smart voice technology to replace manual operation, which has improved service efficiency and reduced labor costs. Intelligent robots have been deployed in 13 cities to provide automatic responses to customers' questions and intelligent guidance at counters. We have built an artificial intelligent model to identify and evaluate key risks relating to critical illness, which has improved the efficiency and effectiveness of our risk control system. We use artificial intelligence to detect issues and identify breakdowns of our information technology system to ensure a secure and stable information technology system.

We also continue to attach importance to financial data security and have implemented projects including separation of internal and external network, cloud desktops, providing different levels of protection fitting to the various application systems, intelligent security monitoring and supervision platforms and anti-intrusion system. We have built a security protection system to cover assessment, protection, detection, response, recovery and other aspects of data protection. We have a visualization system to provide real-time monitoring on cyber attacks. We also have internal rules on the procedures for reporting and handling material accidents, including cybersecurity incidents, occurring during business operations.

## **Trademarks**

We conduct our business under the China Life brand name (in English and Chinese), the ball logos, the C mark and other business related slogans and logos. CLIC owns these trademarks and has registered them with the Trademark Office of the SAMR. CLIC has entered into a trademark license agreement with us, under which CLIC has agreed to grant us a royalty-free license to use the China Life brand name, the ball logos and the C mark. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Continuing Related Party Transactions with CLIC .

## **Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934**

Under Section 13(r) of the Exchange Act, which was added by the Iran Threat Reduction and Syrian Human Rights Act of 2012, we are required to disclose in our annual report filed with the SEC if we or any of our affiliates knowingly engaged in certain Iran-related activities, including transactions or dealings with the Government of Iran or relating to Iran during the period covered by the annual report, no matter whether these activities are material or not.

Disclosure is required even when the activities were conducted outside of the U.S. by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

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In June 2017, CLPCIC, a casualty and property insurance company in which we own 40% interest, provided marine hull insurance for a fleet of vessels managed by the National Iranian Tanker Company ( NITC ) as a co-insurer for the period from July 1, 2017 to June 30, 2018, and the lead insurer is Assuranceforeningen Skuld. These transactions were entered into in compliance with laws and regulations applicable to CLPCIC. We understand that NITC is affiliated with the Government of Iran and it was, at the time the insurance was in force, on the List of Persons Identified as Blocked Solely Pursuant to Executive Order 13599. The total premiums that CLPCIC received from these transactions are approximately RMB 530,000. The insurance coverage under these transactions expired on June 30, 2018. CLPCIC does not intend to continue providing insurance coverage to NITC upon the expiration of the insurance coverage.

## **Regulatory and Related Matters**

### *Overview*

The insurance industry is heavily regulated in the PRC. The applicable laws and regulations governing insurance activities undertaken within the territories of the PRC consist principally of the PRC Insurance Law and rules and regulations promulgated under that law. The CBIRC is the authority authorized by the PRC State Council to regulate and supervise the insurance industry in the PRC.

The PRC Insurance Law, which provided the initial framework for regulating the PRC insurance industry, was enacted in 1995, and significantly amended on October 28, 2002, February 28, 2009, August 31, 2014 and April 24, 2015. Among other things, the major provisions of the PRC Insurance Law include: (1) licensing of insurance companies and insurance intermediaries, such as agents and brokers; (2) separation of property and casualty business and life insurance business; (3) regulation of market conduct by participants; (4) substantive regulation of insurance products; (5) regulation of the financial condition and performance of insurance companies; and (6) supervisory and enforcement powers of the CIRC.

The CIRC was established in 1998. It has extensive supervisory authority over the PRC insurance industry, including: (1) promulgation of regulations applicable to the insurance industry; (2) approval for establishment of insurance companies and their subsidiaries; (3) review of qualifications of senior management of insurance companies; (4) supervision of insurance companies and their solvency and market activities; (5) establishment of investment regulations; (6) approving the policy terms and premium rates for certain insurance products; (7) setting standards for measuring the financial soundness of insurance companies; (8) requiring insurance companies to submit reports concerning their business operations and condition of assets; and (9) ordering the suspension of all or part of an insurance company's business. Since its establishment, the CIRC has promulgated a series of regulations indicating a gradual shift in the regulatory approach to a more transparent regulatory process and a convergent movement toward international standards.

In March 2018, the National People's Congress of the PRC approved the merger of China's long-existing regulatory commissions of banking and insurance into a new administration called the China Banking and Insurance Regulatory Commission, or CBIRC. Guo Shuqing, formerly the head of CBIRC, has been appointed as the chairman of CBIRC. The CIRC and the CBIRC no longer exist, and some of their authorities, including drafting certain regulations to govern the insurance and banking industries, have been ceded to PBOC, China's central bank. As of the date of this annual report, the regulations, rules and guidance previously issued by the CIRC still remain effective unless otherwise be amended or abolished. This merger is intended to improve the efficiency and coordination of Chinese financial regulation.



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**Table of Contents*****Insurance Company Regulation******Licensing requirements***

An insurance company is required to obtain a license from the CBIRC in order to engage in an insurance business. In general, a license will be granted only if the company can meet prescribed registered capital requirements and other specified requirements, including requirements relating to its form of organization, the qualifications of its senior management and actuarial staff, the adequacy of its information systems and specifications relating to the insurance products to be offered.

The CBIRC may grant a life insurer a license to offer all or part of the following products: accident insurance, term life insurance, whole life insurance, annuities, short-term and long-term health insurance, endowment insurance (for individuals only) and other personal insurance approved by the CBIRC, as well as reinsurance relating to any of the foregoing.

An insurance company may seek approval for establishing branch offices to meet its business needs so long as it meets minimum capital and other requirements. Our headquarters and all of our branch offices have obtained the requisite insurance licenses.

***Minimum capital requirements***

The minimum paid-in capital for an insurance company is RMB 200 million. For an insurance company whose registered capital is RMB 200 million, the minimum incremental capital for each first branch office in a province other than the province where its headquarter is located is RMB 20 million. No additional capital will be required when the paid-in capital has reached RMB 500 million, and the insurer's solvency is sound.

***Restriction of ownership in joint stock insurance companies***

Any acquisition of shares which results in the acquirer owning 5% or more of the registered capital of a joint stock insurance company, whether or not listed, requires the approval of the CBIRC. A filing with the CBIRC is required with respect to a change of equity interest of less than 5% in an insurance company, unless it is a listed insurance company. Equity interests held by a single shareholder, including its related parties and persons acting in concert, must not exceed one-third of the registered capital of a single insurance company. An exception to the one-third cap applies to insurance companies establishing or investing in other insurance companies for the purposes of innovation and specialization of their business, or consolidating their operations under a single group management. Equity interests held by a single domestic limited partnership must not exceed 5% of the registered capital of a single insurance company. The combined equity interests held by several domestic limited partnerships must not exceed 15% of the registered capital of a single insurance company, and the combined equity interests held by foreign investors may not exceed 51% of the total equity of a single life insurance company. China plans to remove these foreign ownership restrictions in 2021.

***Fundamental changes***

Prior approval must be obtained from the CBIRC before specified fundamental changes relating to a Chinese insurance company may occur. These include: a change of company name, registered capital or address of executive offices of companies or their subsidiaries; an expansion of business scope; an amendment to articles of association; a merger or spin-off; a change in a shareholder whose capital contribution accounts for 5% or more of the total capital of the company or a change in shareholding of 5% or more of the shares of the company; and a termination of a

branch office. In addition, certain other changes relating to the insurance company must be reviewed by or filed with the CBIRC.



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**Table of Contents*****Regulation of products***

*Regulation of ordinary personal insurance products.* An ordinary personal insurance product is one whose insurance premiums and policy benefits are definite upon issuance of the insurance policy. Beginning from August 5, 2013, the CIRC removed the original 2.50% cap on the guaranteed interest rates of ordinary personal insurance products, and such guaranteed interest rates can be decided by insurance companies at their discretion in accordance with the principle of prudence. Meanwhile, the statutory valuation rates of ordinary personal insurance policies issued on and after August 5, 2013 have been increased from 2.50% to 3.50%. In addition, beginning from August 5, 2013, if the guaranteed interest rate of an ordinary personal insurance product developed by an insurance company is not higher than the maximum valuation rate set by the CBIRC which varies depending on product, the insurance company must file the relevant information of the product with the CBIRC. If such rate is higher than the maximum valuation rate set by the CBIRC, the insurance company is required to obtain the approval of the CBIRC on the product in advance, and during the approval process, the insurance company is not allowed to submit new insurance clauses and premium rates to the CBIRC for approval. On September 2, 2016, the CIRC further required that policy loans provided by an insurer may not exceed 80% of the cash value or account value of the policy. From October 1, 2017, the first payment of survival insurance benefits for the ordinary endowment products and annuity products must occur only after five years since the policy becomes effective and the annual payment or partial payment must not exceed 20% of the paid premiums.

*Regulation of participating products.* A participating product is one which the policyholder or annuitant is entitled to share in the distributable earnings of the insurer through policy dividends. The participation dividend may be in the form of a cash payment or an increase in the insured amount. At least 70% of the distributable earnings is required to be distributed as dividends. In September 2015, the CIRC removed the original 2.50% cap on the guaranteed interest rate of participating products. From October 1, 2015, the guaranteed interest rate is to be decided by insurance companies at their discretion in accordance with the principle of prudence. If the guaranteed interest rate of a participating product developed by an insurance company is not higher than 3.50%, the insurance company must file the specific information of such product with the CBIRC for record. If such rate is higher than 3.50%, the insurance company is required to obtain the approval of the CBIRC for the product. In addition, the valuation rate of unearned premium reserves of participating products equals to either the guaranteed interest rate or 3.00%, whichever is lower. Beginning from September 2, 2016, if the guaranteed interest rate of a life insurance product newly developed by an insurance company is lower than the maximum valuation rate set by the CIRC, which is 3.00% for participating products, the insurance company is only required to file specified information relating to the product with the CBIRC, and if such rates are higher than 3.00%, the insurance company is required to obtain the approval of the CBIRC for such products. From October 1, 2017, the first payment of survival insurance benefits for the participating endowment products and annuity products must occur only after five years since the policy becomes effective and the annual payment or partial payment must not exceed 20% of the paid premiums.

*Regulation of universal products.* A universal product is one which offers the typical protection of life insurance with investment accounts providing a minimum yield. The premium payments and coverage of universal products are flexible, usually with a minimum guaranteed interest rate, and the investment yields are settled periodically. Beginning from February 16, 2015, the CIRC removed the original 2.50% cap on the minimum guaranteed interest rate of universal products, with the guaranteed interest rate to be decided by insurance companies at their discretion in accordance with the principle of prudence. Meanwhile, the maximum valuation rate of a universal product has been increased from a compound annual rate of 2.50% to a compound annual rate of 3.50%. Beginning from September 2, 2016, the CIRC changed the maximum valuation rate of a universal product from a compound annual rate of 3.50% to a compound annual rate of 3.00%. If the minimum guaranteed interest rate of a universal product developed by an insurance company is not higher than the maximum valuation rate set by the CBIRC (i.e. a compound annual rate of 3.00%), the insurance company must file specified information relating to the product with the CBIRC. If such rate is

higher than the maximum valuation rate set by the CBIRC, the insurance company is required to obtain the approval of the CBIRC for the product. Any amendment to the insurance clauses, premium rates, insurance liabilities, types of insurance or pricing methods of universal products must be filed with or approved by the CBIRC. From October 1, 2017, universal products must be designed to allow the flexibility to pay additional premiums from time to time and to adjust the insured amount. Insurance companies may not design the universal products in the form of riders.

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*Regulation of investment-linked products.* An investment-linked product is one which insures the policyholder or annuitant against one or more separate risks and at the same time gives the policyholder or annuitant an interest in one or more separate investment accounts. Insurance companies must complete the establishment of investment accounts before submitting the required information regarding their investment-linked products to the CBIRC for approval or filing. Insurance companies must report on the establishment, change, consolidation, division, close or settlement of the investment accounts to the CBIRC within 10 business days after occurrence of these events. Transactions between a separate investment account and any other account of the insurance company, other than a transfer of cash to establish the investment account, are prohibited. From October 1, 2017, investment-linked products must be designed to allow the flexibility to pay additional premiums from time to time and to adjust the insured amount. Insurance companies may not design investment-linked products in the form of riders. Other CIRC regulations govern the sale and disclosure terms of investment-linked products.

*Regulation of short-to-medium term products.* Beginning from March 21, 2016, CIRC's new regulations on personal insurance products with short-to-medium terms became effective. Under the new CIRC regulations, personal insurance products with short-to-medium terms are defined as follows:

where the sum of the cash value of the insurance policy (account value) at the end of any policy year within the past four policy years and the cumulative survival insurance benefits exceeds the total amount of premiums paid; and

it is expected that 60% or more of the policies of such product have a duration of less than five years. Under the CIRC regulations, an insurer's annual premium income from personal insurance products with short-to-medium terms may not exceed two times the amount of capital invested by or the net assets of such insurer at the end of the latest quarter, whichever is larger. Insurers are also required to immediately cease developing and selling personal insurance products with a term of less than one year. An insurer's annual premium income from personal insurance products with a term more than one year but less than three years may not exceed 90% of the overall regulatory limitation in 2016, 70% of the overall regulatory limitation in 2017 and 50% of the overall regulatory limitation in 2018 and thereafter. Furthermore, the CIRC issued a new notice in September 2016, requiring that beginning from January 1, 2019, an insurer's annual premium income from personal insurance products with short-to-medium terms may not exceed 50% of its total premiums for 2019, 40% of its total premiums for 2020 and 30% of its total premiums for 2021 and thereafter. On September 30, 2017, the CIRC issued a notice which further requires that, beginning from such date, a life insurer will not be approved for setting up new branches within one year if its quarterly premium income from insurance products with short-to-medium terms exceeds 50% of its total quarterly insurance premium income.

Investment-linked products and variable annuity insurance must also be evaluated and reported according to the above requirements applicable to products with short-to-medium terms. Whole life insurance products, annuity products and healthcare insurance products may not be designed as products with short-to-medium terms.

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*Regulation of variable annuity insurance.* Variable annuity insurance is a type of insurance where the policy benefits are associated with the price of the investment unit in the linked investment account, and a minimum amount of policy benefits is guaranteed as stipulated in the insurance agreement. Under variable annuity insurance, the insurance company is obliged to pay an annuity or offer an option for the conversion of the insurance proceeds to be annuitized upon maturity. Variable annuity products may not be sold or amended without the prior approval of the CBIRC. Variable annuity products must be sold and disclosed in accordance with the requirements of the CIRC.

*Regulation of pension insurance.* A life insurance company or a pension insurance company, as approved by the CIRC, may engage in individual and group pension insurance business. The pension insurance terms and premium rates determined by an insurance company must be filed with or approved by the CBIRC in accordance with its regulatory provisions. Other CIRC regulations govern the sale and disclosure terms of pension insurance, as well as the investments by pension insurance funds.

*Regulation of enterprise annuity funds.* Subject to the approval of the PRC Ministry of Human Resources and Social Security, insurance companies may serve as the trustee, account manager and investment manager for enterprise annuity funds. China Life Pension has obtained qualifications to serve as investment manager, trustee and account manager of enterprise annuity fund.

*Regulation of health insurance.* Subject to approval by the CBIRC, life insurance companies may engage in health insurance business. Other insurance companies may, subject to approval by the CBIRC, engage in short-term health insurance business. Insurance companies engaged in health insurance business are required to submit an actuarial report or reserves assessment report for the preceding year in accordance with the relevant provisions of the CIRC. Insurance companies must also submit a pricing review report to the CBIRC before March 15 of each year regarding the short-term health insurance products. Beginning on January 1, 2016, insurance companies may sell health insurance products eligible for preferential individual income tax policies in accordance with the CIRC's relevant requirements in 31 pilot cities, including Beijing, Shanghai, Tianjin and Chongqing. The health insurance products may be offered to taxpayers who have reached the age of 16 but have not reached the statutory retirement age. The expenses incurred by individuals in the pilot cities for purchasing such health insurance products will be deductible from their individual income tax up to RMB 2,400 per year. From October 1, 2017, the survival benefits paid before the expiry of the policy term of a care insurance product may only be paid under the condition that the care required by the insured is caused by disability in activities of daily living as agreed in the insurance contract. Survival benefits paid before the expiry of the policy term of a disability income insurance product may only be paid under the condition that the loss of working ability of the insured is caused by a disease or an accidental injury as agreed in the insurance contract. All of the medical insurance premiums collected by insurance companies from their group medical insurance products must be used for the payment of insurance benefits under the medical insurance coverage, and the interest rates of products used for pricing must satisfy relevant regulatory requirements.

*Regulation of short-term accidental injury insurance.* Short-term accidental injury insurance is a type of insurance that uses death or disability caused by accidents or physical injuries stipulated in the insurance agreement as a condition for paying insurance proceeds. Short-term accidental injury insurance products must be developed and managed by the headquarters of the insurance company and filed with the CBIRC. Insurance companies must also submit a pricing review report to the CBIRC before March 15 of each year regarding the short-term accident insurance products they offer.

*Regulation of foreign exchange denominated insurance.* Insurance companies may seek approval from the CBIRC and the SAFE to engage in foreign exchange denominated insurance and reinsurance businesses, allowing them to offer products to non-Chinese policyholders or for non-Chinese beneficiaries, as well as policies covering accidents and illnesses which occur outside China, together with related reinsurance.



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*Regulation of supplementary major medical insurance.* As part of the Chinese government's overall medical insurance scheme, supplementary major medical insurance reimburses policyholders for a specified percentage of their medical expenses which are in excess of the maximum amounts covered by the basic social medical insurance as long as such medical expenses are caused by the diseases covered by the basic social medical insurance. The Chinese government has launched pilot supplementary major medical insurance programs in China. Local governments in these pilot areas use a portion of the basic medical insurance funds to purchase supplementary major medical insurance service from qualified insurance companies through a government tender. Insurance companies are required to apply to the CBIRC for the qualification to engage in such business. Supplementary major medical insurance products must be filed with the CBIRC.

**Regulation of investments**

*Permitted investments.* As a Chinese life insurance company, we are subject to restrictions under the PRC Insurance Law, the Measures for the Administration of the Utilization of Insurance Funds and other related rules and regulations on the asset categories and percentages in which we are permitted to invest. On January 23, 2014, the CIRC issued a notice classifying the assets that insurance companies may invest in five broad categories: current assets, fixed-income assets, equity assets, property assets and other financial assets. The notice further specifies the amounts in percentages that may be invested in each asset category, the percentages that correspond to concentration risks for investing in a single item and counter-party, and risk monitoring requirements and early warning mechanisms with respect to liquidity, financing scale and asset classes.

*Asset categories, investment and concentration risk regulatory percentages.* Currently, Chinese life insurance companies are allowed to invest their funds in the following asset categories, subject to the satisfaction of conditions prescribed for each form of investment.

Asset Category	Definition	Specific Items Included	Regulatory Percentage <sup>(1)</sup>	
			Investment Regulatory Percentage	Concentration Risk Regulatory Percentage
Current assets	Current assets refer to cash reserves, deposits payable on demand, and highly-liquid assets with shorter terms and less risk of changes in value that can be readily converted into a definite amount of cash.	Domestic items mainly include cash, current deposits, bank call deposits, insurance asset management products on the monetary market, and government bonds, quasi-government bonds and reverse repurchase agreements with residual maturities of one year or less. Overseas items mainly include bank current deposits, monetary market funds, overnight lending, commercial bills, bank bills, negotiable certificates of	None.	The total outstanding investments by an insurance company in a single legal person <sup>(2)</sup> must not exceed 20% of the total assets <sup>(3)</sup> of the insurance company as at the end of the last quarter (excluding, among others, investments in domestic central government bonds, quasi-government bonds, and equity investments in insurance enterprises with proprietary funds).

deposit, reverse repurchase agreements, short-term government bonds, government-backed bonds, bonds of international financial organizations, corporate bonds and convertible bonds with residual maturities of one year or less, as well as other tools or products recognized by the CBIRC in this category.

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<b>Asset Category</b>	<b>Definition</b>	<b>Specific Items Included</b>	<b>Regulatory Percentage<sup>(1)</sup></b>	
			<b>Investment Regulatory Percentage</b>	<b>Concentration Risk Regulatory Percentage</b>
Fixed-income assets	Fixed-income assets refer to assets characterized by a definite maturity date and payments of interest and principal according to pre-determined interest rates and payment methods, as well as other assets whose main value is dependent on the changes in the value of the aforesaid assets.	Domestic items mainly include term deposits, negotiated deposits, bond funds, fixed-income insurance asset management products, financial institution (company) bonds, non-financial institution (company) bonds and government bonds and quasi-government bonds with residual maturities of more than one year. Overseas items mainly include term deposits, structured deposits with bank guaranteed commitments, securities investment funds with fixed-income commitments, government bonds, government-backed bonds, bonds of international financial organizations, corporate bonds and convertible bonds with residual maturities of more than one year, as well as other tools or products recognized by the CBIRC in this category.	None.	<p>The book balance of investment by an insurance company in a single fixed-income asset<sup>(4)</sup> must not exceed 5% of the total assets of the insurance company as at the end of the last quarter, excluding investments in domestic central government bonds, quasi-government bonds and bank deposits.</p> <p>The total outstanding investment by an insurance company in a single legal person must not exceed 20% of the total assets of the insurance company as at the end of the last quarter (excluding, among others, investments in domestic central government bonds, quasi-government bonds and equity investments in insurance enterprises with proprietary funds).</p>



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Asset Category	Definition	Specific Items Included	Regulatory Percentage <sup>(1)</sup>	
			Investment Regulatory Percentage	Concentration Risk Regulatory Percentage
Equity assets	<p>Equity assets include both listed and unlisted equity assets.</p> <p>Listed equity assets refer to the ownership certificate representing the equity or other residual income rights of enterprises that are publicly listed and traded on stock exchanges or financial asset markets, as well as other assets whose main value depends on the changes in the value of the aforesaid assets.</p> <p>Unlisted equity assets refer to the equity or other residual income rights of enterprises that are established and registered but are not publicly listed on exchanges, as well as other assets whose main value depends on the changes in the value of the aforesaid assets.</p>	<p>Domestic items of listed equity assets mainly include shares<sup>(6)</sup>, equity funds, hybrid funds and equity insurance asset management products. Overseas items of listed equity assets mainly include ordinary shares, preferred shares, global depositary receipts, American depositary receipts and equity securities investment funds, as well as other tools or products recognized by the CBIRC in this category.</p> <p>Domestic and overseas items of unlisted equity assets mainly include equities of unlisted companies, equity investment funds (including venture capital funds), asset backed securities, insurance private equity funds and other related financial products, as well as other tools or products recognized by the CBIRC in this category.</p>	<p>The total book balance of investments by an insurance company in equity assets must not exceed 30%<sup>(5)</sup> of the total assets of the insurance company as at the end of the last quarter, and the book balance of significant equity investments must not be higher than the net assets of the insurance company as at the end of the last quarter. The book balance does not include the equity of any insurance enterprise as invested by the insurance company</p>	<p>The book balance of investments by an insurance company in a single equity asset must not exceed 5%<sup>(5)</sup> of the total assets of the insurance company as at the end of the last quarter, except as otherwise provided for acquisitions of listed companies and investments in shares of listed commercial banks.</p> <p>The total outstanding investments by an insurance company in a single legal person must not exceed 20% of the total assets of the insurance company as at the end of the last quarter (excluding, among others, investments in domestic central government bonds, quasi-government bonds, and equity investments in insurance enterprises with proprietary funds).</p>

with its  
proprietary  
funds.

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Asset Category	Definition	Specific Items Included	Regulatory Percentage <sup>(1)</sup>	
			Investment Regulatory Percentage	Concentration Risk Regulatory Percentage
Property assets	Property assets refer to purchased or invested land, structures and other land attachments, as well as other assets whose main value depends on the changes in the value of the aforesaid assets.	Domestic items mainly include real estate, infrastructure investment schemes, property investment schemes, property insurance asset management products and other property related financial products. Overseas items mainly include commercial properties, office properties and real estate investment trusts (REITs), as well as other tools or products recognized by the CBIRC in this category.	The total book balance of investments by an insurance company in property assets must not exceed 30% <sup>(5)</sup> of the total assets of the insurance company as at the end of the last quarter. The book balance does not include the properties purchased by the insurance company for its own use.	The book balance of investments by an insurance company in a single property asset must not exceed 5% <sup>(6)</sup> of the total assets of the insurance company as at the end of the last quarter, excluding properties purchased for its own use.  The total outstanding investments by an insurance company in a single legal person must not exceed 20% of the total assets of the insurance company as at the end of the last quarter (excluding, among others, investments in domestic central government bonds, quasi-government bonds and equity investments in insurance enterprises with proprietary funds).
			The book balance of the properties purchased by an insurance company for its own use must not exceed 50% of the net	

assets of the  
insurance  
company as  
at the end of  
the last  
quarter.

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Asset Category	Definition	Specific Items Included	Regulatory Percentage <sup>(1)</sup>	
			Investment Regulatory Percentage	Concentration Risk Regulatory Percentage
Other financial assets	Other financial assets refer to other kinds of assets that are distinctively different from all the foregoing categories of assets, including in terms of risk-return characteristics, liquidity and other characteristics, and cannot be classified into any of the foregoing categories.	Domestic items mainly include financial products by commercial banks, asset-backed securities offered by banking financial institutions, trust schemes of collective funds offered by trust companies, special asset management schemes offered by securities companies, project asset-backed schemes offered by insurance asset management companies and other insurance asset management products. Overseas items mainly include structured deposits without bank guaranteed commitments, as well as other tools or products recognized by the CBIRC in this category.	The total book balance of investments by an insurance company in other financial assets must not exceed 25% of the total assets of the insurance company as at the end of the last quarter.	The book balance of investments by an insurance company in a single other financial asset must not exceed 5% of the total assets of the insurance company as at the end of the last quarter, excluding purchase of insurance asset management products within its group.  The total outstanding investments by an insurance company in a single legal person must not exceed 20% of the total assets of the insurance company as at the end of the last quarter (excluding, among others, investments in domestic central government bonds, quasi-government bonds, and equity investments in insurance enterprises with proprietary funds).
Overseas investment	An insurance company is allowed to participate in overseas investments in 25 developed markets and 20 emerging markets in accordance with the relevant requirements of the CBIRC.	As referred to in the investable overseas items listed in each of the above asset categories.	The total outstanding overseas investments by an insurance company must not exceed 15% of the total assets of the insurance company as at the end of the last quarter.	The total outstanding investments by an insurance company in a single legal person must not exceed 20% of the total assets of the insurance company as at the end of the last quarter (excluding, among others, equity investments in insurance enterprises with proprietary funds).

- (1) When calculating the regulatory percentages for each asset category, an insurance company is required to combine its domestic and overseas investments in assets of the category on a consolidated basis.
- (2) A single legal person refers to a single fund-raising party with legal person status that establishes a direct creditor-debtor or shareholder relationship with an insurance company due to the latter's investment therein.
- (3) Total assets exclude the balance of the funds raised from bond repurchases and the amount of assets under independent accounts (including investment-linked life insurance products, variable annuity products, health care entrusted management products, pension insurance entrusted management products and investment-oriented non-life insurance products without pre-agreed returns).
- (4) Single asset investments refer to the investments in a single specific item under any category of investment assets. Where an investment product is issued in several phases, the book balance of the investment in a single asset is the sum of the investments in each phase.
- (5) An insurance institution that has already taken advantage of relevant policies to increase its holdings of blue-chip stocks must adjust the percentage of investments within two years from January 24, 2017 or within the time limit otherwise provided by relevant regulatory authorities until the percentage requirements under applicable regulatory requirements are met, i.e. the total book balance of investments by an insurance company in equity assets must not exceed 30% of the total assets of the insurance company as at the end of the last quarter, and the book balance of investments by an insurance company in a single equity asset must not exceed 5% of the total assets of the insurance company as at the end of the last quarter.

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(6) The CBIRC classifies investments in stocks into three categories: (i) ordinary stock investment, which refers to investment in less than 20% of the total share capital of a listed company without control over the company, (ii) material stock investment, which refers to investment in 20% or more of the total share capital of a listed company without control over the company, and (iii) acquisition of a listed company, which refers to becoming the controlling shareholder or actual controller of a listed company or otherwise having control over a listed company. There is no regulatory restriction for ordinary stock investment that does not involve an acquisition in the secondary market of more than 5% of the share capital of a listed company. For ordinary stock investment that involves an acquisition in the secondary market of more than 5% of the share capital of a listed company, information disclosure and reporting after the investment are required. For a material stock investment, filing with the regulatory authorities after the investment is required. For acquisition of a listed company, prior regulatory approval is required.

*Investment risk monitoring percentages.* To alleviate the risks associated with liquidity and high volatility of assets, an insurance company that experiences any of the following circumstances is required to report to the CBIRC in a timely manner, and the CBIRC will closely monitor the operation of the insurance company and disclose the related information to the public when necessary:

*Liquidity monitoring.* The total book balance of investments by an insurance company in current assets and government bonds and quasi-government bonds with residual maturities of one year or longer is lower than 5% of the total assets of the insurance company as at the end of the last quarter.

*Financing leverage monitoring.* The total outstanding borrowings (including inter-industry lending and bond repurchases) of an insurance company exceed 20% of the total assets of the insurance company as at the end of the last quarter.

*Monitoring of different categories of assets.* The total book balance of investments by an insurance company in domestic bonds with a long-term credit rating of AA or lower as rated by domestic credit rating agencies exceeds 10% of the total assets of the insurance company as at the end of the last quarter, or the total book balance of investments in equity assets exceeds 20% of the total assets of the insurance company as at the end of the last quarter, or the total book balance of investments in property assets exceeds 20% of the total assets of the insurance company as at the end of the last quarter, or the total book balance of investments in other financial assets exceeds 15% of the total assets of the insurance company as at the end of the last quarter, or the total book balance of outstanding overseas investments exceeds 10% of the total assets of the insurance company as at the end of the last quarter.

The book balance of a single inter-group insurance asset management product purchased by an insurance company exceeds 5% of the total assets of such insurance company as at the end of the last quarter.

*Risk Classification of Insurance Assets.* An insurance company must evaluate, at least once every half year, the quality of its insurance assets falling within the categories of fixed-income assets, equity assets and property assets, and divide such assets into five categories based on risk, namely pass, special mention, substandard, doubtful and loss with the last three categories collectively referred to as non-performing assets. Insurance assets that require risk classification include assets invested by the insurance company other than those subject to fair value measurement and changes to these assets are counted as gains or losses for the period in question or owners' equity. An insurance company must establish and improve risk classification systems and working processes for its assets and file reports

on such systems and processes with the CBIRC. In addition, an insurance company is required to semiannually report to the CBIRC the relevant information on the classification of its assets. An insurance company must also establish feasible plans for annual asset loss provisions and write-offs, as well as plans for the disposal of non-performing assets based on its actual operations and the quality of its assets. These plans must be approved by its board of directors and be filed with the CBIRC.

*Insurance private equity funds.* Insurance companies are allowed to establish private equity funds that comply with the requirements of the CBIRC, including growth funds, buyout funds, funds for strategic emerging industries, mezzanine funds, real estate funds, venture capital funds, and funds of funds (FoF) primarily investing in the aforementioned funds. Insurance companies must register the establishment of private equity funds with the CBIRC, and periodically submit quarterly reports, annual reports and other related information to the CBIRC during the term of private equity funds.

*Financial derivative products.* Apart from the regulations on the five asset categories described above, the CIRC has separately issued a series of rules governing the operation of domestic and overseas trading of derivative products by an insurance company. Financial derivative products are financial contracts whose value is determined by one or more types of underlying assets, indices or certain events. Typical financial derivative products include forwards, futures, options and swaps.

Insurance companies may participate in derivatives transactions only for the purpose of hedging or averting risks, and not for the purpose of speculation. Legitimate purposes include hedging or averting risks of current assets and liabilities, or the company as a whole, and hedging the risk of assets scheduled to be bought within the next month, or locking in future transaction prices.



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Assets scheduled to be bought , as used above, refers to assets that an insurance institution has decided to buy after going through its investment decision-making process. If the assets are not bought within one month of the decision date, or the plan was aborted within the aforementioned period, the insurance institution must terminate, liquidate or unwind the relevant derivative upon the expiration of the prescribed period or within five trading days of such decision.

For an insurer carrying out interest rate swaps, the notional principal may not exceed 10% of its fixed-income assets (including bank deposits, bonds and other debt instruments) as of the end of the previous quarter. The notional principal swapped with the same counterparty may not exceed 3% of such counterparty's fixed-income assets as of the end of the previous quarter.

***Solvency requirements******Solvency I requirements***

From March 2003 to December 31, 2015, we were required to calculate and report our solvency ratio, a standard developed by the CIRC to measure the financial soundness of life insurance companies to provide better policyholder protection under a system of corrective regulatory action. The standard for calculation of solvency ratio was further revised by the CIRC in September 2008. The solvency ratio of an insurance company under this standard was a measure of capital adequacy calculated by dividing the actual capital of the company (which is the admitted assets less admitted liabilities, determined in accordance with relevant CIRC rules) by the minimum capital it is required to meet.

Under this standard, the minimum capital of a life insurance company was the sum of its minimum capital for its short-term business (policies having a term of one year or less from the date of issuance) and the minimum capital for its long-term business (policies having a term of more than one year from the date of issuance). The standard for calculation of the minimum capital was further revised by the CIRC in January 2010. In January 2013, the CIRC issued the standard for calculation of the minimum capital for supplementary major medical insurance. In August 2013, the standard for calculation of the minimum capital with respect to the total sums at risk under long term life insurance policies was revised by the CIRC. In April 2014, the CIRC issued the standard for calculation of the minimum capital for high cash value products.

The minimum capital for a life insurance company's short-term business was the sum of the minimum capital for supplementary major medical insurance and the higher of:

18% of the portion of net premiums received in the most recent fiscal year net of business tax and other surcharges which is not in excess of RMB 100 million, plus 16% of the portion which is in excess of RMB 100 million; and

26% of the portion of the average annual claims payments during the most recent three fiscal years which is not in excess of RMB 70 million, plus 23% of the portion which is in excess of RMB 70 million.

The minimum capital for its long-term business was the sum of:

4% of the period-end reserves for insurance risks after unbundling of mixed insurance contracts;

4% (if the annual premium revenue from high cash value products is not more than the base amount) or 6% (if the annual premium revenue from high cash value products is more than the base amount) of the period-end reserves for insurance contracts of high cash value products;

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4% of the period-end reserves for other insurance contracts;

1% of the liabilities for other risks after unbundling of investment-linked insurance contracts and variable annuity insurance contracts;

4% (if the annual premium revenue from high cash value products is not more than the base amount) or 6% (if the annual premium revenue from high cash value products is more than the base amount) of the liabilities for other risks after unbundling of hybrid insurance contracts for high cash value products;

4% of the liabilities for other risks after unbundling of other mixed insurance contracts;

4% of the liabilities for insurance policies which do not pass the tests for significant insurance risks;

0.15% of the total sums at risk under life insurance contracts;

0.24% of the total sums at risk under health insurance contracts;

0.06% of the total sums at risk under accident insurance contracts; and

0.3% of the total sums at risk under other insurance contracts.

An insurance company with a solvency ratio below 100% could be subject to a range of regulatory actions by the CBIRC. The CBIRC may in such situations require the insurance company to, among other things, raise additional share capital, limit paying dividends on its shares, limit the remuneration and expense accounts of its directors and senior management, restrict its advertising activities, restrict the establishment of branch offices and business operations, cease any new business development, transfer its insurance business to others or seek reinsurance of its insurance obligations, sell its assets or restrict the acquisition of fixed assets, limit the channels for using its capital, change its management team or put the insurer into receivership.

*C-ROSS requirements*

On January 1, 2016, the CIRC implemented a new set of solvency regulations, the China Risk Oriented Solvency System, or C-ROSS, which replaced Solvency I.

C-ROSS adopts the internationally accepted three-pillar regulatory system while its regulatory concept, models, methods and parameters are based on Chinese insurance market conditions. The three pillars are:

Pillar I: quantitative capital requirements which aim to prevent quantifiable risks, and include quantifying capital requirements, criteria for assessment and recognition of actual assets and liabilities, capital

classification, stress tests and regulatory measures to be imposed on the insurers which fail to meet the quantitative capital requirements.

Pillar II: qualitative regulatory requirements which aim to prevent unquantifiable risks, and which include an integrated risk rating, requirements on assessment and management of risks by the insurers, and regulatory inspection and analysis and regulatory measures to be imposed on the insurers which fail to meet the qualitative regulatory requirements.

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Pillar III: market discipline mechanisms which aim to involve, through sufficient information disclosure systems and other means, market players including the public, customers, rating agencies and industry analysts by introducing mechanisms through which they will play an important role in the solvency supervision process.

Under C-ROSS, the three indicators to measure the solvency ratio of an insurer include the following:

the core solvency adequacy ratio, which is calculated by dividing the core capital of an insurer by the minimum capital it is required to meet;

the comprehensive solvency adequacy ratio, which is calculated by dividing the sum of core capital and supplementary capital of an insurer by the minimum capital it is required to meet; and

an integrated risk rating, which is a comprehensive rating system that the CIRC uses to evaluate an insurer's overall solvency based on both quantitative assessments on quantifiable risks in Pillar I and qualitative risk assessments on unquantifiable risks in Pillar II.

The core solvency adequacy ratio and comprehensive solvency adequacy ratio of an insurer reflect the capital adequacy for quantifiable risks of such insurer, and the integrated risk rating reflects the overall solvency risks of such insurer.

The actual capital of an insurer is admitted assets less admitted liabilities, determined in accordance with relevant rules under C-ROSS. The actual capital is classified into core capital and supplementary capital, depending on the loss absorbing capacity and features of such capital. The minimum capital of an insurer is the capital that the CIRC requires it to meet.

Under C-ROSS, solvency risks are classified into inherent risk and control risk. Inherent risk refers to the risks that are unavoidable in the writing of insurance business. Control risk refers to the risks of failure to identify, evaluate and manage control inherent risk timely due to imperfections in the internal management and control process. Inherent risk includes both quantifiable risks and unquantifiable risks.

Quantifiable risks include the following:

Insurance risk, which includes life insurance risk and non-life insurance risk;

Market risk, which includes interest rate risk, equity price risk, property price risk, overseas assets price risk and foreign exchange risk; and

Credit risk, which includes spread risk and default risk.

Unquantifiable risks include the following:

Operation risk;

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Reputation risk;

Strategy risk; and

Liquidity risk.

The minimum capital requirement for quantifiable risks is determined using a value at risk approach. The minimum capital requirement for control risk is determined based on solvency aligned risk management requirements and assessment, or SARMRA.

The CIRC comprehensively evaluates the inherent risk and control risk of an insurer and determines an integrated risk rating of solvency risks. Insurers will then be classified into the following four supervision categories:

Category A: an insurer's solvency adequacy ratio meets the CIRC requirement, and its risk level is very low for the four unquantifiable risks;

Category B: an insurer's solvency adequacy ratio meets the CIRC requirement, and its risk level is low for the four unquantifiable risks;

Category C: an insurer's solvency adequacy ratio does not meet the CIRC requirement, or an insurer's solvency adequacy ratio meets the CIRC requirement but its risk level is high for one or more of the four unquantifiable risks; or

Category D: an insurer's solvency adequacy ratio does not meet the CIRC requirement, or an insurer's solvency adequacy ratio meets the CIRC requirement but its risk level is serious for one or more of the four unquantifiable risks.

The CIRC applies different regulatory policies to each of the four supervision categories with respect to, among others, market access, product management, use of insurance funds and on-site inspection.

Category B insurer may be subject to a range of regulatory actions by the CBIRC, including, among others, risk alert, supervisory conversation, rectification of identified problems within a specified deadline, on-site inspection or request to submit and implement plans to prevent insolvency or improve risk management.

If a Category C insurer does not meet the solvency adequacy ratio required by the CBIRC, the CBIRC may in such situations require the insurer to, in addition to the regulatory actions for category B, adjust its business structure, restrict business expansion and increase in assets, restrict the establishment of branch offices, restrict its commercial advertising activities, limit its business scope, transfer its insurance business to others or seek reinsurance of its insurance obligations, adjust investment portfolios or counterparties, limit its channels or percentages of investment, raise additional share capital, limit paying dividends on its shares, limit the remuneration of its directors and senior management or change its management team. If an insurer of category C meets the solvency adequacy ratio as required by the CBIRC but its risk level is high for one or more of the four unquantifiable risks, the CBIRC may take specific regulatory actions that target on the respective issues of each insurer.

For a Category D insurer the CBIRC may, in addition to the regulatory actions for category C, require such insurer to rectify or cease part or all new business, put the insurer into receivership or take other regulatory actions as determined by the CBIRC.



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Based on the latest comprehensive rating results regarding the solvency risks of insurers released by the CBIRC for the fourth quarter of 2018, we had been classified as a Category A insurer.

Our core solvency adequacy ratio as of December 31, 2018 was 250.55%, and our comprehensive solvency adequacy ratio as of December 31, 2018 was 250.56%.

***Statutory deposits***

Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with at least two qualified commercial banks, each of which must, among other things, have net assets of no less than RMB 20 billion as of the end of the previous year and have no affiliated relationship with the insurance company. These funds may not be used for any purpose other than to pay off debts during a liquidation proceeding. Insurance companies must choose more than two qualified commercial banks as statutory deposit banks and the statutory deposit period must be for a minimum of one year. In addition, when an insurance company deposits the statutory funds for a business opening or capital increase, renews the deposit upon maturity or transfers the deposit to another bank, changes the nature of the deposit upon maturity or withdraws the deposit before maturity, the insurance company must file with the CBIRC within 10 business days after these funds are duly deposited.

***Statutory insurance fund***

Chinese life insurance companies are required to contribute to a statutory insurance fund 0.15% of the premiums for life insurance with guaranteed earnings and 0.05% of the premiums for life insurance without guaranteed benefits; 0.8% of insurance premiums for short-term health insurance and 0.15% of insurance premiums for long-term health insurance; 0.8% of the premiums for non-investment accident insurance, 0.08% of the premiums for investment accident insurance with guaranteed benefits, and 0.05% of premiums for investment accident insurance without guaranteed benefits. Contributions are not required once the balance of the statutory insurance fund of a life insurance company reaches 1% of the company's total assets.

***Statutory reinsurance***

Insurance companies are required to reinsure, for any single risk, the excess of the maximum potential liability over an amount equal to 10% of the sum of paid-in capital and capital reserves.

***Actuaries***

Insurance companies are required to employ actuarial professionals and establish a system for actuarial reporting.

***Regulation of corporate governance***

***Directors and senior management qualification and remuneration management requirements.*** Directors, supervisors and senior management of an insurance company are subject to qualification requirements implemented by the CBIRC. An insurance company must have at least three independent directors and the number of independent directors shall be no less than one third of the number of all the directors. In addition, if any of the shareholders of an insurance company holds more than 50% of the registered capital or equity of the company, then the number of independent directors must be no less than one half of the number of all the directors. The cash benefits, subsidies and allowances that an insurance company pays to its directors, supervisors and senior management annually must not exceed 10% of their respective base remuneration. Where an insurance company has inadequate solvency, the CBIRC will place restrictions on the remuneration of its directors, supervisors and senior management in accordance with

relevant regulatory rules on solvency. The senior management of an insurance company receive in-office audits once every three years. If any member of the senior management leaves due to a job change, promotion or any other reasons, a departure audit must be conducted.

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*Risk management.* Insurance companies must establish and adopt procedures, organizational structures, systems and measures to identify, evaluate and control the risks involved in its insurance operation. Insurance companies must report to the regulatory authorities in a timely manner any major risks, and submit an annual risk management report reviewed by the board of directors. In addition, as required by the CBIRC, an insurance company that conducts certain activities, such as direct share investments, equity investments, real estate investments, investments in unsecured bonds, development of infrastructure investment schemes and real estate investment schemes and use of derivatives, must have at least two qualified risk officers. Where an insurance company decides to change a risk officer, impose disciplinary sanctions on a risk officer, dismiss a risk officer or terminate the employment of a risk officer, the insurance company must replace such risk officer within 10 business days from the date of the decision, and report to the CBIRC the reasons for such replacement.

*Asset-liability management.* On March 1, 2018, the CIRC issued a set of specific technical criteria and rules on the quantitative and competency assessments on insurers' asset-liability management, as well as requirements on preparing and submitting asset-liability management reports. The new rules have been implemented on a pilot basis since their date of issue. Under the new rules, insurance companies must file quarterly reports on asset-liability management with the CBIRC within 30 days after the end of each quarter, and file annual reports on asset-liability management with the CBIRC no later than May 31 of each year. Both the quarterly reports and the annual reports must be prepared in accordance with specified guidelines. In addition, insurance companies must complete asset-liability management competency assessments and file such assessments with the CBIRC by August 31, 2018. During the pilot period, the CBIRC will review the reports and assessment results submitted by the insurers but it will not take regulatory action.

*Compliance management.* Insurance companies must prevent, identify, evaluate, report and manage compliance risks by taking measures such as setting up a compliance department, formulating and implementing compliance policies (which are required to be filed with the CBIRC), exercising compliance monitoring and providing compliance trainings, so as to ensure compliance by the company, its staff and sales agents with the relevant laws and regulations, rules of regulatory authorities, industrial self-regulatory rules, internal management systems and codes of ethics. An annual compliance report must be submitted to the CBIRC by April 30 each year. Each insurance company is required by the CBIRC to appoint a compliance officer and establish a compliance management department in its head office. Starting from June 1, 2016, where the proposed compliance head of an insurance company for whom the insurance company has applied for CBIRC approval of post-holding qualifications also serves in other senior management positions, the insurance company must submit a statement that the proposed compliance head will not also manage a business or financial department during his or her term of office. Beginning from July 1, 2017, the headquarter and provincial branches of an insurance company must each set up a compliance management department. Where the proposed compliance head of an insurance company for whom the insurance company has applied for approval of post-holding qualifications is to be served by a senior management person other than the general manager, the insurance company must submit a statement that the proposed compliance head will not also manage departments that may be in conflict with his or her responsibilities for compliance management, such as those for business, finance, fund use and internal audit during his or her term of office. As of the date of this annual report, we have set up a compliance management department, established compliance standards and appointed a compliance officer whose qualification has been approved by the CBIRC.

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*Related party transactions.* Insurance companies are required to establish a related party transaction control committee or designate their audit committee to be responsible for identifying related parties, managing, reviewing and approving related party transactions and controlling risks, and must update the records of related parties at least once every six months. According to applicable CIRC regulations, related party transactions between an insurance company and any of its related parties are classified as either material related party transactions or ordinary related party transactions. The term material related party transactions refers to any single transaction between an insurance company and a related party in which the trading volume accounts for 1% or more of the insurance company's net assets as of the end of the previous year or has a value of more than RMB 30 million, or transactions between an insurance company and a related party in which the accumulative trading volume within one fiscal year accounts for 5% or more of the insurance company's net assets as of the end of the previous year. The term ordinary related party transactions refers to all related party transactions other than material related party transactions. A material related party transaction is subject to approval by the insurer's board of directors (the related board resolutions must be adopted by at least two-thirds of all non-affiliated directors, except for any related party transactions between an insurance group (holding) company and its insurance subsidiaries, as well as between and among its insurance subsidiaries themselves) or shareholders, while an ordinary related party transaction is subject to review in accordance with the internal authorization process of the insurance company. An insurance company is required to maintain a system to manage related party transactions and file them with the CBIRC. Companies must take effective measures to prevent their shareholders, directors, supervisors, senior management and other related parties from taking advantage of their positions and acting against the interests of the company or the insured through related party transactions. In addition, an insurance company is required, within 10 business days after the conclusion of the transaction agreements (or within 10 business days from the occurrence of the relevant event if no transaction agreement is concluded), to report to the CBIRC and make an announcement on its website and the website of the Insurance Association of China if it conducts certain related party transactions, including, among others, transactions relating to investments of insurance funds and related party transactions that involve transfers of assets or interests above a specified amount. In respect of any information that could not be publicly disclosed as it involves state secrets or due to other reasons, the insurance company must, at least five business days prior to the prescribed date of information disclosure, report this fact to the CBIRC and refrain from disclosing such information as required by law.

*Internal audit.* Insurance companies are required to establish an independent department for internal audit purposes, staffed with sufficient internal audit personnel (the number of full-time internal audit personnel generally must not be less than 5% of the total number of the company's employees), establish an audit committee, and designate an audit controller whose appointment and replacement must be filed with the CBIRC. An internal audit report must be submitted to the CBIRC by April 30 of each year and any major risk identified during the internal audit process must be reported to the CBIRC in a timely manner.

*Reporting and disclosure requirements.* An insurance company must disclose to the public various information regarding its operations and business, including financial and accounting information, information on its insurance liabilities and reserves, risk management, its insurance products, solvency, material related transactions and major events, as well as other information required by the CBIRC. An insurance company must disclose this information on its website, and by April 30 of each year, an insurance company must also disclose an annual report on its website and in media designated by the CBIRC. In addition, within 10 business days after the occurrence of a material related party transaction or other material events, an insurance company must disclose information about such transactions and events on its website.

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*Internal control assessment.* In January 2006, the CIRC issued tentative rules on internal control assessment of life insurance companies to facilitate and supervise the companies and improve their awareness of, and strengthen their controls over, matters such as corporate governance in management, internal controls and regulatory compliance in operations and risk management. Life insurance companies are required to submit to the CBIRC an internal control assessment form and an annual internal control assessment report each year. The CBIRC assesses the internal control of life insurance companies at least every three years, covering at least one third of all life insurance companies each year. Under the Basic Guidelines for Internal Controls in Insurance Companies issued by the CIRC in August 2010 and the Measures for Compliance Management of Insurance Companies issued by the CIRC in December 2016, which are effective from July 1, 2017, an insurance company must establish an internal control evaluation system in various operations including sales, operation, basic management and fund use, and by April 30 of each year, submit to the CBIRC an evaluation report on its internal control. In addition, where the CBIRC deems necessary, the CBIRC may collect information reflecting the corporate governance of insurance companies, establish an information database of insurance companies' governance, and conduct governance ratings for insurance companies through on-site or off-site investigations, media reports, assessments of independent rating agencies and public disclosure by insurance companies. The CBIRC may take regulatory measures against insurance companies based on the rating results, including interviews, a risk warning in writing and rectifications within a specified period.

*Custody of insurance assets.* In October 2014, the CIRC and CBRC jointly issued a notice on regulating the insurance assets custody business. Under this notice, insurance companies are required to establish and improve mechanisms for the custody of insurance assets, select qualified commercial banks and other professional institutions, place various assets generated by the investment of insurance funds under third-party custody and oversight, and ensure that the revenue and expenditure concerning the use of insurance funds (except for expenditure of daily expenses) are primarily processed through the custody fund accounts. Insurance companies are required to submit implementing plans relating to the custody of their insurance assets to the CBIRC.

***Market conduct***

Insurance companies are required to take steps to ensure that sales promotional materials used by their sales representatives and agents are objective, true and correct, with no material omissions or misleading information, contain no forecasts of benefits that are not guaranteed under the insurance or annuity product and do not exaggerate the benefits provided under the insurance or annuity product. The sales promotional materials must also highlight in an appropriate fashion any exclusions of coverage or liability in their products, as well as terms providing for policy or annuity surrenders and return of premiums. If any insurance policy or consulting service is provided through telephone sales, requisite office space, staff, facilities and adequate supervising must be furnished. In addition, the telephone sale must be conducted directly by the insurance company, and the terms and rates of the premiums of the insurance policy and geographic business area must be submitted to the CBIRC for approval.

Insurance companies which conduct marketing and promotional activities through we-media platforms (such as websites, apps, blogs, microblogs, corporate accounts and WeChat) are required to establish a relevant management system. The management criteria of such system should be no less strict than the criteria provided in existing regulations in relation to the insurance promotional materials for off-line channels.

Insurance companies are subject to extensive regulation against any anti-competitive behavior or unfair dealing conduct. They may not pay insurance agents, the insured or the beneficiary any rebates or other illegal payments, nor may they pay their agents commissions over and above the industry norm.



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Insurance companies are required to establish internal rules and procedures to protect the personal data of policyholders and insureds. Insurance companies are prohibited from illegal obtaining, using or selling of the personal data of policyholders and insureds.

Insurance companies are also required to comply with anti-money laundering regulations and establish internal operational procedures and anti-money laundering control systems. No insurance activity can be conducted for the purpose of illegal fundraising.

***Regulation of issuance of subordinated debt***

Beginning in September 2004, insurance companies that meet a series of qualification tests and are approved by the CBIRC may issue subordinated debt with a fixed term of at least five years to certain qualified Chinese legal persons and foreign investors. The audited net asset value of the issuer must be at least RMB 500 million as of the end of the prior year and the total amount of unpaid debt at any given point after the issuance, including both principal and interest, must not exceed the issuer's net asset value as of the end of the prior year. Proceeds from the issuance of subordinated debt may be recorded as supplementary capital of an insurance company, provided that the total amount that has been recorded as supplementary capital may not exceed 50% of the net assets of an insurance company. Proceeds from the issuance of subordinated debt may not be used to offset daily operating losses of an insurance company. The issuer must comply with certain disclosure obligations both at the time of the issuance and during the term of the debt. The issuer may repay the debt only if its solvency ratio would remain at least 100% after the repayment of both principal and the interest. Since March 15, 2013, a qualified insurance group (or holding) company is also allowed to issue subordinated debt in accordance with the relevant requirements of the CIRC.

Beginning in May 2012, publicly listed insurance companies that meet a series of qualification tests and are approved by the CBIRC may issue subordinated convertible bonds. Subordinated convertible bonds refer to bonds issued by an insurance company in accordance with statutory procedures that satisfy the following conditions: the bonds have a maturity of five years or longer; the principal and interest of the bonds shall be repaid and paid after insurance policy liabilities and other general liabilities in the event of bankruptcy liquidation; and the bonds can be converted into shares of the insurance company in accordance with the agreed conditions within a certain period of time. An insurance company must submit an issuance application to the relevant securities regulatory authority within six months after the CBIRC has approved the issuance of subordinated convertible bonds. An issuer must report the issuance information to the CBIRC within ten working days after completion of the issuance of subordinated convertible bonds.

***Regulation of merger and acquisition of insurance companies***

An insurance company may apply to the CBIRC for approval of the acquisition of control of another insurance company through the acquisition of equity or shares of the other insurance company. Except under special circumstances, such as a transfer between affiliated parties under common control or risk disposition, the acquiring party is not allowed to transfer the acquired equity or shares in the target insurance company within five years from the completion of the acquisition. Upon approval by the CBIRC, the acquiring party may control two insurance companies engaging in the same type of business after the completion of acquisition. In addition, an insurance company may apply to the CBIRC for approval for the merger with other insurance companies by absorption or establishing a new insurance company. The business scope of the insurance company subsequent to the merger is subject to the re-approval by the CBIRC. An insurance company must, during the twelve-month period after the completion of merger or acquisition, report the following information in writing to the CBIRC within the first 30 days of each quarter: making investments in and purchases or sales of material assets, related party transactions, business transfers, notifications to insurance consumers, public announcements, changes of senior management personnel and

employee placements.



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**Table of Contents*****Regulation of establishment and management of non-insurance subsidiaries***

An insurance company may apply to the CBIRC for approval for the direct or indirect establishment of domestic or overseas non-insurance subsidiaries (excluding insurance companies, insurance asset management institutions, dedicated insurance agencies, insurance brokerage institutions and insurance assessment institutions), primarily including: (1) financial institutions that engage in non-insurance financial services; (2) service firms that provide various supporting services to insurance companies; (3) investment platform companies with a strong connection with an insurance business, project companies established for managing the investment of insurance funds in real properties, and companies formed as a result of the investment of insurance funds in the upstream and downstream industry chain of an insurance business; and (4) other types of companies. Unless otherwise prescribed by laws, administrative regulations and the CBIRC, an insurance company is not allowed to guarantee the debts of its non-insurance subsidiaries, or lend funds to its non-insurance subsidiaries. An insurance company must build firewalls between its non-insurance subsidiaries in terms of personnel, capital, business and information to prevent risks spreading from its non-insurance subsidiaries. An insurance company must also cause its non-insurance subsidiaries to establish and improve their respective information disclosure systems, and submit to the CBIRC an annual report on its non-insurance subsidiaries by April 30 of each year.

***Regulation of establishment of overseas insurance institutions***

An insurance company may apply to the CBIRC for approval for the establishment of overseas branches, overseas insurance companies and overseas insurance intermediaries, or the acquisition of overseas insurance companies or intermediaries. In order to submit such an application, an insurance company must have an operating history of no less than two years, total assets of no less than RMB 5 billion as at the end of the prior year and foreign exchange funds of no less than US\$ 15 million or its equivalent in other freely convertible currencies as at the end of the preceding year. The applicant insurance company must also comply with applicable solvency, risk management and other requirements as stipulated by the CBIRC.

***Compliance with regulatory requirements***

Our management confirms that we have complied in all material respects with all applicable regulatory requirements set out above.

***Regulation of Foreign-Invested Insurance Companies***

China acceded to the WTO on December 11, 2001. As a result of China's commitments in connection with the accession, the Chinese insurance market is gradually opening up to foreign insurers and insurance-related service providers. A foreign life insurer with total assets of no less than US\$ 5,000 million and 30 years of industry experience in any WTO member country, and which has had a representative office for two years in China, is permitted to form a life insurance joint venture with a domestic partner of its choice. Foreign life insurers may own up to one-half of the joint venture. In addition, the geographic limitation on foreign life insurers, which were permitted to operate only in specified cities, has been lifted since December 11, 2004. Accordingly, foreign life insurers have been permitted to provide group life insurance, health insurance and annuity and other pension-like products since December 11, 2004. In addition, since December 11, 2006, foreign insurance brokers have been permitted to set up wholly owned subsidiaries in China.

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Foreign-invested insurance companies, including Sino-foreign equity joint ventures, wholly foreign-owned insurance companies and branches of foreign insurance companies, are generally regulated in the same manner as domestic insurance companies. Without the approval of the CBIRC, foreign-invested insurance companies may not engage in asset purchases and sales or other transactions with their affiliates, but may engage in outward and inward reinsurance with their affiliates. In addition, where the foreign-invested insurance company is a branch of a foreign insurance company, it is required to notify the CBIRC of fundamental events relating to the foreign insurance company within ten days following the occurrence of the event. Reportable events include: (1) a change of name, senior management or jurisdiction of incorporation of the foreign insurance company, (2) a change in the foreign insurance company's share capital, (3) a change in any person beneficially owning 10% or more of the foreign insurance company's shares, (4) a change in business scope, (5) the imposition of administrative sanctions by any applicable regulatory authority, (6) a material loss incurred by the foreign insurance company, (7) a spin-off, merger, dissolution, revocation of corporate franchise or bankruptcy involving the foreign insurance company and (8) other events specified by the CBIRC. If the foreign insurance company is dissolved, or its corporate franchise is revoked or it is declared bankrupt, the Chinese branch of the foreign insurance company will be prohibited from conducting any new business.

Beginning in June 2012, the CIRC has delegated certain authorities with respect to foreign-invested insurance companies to its provincial and local branch offices: approving the change of place of business of branches and subsidiaries of foreign-invested insurance companies; approving the establishment of subsidiary agencies of foreign-invested insurance companies below the branch-office level; approving the opening of subsidiary agencies of foreign-invested insurance companies below the branch-office level; and approving the qualification of senior management personnel of subsidiary agencies of foreign-invested insurance companies below the branch-office level.

### ***Regulation of Insurance Asset Management Companies***

An insurance asset management company is a limited liability company or joint stock company that manages insurance funds on behalf of others. Insurance asset management companies are regulated by the CBIRC.

#### ***Minimum capital requirements***

The registered capital of an insurance asset management company may not be lower than RMB 100 million or the equivalent amount of other freely convertible currencies.

#### ***Business operations***

An insurance asset management company may conduct the following businesses: (1) managing funds in Renminbi or other foreign currencies entrusted to it, including insurance funds, funds of pension, annuity and housing provident institutions, as well as funds of other qualified investors that are capable of identifying and undertaking corresponding risks; (2) managing and operating its own insurance funds in Renminbi or foreign currencies; (3) as trustee, carrying out asset management business appointed by and on behalf of the trustor, or developing asset management products for the interest of the beneficiary or for specific purposes and carrying out asset management business; (4) applying to relevant financial regulatory authorities to carry out publicly-raised asset management business in accordance with the law, provided that relevant conditions are met; (5) as approved by the CBIRC, issuing relevant asset management products to domestic insurance groups or holding companies, insurance companies, insurance asset management companies and other qualified investors capable of identifying and bearing the applicable risk; and (6) other businesses approved by the CBIRC or other departments of the State Council.



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The investments of the insurance funds by insurance asset management companies are subject to the same requirements and limitations applicable to the investments by the insurance companies themselves. With the regulatory expansion of insurance company investment channels, the investment channels of insurance asset management companies over their own funds have been expanded as well to cover subordinated bonds issued by banks and insurance companies, bank subordinated bonds and stock investments.

Insurance asset management companies are also subject to the governance of regulations which generally apply to the asset management businesses of financial institutions. Starting from April 27, 2018, the asset management businesses of financial institutions are subject to new supervision rules, which apply to the participation of insurance funds in publicly-offered funds, private equity funds, trust schemes, equity investment schemes, debt investment schemes and portfolio insurance asset management products through the asset management products of insurance asset management companies.

In connection with the funds being managed by an insurance asset management company, a custodian is required to be appointed. The custodian must be an independent commercial bank or financial institution satisfying applicable CIRC requirements.

### ***Shareholding restrictions***

At least 75% of the shares of an insurance asset management company must be owned by domestic insurance companies, and at least one of the shareholders of an insurance asset management company must be an insurance company or insurance holding company satisfying specified requirements.

### ***Investment risk control***

Both insurance companies and asset management companies must establish structures, arrangements and measures to recognize, assess, manage and control investment risks. Members of senior management may not be responsible for the management of departments in charge of investment decisions, investment transactions and risk controls at the same time. Branches of insurance companies may not manage insurance funds. Insurance asset management companies must arrange for separate investment managers to manage their own funds and the insurance funds from other insurance companies, as well as insurance funds from an insurance company that are of a different nature.

### ***Major emergency response management***

An insurance asset management company is required to establish a monitoring and precaution mechanism for major emergencies.

### ***Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries***

Insurance agents are business entities or individuals which or who act on behalf of an insurance company in respect of insurance matters. An insurance company is responsible for the acts of its agents when the acts are within the scope of their agency. Licensed insurance agencies fall into two groups: dedicated agencies and non-dedicated agencies.

A dedicated agency is a company (and its branches) organized under the PRC company law whose principal business is to act as an agent of insurance companies. Dedicated agencies are subject to minimum capital and other requirements, and their business is generally limited to insurance-related activities.



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A non-dedicated agency is a business entity whose principal business is other than as an insurance agency. To receive a license, the agency business must have a direct relationship with its principal business, which the CIRC has interpreted as permitting commercial banks to act as non-dedicated insurance agencies. Sales representatives of insurance companies are prohibited from selling insurance products at commercial bank outlets. The bancassurance management personnel of insurance companies are responsible for providing services (including training and the exchange of documents) to commercial banks and assisting commercial banks to provide related customer services, such as the payment of maturity benefits and handling of renewal fee after selling insurance products.

Prior to August 3, 2015, individual insurance agents, representatives of insurance agencies and insurance brokers were required to obtain qualification certificates issued by the CIRC. Under such CIRC regulations, we were subject to sanctions if we retained exclusive agents without CIRC qualification certificates, and policyholders who bought insurance policies through our unqualified agents were allowed to cancel the policies under some circumstances. On August 3, 2015, the CIRC issued a Notice on the Administration of Insurance Intermediary Personnel, effective on the same day. Under the new regulations, the CIRC canceled the requirements on qualification certificates or practice certificates for individual insurance agents, representatives of insurance agencies and insurance brokers, with the effect that insurance companies are now only required to complete registration for their individual insurance agents in the insurance intermediary regulatory information system maintained by the CIRC. In addition, insurance companies are required to take adequate measures to ensure the good conduct and professional competence of their individual insurance agents, representatives of insurance agencies and insurance brokers.

All insurance agencies and agents are required to enter into agency agreements that specify the duration of the agency; the amount of the agency fee and the method of payment; the scope of the agency, including the insurance products to be marketed; and other relevant matters. Absent specific CBIRC approval, insurance agents are prohibited from signing insurance and annuity products on behalf of the insurance companies they represent. None of our agents is authorized to sign insurance policies or annuity contracts for us.

Insurance agencies are required to open special accounts for the handling of funds that they hold or collect for the insurance companies they represent. They may not engage in the following activities: dealing with unauthorized insurers or insurance intermediaries, engaging in activities beyond their authorized business scope or geographical area, causing injury to the rights of the insurance companies they represent, spreading rumors or otherwise injuring the reputation of others in the insurance industry, misappropriating the funds of the insurance companies they represent, defrauding insurance customers through false or misleading representations or material omissions, using undue influence to induce insurance customers to purchase insurance, or defrauding the insurance companies they represent through collusion with the insured or the insurance beneficiary. In addition, dedicated insurance agencies are subject to various reporting requirements, including submission of annual financial reports, and are subject to supervision and examination by the CBIRC.

Insurance brokers who represent individuals and companies purchasing insurance and other intermediaries are subject to similar regulatory requirements regarding their activities. Among other things, they are subject to supervision and examination by the CBIRC, and fundamental corporate changes must be approved by the CBIRC. Only companies organized under the PRC company law and meeting requirements set by the CBIRC are authorized to act as insurance brokers. Insurance brokers are required to comply with standards prescribed by the CBIRC. Insurance brokerage agencies must provide training to their brokerage personnel regarding insurance laws and provide education on ethics and other matters.

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**Table of Contents*****Regulation of Internet Insurance Businesses***

Insurance companies and intermediaries are allowed to carry out an Internet-based insurance business, including sales, underwriting, claims settlement, policy surrender, complaint handling, customer services and other insurance business activities, through proprietary network platforms or third-party network platforms that meet the relevant requirements prescribed by the CBIRC. Insurance companies and intermediaries that carry out an internet-based insurance business must set up an information disclosure column on their official websites, disclosing the related website names and addresses, internet insurance products, existing branches, customer services and ways for consumers to make complaints. The CBIRC is required to carry out regulation and on-site inspection of an internet insurance business, and may take rectification measures against insurance companies and intermediaries that conduct operations in violation of the regulations. Insurance companies engaging in internet-based guaranteed insurance businesses, which use internet credit lending platforms as intermediaries to provide both the borrowers (i.e. insurance applicants) and the lenders (i.e. the insured) on such platforms with guaranteed insurance services, must comply with regulatory requirements on solvency, verify the qualifications of insurance applicants in a prudent manner, clarify the information disclosure obligations of the internet platforms, enhance product management and adhere to other compliance requirements stipulated by the CBIRC.

***No.2 Interpretation of Accounting Standard for Business Enterprises***

On August 7, 2008, the MOF issued the No.2 Interpretation of Accounting Standard for Business Enterprises, requiring listed companies which issue both H shares and A shares to adopt consistent accounting policies to recognize, calculate and report a particular transaction in their H share financial statements and A share financial statements, except for certain differences in relation to the reversal of impairment losses of long-term assets and disclosures in relation to related party transactions.

On January 5, 2009, the CIRC issued the Notification on the Implementation of the No.2 Interpretation of Accounting Standards for Business Enterprises in the Insurance Sector (No.1 [2009] of CIRC), which requires insurance companies to make appropriate changes to their accounting policies that cause differences between onshore and offshore financial statements when preparing their 2009 annual financial statements, such that the same accounting policies and estimates will apply to a particular transaction.

On December 22, 2009, the MOF issued the Notification on the Promulgation of the Regulations regarding the Accounting Treatment of Insurance Contracts, which regulates issues relating to, among other things, the unbundling of mixed insurance contracts, tests for significant insurance risks and the calculation of reserves for insurance contracts, and requires insurance companies to comply with these requirements beginning with the preparation of their financial statements for the year ended December 31, 2009. The accounting treatment of any transaction item adopted in previous year which differs from those set out in the MOF's regulations must be retrospectively adjusted, unless any such adjustment is not practicable under the circumstances.

***Implementation of VAT***

Following the decision of the PRC State Council, the Value Added Tax, or VAT, has applied to the financial and insurance sector since May 1, 2016. Therefore, our primary business has been subject to 6% VAT from May 1, 2016 instead of the 5% business tax, or BT, which previously had applied to our business. The implementation of VAT has had an effect on our business and operations, including, among other things, our product development and pricing, finance management, management of receipts and IT systems. However, our management believes that the implementation of VAT has not had any known material impact on our overall operating results and financial conditions.





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***Administrative Penalty by the PBOC***

In July 2018, the PBOC imposed a fine of RMB 700,000 on us for non-compliance with anti-money laundering laws and regulations during the period from July 1, 2015 to June 30, 2016. The non-compliance issues identified by the PBOC include failure to preserve clients' identity information and transaction records and failure to submit reports on transactions of large payments and suspicious transactions to the PBOC. We have taken corrective measures and improved our anti-money laundering system by refining the process for identifying customers' data, retaining transaction records and reporting large payment transactions and suspicious transactions. The fine imposed by the PBOC does not have a material impact on the business operations and financial results of our company.

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**C. ORGANIZATIONAL STRUCTURE**

**The following is our simplified corporate structure as of the date of this annual report:**

- (1) Wholly owned by CLIC
- (2) Formerly known as China Life Asset Management (Hong Kong) Company Limited

**Table of Contents****List of Significant Subsidiaries**

Name of Subsidiary	Jurisdiction of Incorporation	Proportion of Ownership Interest
		Owned by China Life
	The People's Republic of China	60%
China Life Asset Management Company Limited		(directly)
	Hong Kong	50% <sup>(2)</sup>
China Life Franklin Asset Management Company Limited <sup>(1)</sup>		(indirectly through affiliate)
	The People's Republic of China	74.27% <sup>(3)</sup>
China Life Pension Company Limited		(directly and indirectly through affiliate)
&#22522;&#37329;	The People's Republic of China	85.03% <sup>(4)</sup>
China Life AMP Asset Management Co., Ltd.		(indirectly through affiliate)
&#36130;	The People's Republic of China	100% <sup>(5)</sup>
China Life Wealth Management Company Limited		(indirectly through affiliate)

(1) Formerly known as China Life Asset Management (Hong Kong) Company Limited

(2) AMC, which is 60% owned by us, owns 50%

(3) We own 70.74% and AMC, which is 60% owned by us, owns 3.53%

(4) AMC, which is 60% owned by us, owns 85.03%

(5) AMC, which is 60% owned by us, owns 48%, and China Life AMP, which is 85.03% owned by AMC, owns 52%.

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**D. PROPERTY, PLANTS AND EQUIPMENT**

As of December 31, 2018, we owned and leased 4,180 and 14,139 properties, respectively, and had 311 properties under construction. Among the 4,180 properties owned by us, 2,523 properties are leased to third parties (including partial leasing) while the remaining properties are mainly occupied by us as office premises. 15 properties are recognized as investment properties.

On December 29, 2017, we entered into a new property leasing agreement with China Life Investment Holding Company Limited, or IHC. Under this property leasing agreement, which will expire on December 31, 2020, IHC agreed to lease to us 1,893 properties owned by it. The annual rent is determined by reference to market rent or, where there is no available comparison, by reference to the costs incurred by IHC in holding and maintaining the properties, plus a margin of approximately 5%.

**ITEM 4A. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

*You should read the following discussion and analysis in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this annual report.*

**Overview of Our Business**

We are the leading life insurance company in China. We provide a broad range of insurance products, including individual and group life insurance, annuity contracts, health insurance and accident insurance products. We had nearly 285 million insurance policies in force as of December 31, 2018, including individual and group life insurance policies, annuity contracts, health insurance and accident insurance policies.

We report our financial results according to the following three principal business segments:

*Life insurance*, which offers participating and non-participating life insurance and annuities to individuals and groups.

*Health insurance*, which offers short-term and long-term health insurance to individuals and groups. The financial results of our supplementary major medical insurance are also reflected in our health insurance business segment.

*Accident insurance*, which offers short-term and long-term accident insurance to individuals and groups. In addition, we have an other reporting segment, in which we primarily report the income and cost of the agency business in respect of transactions with CLIC and other companies, net share of profit of associates and joint ventures, income and expenses of subsidiaries, and unallocated income and expenditure of our company. See Note 5 to our consolidated financial statements included elsewhere in this annual report.



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### **Financial Overview of Our Business**

We had total gross written premiums of RMB 535,826 million (US\$ 77,933 million) and net profit of RMB 11,936 million (US\$ 1,736 million) for the year ended December 31, 2018. Our principal business segments had the following results:

*Life insurance* had total gross written premiums of RMB 437,540 million (US\$ 63,638 million) in 2018.

*Health insurance* had total gross written premiums of RMB 83,614 million (US\$ 12,161 million) in 2018.

*Accident insurance* had total gross written premiums of RMB 14,672 million (US\$ 2,134 million) in 2018. Our business has been characterized by growth of premium income over the past several years, together with a move towards an improved business structure which has been evidenced by a rapid increase in first-year regular premiums, with the percentage of first-year regular premiums for products with regular premiums of ten years or more in first-year regular premiums being above 50% since 2013. At the same time, our business has also been affected by certain unfavorable factors, including the increasing cross-industry competition from companies in other financial industries, and the rapid development of the insurance companies owned or controlled by commercial banks and some other small and medium-sized insurance companies, which have secured an increasing market share, as well as the changing economic and investment environment within China, including slowing economic growth and fluctuations in interest rates.

### **Factors Affecting Our Results of Operations**

#### ***Revenues, Expenses and Profitability***

We earn our revenues primarily from:

insurance premiums from the sale of life insurance policies and annuity contracts, including participating and non-participating policies and annuity contracts with life contingencies, as well as accident and health insurance products. Net premiums earned accounted for 84.80% of total revenues in 2018.

investment income and net realized gains on financial assets, net fair value gains through profit or loss. Investment income and net realized gains on financial assets, net fair value gains through profit or loss accounted for 13.91% of total revenues in 2018.

In addition, following the restructuring, we receive service fees for policy management services we provide to CLIC. AMC also receives asset management fees for asset management services provided to CLIC. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

Our operating expenses primarily include:

insurance benefits provided to our policyholders, accident and health claims and claim adjustment expenses;

increase in insurance contracts liabilities;

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investment contract benefits;

policyholder dividends resulting from participation in profits;

underwriting and policy acquisition costs; and

administrative and other expenses.

We also pay rent to IHC on the properties we lease from it.

Our profitability depends principally on our ability to price and manage risk on insurance and annuity products, our ability to maximize the return on investment assets, our ability to attract and retain customers, and our ability to manage expenses. In particular, factors affecting our profitability include:

our ability to design and distribute products and services and to introduce new products which gain market acceptance on a timely basis;

our ability to price our insurance and investment products at levels that enable us to earn a margin over the costs of providing benefits and the expense of acquiring customers and administering those products;

our returns on investment assets;

our mortality and morbidity experience, which affects our insurance reserves;

our lapse experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;

our cost of administering insurance contracts and providing customer services;

our ability to manage liquidity, market and credit risk in our investment portfolio and to manage duration risk in our asset and policy portfolios through asset-liability management; and

changes in regulations.

In addition, other factors, such as competition, securities market conditions, taxes and general economic conditions, affect our profitability.

***Interest Rates***



For our long-term life insurance products including annuity products, we are obligated to pay contractual benefits to our policyholders or the beneficiaries based on a guaranteed interest rate, which is established when the product is priced. These products expose us to the risk that changes in interest rates may change our spread, or the difference between the amount of return we are able to earn on our investments and the amount of return we are required to pay under the policies. In August 2013, February 2015 and September 2015, the CIRC removed the 2.50% cap on the guaranteed interest rates for the traditional participating insurance policies, universal life insurance policies, and participating life insurance policies, respectively. From October 1, 2015, the guaranteed interest rates of all long-term life insurance products are to be decided by insurance companies at their discretion in accordance with the principle of prudence, but CBIRC approval is required for products with guaranteed interest rates above the maximum valuation rate set by the CBIRC, which varies by product. If the rates of return on our investments fall below the rates we guarantee, our profitability would be adversely affected. In November 2014, the interest rate on one-year term deposits, a key benchmark rate, was reduced from 3.00% to 2.75%, and in 2015, the interest rate was further reduced five times from 2.75% to 1.50%. As of the date of this annual report, this interest rate remained unchanged. If economic conditions change in the future, the Chinese government may adjust the interest rates accordingly. As of December 31, 2018, the average guaranteed rate of return for all of our long-term insurance policies in force was 2.64%, while our investment yields for the years ended December 31, 2018, 2017 and 2016 were 3.29%, 5.16% and 4.69%, respectively. However, if the rates of return on our investments were to fall below the rates we guarantee, our profitability would be materially and adversely affected. If the interest rates were to be increased, but we did not raise the guaranteed rates of our products, sales of some of our products could be adversely impacted.

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Interest rates also affect our returns on investment assets, a large proportion of which is held in negotiated bank deposits and debt securities. In a declining interest rate environment, interest rate changes expose us to reinvestment risks. In a rising interest rate environment, higher rates may yield greater interest income but also may generate unrealized capital losses for debt securities designated as trading, causing us to incur realized capital losses for securities we reinvest or requiring us to take an impairment if the market value of debt securities declines for an extended period.

For further information on our exposure to interest rate risk, see Item 11 Quantitative and Qualitative Disclosure about Market Risk Interest Rate Risk and Note 4 to our consolidated financial statements included elsewhere in this annual report.

***Investments***

As an insurance company, we have been permitted to invest in five categories of investment assets, including liquidity assets, fixed income assets, equity assets, real properties and other financial assets. However, we are limited by Chinese laws and regulations in the maximum amount that we may invest in each type of assets. See Item 4. Information on the Company Business Overview Investments and Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Regulation of investments . Our material concentration risks relate to our investments in bank deposits and Chinese government securities.

Our investments are subject to risks. Volatility or declines in Chinese and international financial markets may expose us to higher market and credit risks, such as when domestic and international economic conditions differ from market expectations. We may also invest in new investment channels, use new investment tools or engage new investment managers, which may expose us to new risks. These factors could affect our investment income and the book value of our investment assets. In addition, as a portion of our investment assets are held in foreign currencies, our investment results may also be subject to foreign exchange gains and losses due to changes in exchange rates. Furthermore, our investments in associates are also affected by the operational conditions, financial risks and volatility in profits of these associates, which, in turn, will affect our profitability. See Item 3. Key Information Risk Factors Risks Relating to Our Business Our investments are subject to risks .

Our results can be materially affected by investment impairments. The following table sets forth impairment charges and reversal of impairment charges, which are included in net realized gains on financial assets, for the years ended December 31, 2016, 2017 and 2018.

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<b>Impairment</b>	<b>For the year ended December 31,</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>
	<b>(RMB in millions)</b>			<b>US\$</b>
Debt securities	(143)	(114)	(42)	(6)
Equity securities	(2,513)	(2,643)	(8,163)	(1,187)
<b>Total</b>	<b>(2,656)</b>	<b>(2,757)</b>	<b>(8,205)</b>	<b>(1,193)</b>

During the year ended December 31, 2018, we recognized an impairment expense of RMB 8,163 million (US\$ 1,187 million) for available-for-sale equity securities for which we determined that objective evidence of impairment existed. During the year ended December 31, 2017, we recognized an impairment expense of RMB 2,643 million for available-for-sale equity securities for which we determined that objective evidence of impairment existed. During the year ended December 31, 2016, we recognized an impairment expense of RMB 2,513 million for available-for-sale equity securities for which we determined that objective evidence of impairment existed. Our rationale for the impairment is based on a severe or prolonged decline in value. These securities were not impaired due to company-specific events such as bankruptcies.

During the year ended December 31, 2018, we recognized an impairment expense of RMB 42 million (US\$ 6 million) in debt securities. During the year ended December 31, 2017, we recognized an impairment expense of RMB 114 million in debt securities. During the year ended December 31, 2016, we recognized an impairment expense of RMB 143 million in debt securities.

Available-for-sale securities comprised of the following asset classes as of December 31, 2016, 2017 and 2018.

	<b>2016</b>		<b>As of December 31, 2017</b>		<b>2018</b>	
	<b>Cost or amortized cost</b>	<b>Estimated fair value</b>	<b>Cost or amortized cost</b>	<b>Estimated fair value</b>	<b>Cost or amortized cost</b>	<b>Estimated fair value</b>
	<b>(RMB in millions)</b>					
<b>Debt securities</b>						
Government bonds	20,173	21,653	24,818	24,632	26,759	28,440
Government agency bonds	140,444	146,310	164,331	157,765	172,250	180,273
Corporate bonds	183,408	188,337	199,613	197,133	181,178	185,720
Subordinated bonds/debt	15,948	16,708	13,588	13,495	20,953	21,514
Other	26,773	26,750	62,651	62,099	78,136	80,643
<b>Subtotal</b>	<b>386,746</b>	<b>399,758</b>	<b>465,001</b>	<b>455,124</b>	<b>479,276</b>	<b>496,590</b>
<b>Equity securities</b>						
Funds	114,373	105,290	97,516	91,344	115,949	92,304
Common stocks	110,774	110,653	124,090	129,424	160,231	143,469
Other	143,161	150,722	127,689	134,842	126,253	138,170
<b>Subtotal</b>	<b>368,308</b>	<b>366,665</b>	<b>349,295</b>	<b>355,610</b>	<b>402,433</b>	<b>373,943</b>

<b>Total</b>	<b>755,054</b>	<b>766,423</b>	<b>814,296</b>	<b>810,734</b>	<b>881,709</b>	<b>870,533</b>
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The difference between the aggregate cost/amortized cost and the aggregate estimated fair value reflects the amount of the unrealized gains and losses, and provision for impairment losses. As of December 31, 2018, we had gross unrealized gains of RMB 37,125 million (US\$ 5,400 million) and gross unrealized losses of RMB 43,884 million (US\$ 6,383 million), and made a provision for impairment losses of RMB 4,417 million (US\$ 642 million). As of December 31, 2017, we had gross unrealized gains of RMB 25,120 million and gross unrealized losses of RMB 26,837 million, and made a provision for impairment losses of RMB 1,845 million. As of December 31, 2016, we had gross unrealized gains of RMB 31,391 million and gross unrealized losses of RMB 18,064 million, and made a provision for impairment losses of RMB 1,938 million. The unrealized losses as of December 31, 2018 related primarily to the unrealized losses of available-for-sale stocks and funds.

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The following tables set forth the length of time that each class of available-for-sale securities has continuously been in an unrealized loss position as of December 31, 2018, 2017 and 2016. For the year ended December 31, 2018, unrealized losses on equity securities, mainly resulting from the overall volatility and downturn of the Chinese stock market, constituted a significant component of the movement of the total unrealized losses compared to the prior year. For the year ended December 31, 2017, unrealized losses on debt securities, mainly resulting from the increase in interest rates in the Chinese market, constituted a significant component of the movement of the total unrealized losses compared to the prior year.

As of December 31, 2018	0-6 months	7-12 months	More than 12 months	Total
	<i>(RMB in millions)</i>			
<b>Debt securities</b>				
Unrealized losses	126	473	1,046	1,645
Carrying amounts	9,665	11,075	41,365	62,105
Unrealized losses as a percentage of carrying amounts	1.30%	4.27%	2.53%	2.65%
<b>Equity securities</b>				
Unrealized losses	7,445	21,813	12,981	42,239
Carrying amounts	50,073	92,845	52,549	195,467
Unrealized losses as a percentage of carrying amounts	14.87%	23.49%	24.70%	21.61%
<b>Total</b>				
<b>Total unrealized losses</b>	<b>7,571</b>	<b>22,286</b>	<b>14,027</b>	<b>43,884</b>
<b>Total carrying amounts</b>	<b>59,738</b>	<b>103,920</b>	<b>93,914</b>	<b>257,572</b>
<b>Unrealized losses as a percentage of carrying amounts</b>	<b>12.67%</b>	<b>21.45%</b>	<b>14.94%</b>	<b>17.04%</b>
As of December 31, 2017	0-6 months	7-12 months	More than 12 months	Total
	<i>(RMB in millions)</i>			
<b>Debt securities</b>				
Unrealized losses	3,670	2,128	5,274	11,072
Carrying amounts	181,504	52,795	45,788	280,087
Unrealized losses as a percentage of carrying amounts	2.02%	4.03%	11.52%	3.95%
<b>Equity securities</b>				
Unrealized losses	12,342	3,391	32	15,765
Carrying amounts	132,893	25,982	786	159,661
Unrealized losses as a percentage of carrying amounts	9.29%	13.05%	4.07%	9.87%
<b>Total</b>				
<b>Total unrealized losses</b>	<b>16,012</b>	<b>5,519</b>	<b>5,306</b>	<b>26,837</b>
<b>Total carrying amounts</b>	<b>314,397</b>	<b>78,777</b>	<b>46,574</b>	<b>439,748</b>

**Unrealized losses as a percentage of carrying amounts**

**5.09%**

**7.01%**

**11.39%**

**6.10%**

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As of December 31, 2016	0-6 months	7-12 months	More than 12 months	Total
	<i>(RMB in millions)</i>			
<b>Debt securities</b>				
Unrealized losses	1,222	40	200	1,462
Carrying amounts	48,144	1,040	3,104	52,288
Unrealized losses as a percentage of carrying amounts	2.54%	3.85%	6.44%	2.80%
<b>Equity securities</b>				
Unrealized losses	12,023	4,579		16,602
Carrying amounts	121,106	23,443	1	144,550
Unrealized losses as a percentage of carrying amounts	9.93%	19.53%		11.49%
<b>Total</b>				
<b>Total unrealized losses</b>	<b>13,245</b>	<b>4,619</b>	<b>200</b>	<b>18,064</b>
<b>Total carrying amounts</b>	<b>169,250</b>	<b>24,483</b>	<b>3,105</b>	<b>196,838</b>
<b>Unrealized losses as a percentage of carrying amounts</b>	<b>7.83%</b>	<b>18.87%</b>	<b>6.44%</b>	<b>9.18%</b>

Financial assets other than those accounted for as at fair value through profit or loss are adjusted for impairments, where these are declines in value that are considered to be other than temporary.

Our rationale for an other-than-temporary impairment is based on a severe or prolonged decline in value. We determine a severe or prolonged decline after considering both quantitative and qualitative factors.

The qualitative factors include specific information on the financial status and performance of the investee, including but not limited to:

loss of major contracts;

breach of debt covenants; and

bankruptcy.

The quantitative factors include the following:

the market price of the equity securities was more than 50% below its cost at the balance sheet date;

the market price of the equity securities was more than 20% below its cost for a period of at least six months at the balance sheet date; and

the market price of the equity securities was below its cost for a period of more than one year.

When the decline in value is considered an impairment, held-to-maturity debt securities are written down to their present value of estimated future cash flows discounted at the securities' effective interest rates, and available-for-sale debt securities and equity securities are written down to their fair value, and the change is recorded in net realized gains on financial assets in the period the impairment is recognized. The impairment loss is reversed through the net profit if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through net profit. The impairment losses recognized in net profit on equity investments are not reversed. See Critical Accounting Policies .

As of December 31, 2018, our total investment assets were RMB 3,104,014 million (US\$ 451,460 million) and the investment yield for the year ended December 31, 2018 was 3.29%. The investment yield primarily reflected the increase in interest income and the decrease in spread income of stocks we have invested in. As of December 31, 2017, our total investment assets were RMB 2,753,124 million and the investment yield for the year ended December 31, 2017 was 5.16%. As of December 31, 2016, our total investment assets were RMB 2,573,049 million and the investment yield for the year ended December 31, 2016 was 4.69%.



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We calculate the investment yields for a given year by dividing the total investment income for that year by the average of the ending balance of investment assets of that year and the previous year. Beginning in 2018, we revised the formula to calculate our investment yield to consider the impact of investments in associates and joint ventures on our investment yield. The investment yields for the fiscal years ended December 31, 2017 and December 31, 2016 have also been revised to conform to the revised formula.

**Mix of Products**

The following table sets forth premium information as of or for the years ended December 31, 2018, 2017 and 2016 by type of product in our life insurance business, health insurance business and accident insurance business.

	As of or for the year ended December 31,				Compound annual growth rate (2016-2018)
	2016 RMB	2017 RMB	2018 RMB	2018 USD	
<b>Life insurance business</b>					
<b>Whole life and term life insurance:</b>					
Gross written premiums	33,395	40,606	49,520	7,202	21.77%
<b>Endowment:</b>					
Gross written premiums	188,415	198,418	126,318	18,372	(18.12%)
<b>Annuities:</b>					
Gross written premiums	140,095	190,798	261,702	38,063	36.68%
<b>Health insurance business<sup>(1)</sup></b>					
Gross written insurance premiums	54,010	67,708	83,614	12,161	24.42%
<b>Accident insurance business<sup>(2)</sup></b>					
Gross written insurance premiums	14,583	14,436	14,672	2,134	0.30%

(1) Including long-term and short-term health products.

(2) Including long-term and short-term accident products.

Under guidelines issued by the CBIRC, we are required to pay to our participating policyholders dividends which are no less than 70% of the distributable earnings on participating products. Participating products tend to present us with less market risk, since we have more flexibility to set the level of dividends and participating products are subject to guaranteed interest rates which are generally lower than those of non-participating products. In addition, changes in interest rates have less of impact on their lapse rates than on those of non-participating policies. Conversely, participating products tend to be less profitable for us than non-participating products, largely because the terms of these contracts effectively commit us to sharing a portion of our earnings from participating products with our policyholders. However, participating products still provide us with attractive profit contributions given the growing level of sales volume they produce.



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Products classified as investment contracts also affect our revenues, since only a portion of the payments we received under such products are recorded in our consolidated income statement as policy fees, and the majority of such payments are recorded as investment contracts under financial liabilities on our balance sheet.

We have adjusted our premium structure to focus more on sales of products with regular premiums, especially products with regular premiums for ten years or more, which has reduced the proportion of single written premiums of our total first-year gross written premiums. We believe that this strategy could contribute to a more steady development of our business and enhance the loyalty of our customers and the retention rate of our sales agent force.

## ***Regulation***

We operate in a highly regulated industry. Changes in regulation can have a significant impact on our revenues, expenses and profitability. China's insurance regulatory regime is undergoing significant changes toward a more transparent regulatory process and a convergent movement toward international standards. Among other things, recent changes to permitted investment channels for insurance companies have impacted our investment portfolio and returns. See Item 4. Information on the Company Business Overview Regulatory and Related Matters .

## **Critical Accounting Policies**

We prepared the consolidated financial statements under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, insurance contract liabilities and certain property, plant and equipment at deemed cost during restructuring process. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires our management to exercise its judgments in the process of applying our accounting policies. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. The following sections discuss the accounting policies applied in preparing our consolidated financial statements that we believe are most dependent on the application of these judgments and estimates. However, uncertainty about these judgments and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in the future periods.

## ***Liability for Long-term Insurance Contracts***

Long-term insurance contracts include whole life insurance, term life insurance, endowment insurance and annuity policies with significant life contingency risk. Premiums are recognized as revenue when the insurance contracts are recognized and premiums are due from policyholders.

We use the discounted cash flow method to estimate the reserve of long-term insurance contracts. The reserve of long-term insurance contracts consists of a reasonable estimate of liability, a risk margin and a residual margin. The long-term insurance contracts liabilities are calculated using various assumptions, including assumptions on mortality rates, morbidity rates, lapse rates, discount rates and expense assumptions, and based on the following principles:

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The reasonable estimate for liability of long-term insurance contracts is the present value of reasonable estimates of future cash outflows less future cash inflows. The expected future cash inflows include cash inflows of future premiums arising from the undertaking of insurance obligations, with consideration of decrement mostly from death and surrenders. The expected future cash outflows are cash outflows incurred to fulfill contractual obligations, consisting of the following:

- (i) Guaranteed benefits based on contractual terms, including payments for deaths, disabilities, diseases, survivals, maturities and surrenders;
- (ii) Additional non-guaranteed benefits, such as policyholder dividends; and
- (iii) Reasonable expenses incurred to manage insurance contracts or to process claims, including maintenance expenses and claim settlement expenses. Future administration expenses are included in the maintenance expense. Expenses are determined based on expense analysis with consideration of future inflation and our expense management control.

On each reporting date, we review the assumptions for reasonable estimates of liability and risk margins, with consideration of all available information, taking into account our historical experience and expectation of future events. Changes in assumptions are recognized in net profit. Assumptions for the amortization of residual margin are locked in at policy issuance date and are not adjusted at each reporting date. We incorporate the potential impact of future risk factors on our operating results in the determination of assumptions. The sensitivity analysis disclosed in the Note 4.1.3 on page F-38 of this annual report provides a detailed analysis of impact of assumption changes on our operating results.

Margins have been taken into consideration while computing the reserves of insurance contracts, measured separately and recognized in net profit in each period over the life of the contracts. At the inception of the contracts, we do not recognize Day One gain, whereas on the other hand, Day One loss is recognized in profit immediately.

Margins comprise risk margin and residual margin. Risk margin is the reserve accrued to compensate for the uncertain amount and timing of future cash flows. At the inception of the contract, the residual margin is calculated net of certain acquisition costs, mainly consist of underwriting and policy acquisition costs, by us representing Day One gain and will be amortized over the life of contracts. For insurance contracts of which future returns are affected by investment yields of corresponding investment portfolios, their related residual margins are amortized based on estimated future participating dividends payable to the policyholders. For insurance contracts in which future returns are not affected by investment yields of corresponding investment portfolios, their related residual margins are amortized based on sum assured of outstanding policies. The subsequent measurement of residual margin is independent from the reasonable estimate of future discounted cash flows and risk margin. The assumption changes have no effect on the subsequent measurement of the residual margin.

We have considered the impact of time value on the reserve calculation for insurance contracts. We establish liabilities for long-term traditional insurance contracts based on the following assumptions:



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For the insurance contracts of which future insurance benefits are affected by investment yields of corresponding investment portfolios, the discount rate assumption is based on expected investment returns of the asset portfolio backing these liabilities, considering the impact of time value on liabilities. In developing discount rate assumptions, we consider investment experience, current investment portfolio and trend of the relevant yield curve. The assumed discount rates reflect the future economic outlook as well as our investment strategy. The assumed discount rates with risk margin ranged from 4.45% to 4.85% as at December 31, 2016, 4.85% as at December 31, 2017 and 4.85% as at December 31, 2018, respectively.

For the insurance contracts of which the future insurance benefits are not affected by the investment yields of the corresponding investment portfolios, the discount rate assumption is based on the yield curve of reserve computation benchmark for insurance contracts, published on the China Bond website, with consideration of liquidity spreads, taxation and other relevant factors. The assumed spot discount rates with risk margin ranged from 3.23% to 4.68% as at December 31, 2016, from 3.31% to 4.86% as at December 31, 2017 and from 3.47% to 4.86% as at December 31, 2018, respectively.

There is uncertainty relating to the discount rate assumption, which is affected by factors such as future macro-economy, monetary and foreign exchange policies, capital market and availability of investment channels of insurance funds. We determine the discount rate assumption based on the information obtained at the end of each reporting period, including consideration of risk margin.

The mortality and morbidity assumptions are based on the historical mortality and morbidity experience. The assumed mortality rates and morbidity rates vary by age of the insured and contract type.

We base our mortality assumptions on the China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect our recent historical mortality experience. The main source of uncertainty with life insurance contracts is that epidemics and wide-ranging lifestyle changes could result in deterioration in future mortality experience, thus leading to an inadequate reserve. Similarly, improvements in longevity due to continuing advancements in medical care and social conditions could expose us to longevity risk.

We base our morbidity assumptions for critical illness products on analysis of historical experience and expectations of future developments. There are two main sources of uncertainty. First, wide-ranging lifestyle changes could result in future deterioration in morbidity experience. Second, future development of medical technologies and improved coverage of medical facilities available to the policyholders may bring forward the timing of diagnosing critical illness, which demands earlier payment of the critical illness benefits. Both could ultimately result in an inadequate reserving of liability if current morbidity assumptions do not properly reflect such trends.

Risk margin is considered in our mortality and morbidity assumptions.

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The expense assumptions are based on expected unit costs with the consideration of previous expenses study and future trends. Our expense assumptions are affected by certain factors, such as future inflation and market competition which bring uncertainty to these assumptions. We consider risk margin for expense assumptions based on the information obtained at the end of each reporting period. Components of expense assumptions include cost per policy and percentage of premium. Our expense assumptions for the past three years were as follows: the percentage of premiums costs of 0.85% to 0.90% of premiums for individual life products and 0.90% for group life products as at December 31, 2016, 0.85% to 0.90% of premiums for individual life products and 0.90% for group life products as at December 31, 2017, and 0.85% to 0.90% of premiums for individual life products and 0.90% for group life products as at December 31, 2018, respectively, in each case plus a fixed per-policy expense.

The lapse rates and other assumptions are affected by certain factors, such as the future macro economy, availability of financial substitutions and market competition, which bring uncertainty to lapse rates and other assumptions. The lapse rates and other assumptions are determined with reference to creditable past experience, current conditions, future expectations and other information.

The method used to determine risk margin has been consistently applied. We consider risk margin for each of the discount rate, mortality and morbidity and expense assumptions to compensate for the uncertain amount and timing of future cash flow. When determining risk margin, we consider historical experience, future expectations and other factors. Risk margin is determined by us and does not include any elements imposed by regulators.

We adopted a consistent process to determine assumptions for the insurance contracts, which are detailed in Note 14 to our consolidated financial statements included elsewhere in this annual report. On each reporting date, we review the assumptions for reasonable estimates of liability and risk margin, with consideration of all available information, and taking into account our historical experience and expectation of future events.

***Universal Life Contracts and Unit-linked Contracts***

Universal life contracts and unit-linked contracts are unbundled into the following components:

Insurance components; and

Non-insurance components.

The insurance components are accounted for as insurance contracts, and the non-insurance components are accounted for as investment contracts, which are stated in the investment contract liabilities.

***Investment Contracts***

For investment contracts with or without discretionary participating feature, our policy fee income mainly consists of acquisition cost and various fee incomes (including handling fees and management fees) over the period during which the service is provided. Policy fee income net of certain acquisition cost is amortized over the expected life of the contracts by period and recognized in revenue.

Except for unit-linked contracts, of which the liabilities for transferred financial risks are carried at fair value, the liabilities of investment contracts are carried at amortized cost.





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### ***Valuation of Investments***

We classify our financial assets into the following categories: securities at fair value through profit or loss, held-to-maturity securities, loans and receivables and available-for-sale securities. Management determines the classification of our financial assets at initial recognition, with the classification depending on the purpose for which the assets are acquired. The following are the policies used:

*Securities at fair value through profit or loss.* This category has two sub-categories: securities held for trading and those designated as at fair value through profit or loss at inception. Securities are classified as held for trading at inception if acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short term profit-taking. Other financial assets are classified as at fair value through profit or loss if they meet the criteria in IAS 39 and designated as such at inception by us.

*Held-to-maturity securities.* Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that we have the positive intention and ability to hold to maturity and do not meet the definition of loans and receivables nor designated as available-for-sale securities or securities at fair value through profit or loss. These investments are carried at amortized cost.

*Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that we intend to sell in the short term or held as available-for-sale. Loans and receivables mainly comprise term deposits, loans, securities purchased under agreements to resell, accrued investment income and premium receivables as presented separately in the statement of financial position. These investments are carried at amortized cost.

*Available-for-sale securities.* Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

*Impairment of financial assets other than securities at fair value through profit or loss.* Financial assets other than those accounted for as at fair value through profit or loss are adjusted for impairments, where there are declines in value that are considered to be impairment. In evaluating whether a decline in value is an impairment for these financial assets, we consider several factors including, but not limited to, the following:

significant financial difficulty of the issuer or debtor;

a breach of contract, such as a default or delinquency in payments;

it becomes probable that the issuer or debtor will enter into bankruptcy or other financial reorganization; and

the disappearance of an active market for that financial asset because of financial difficulties.

In evaluating whether a decline in value is impairment for equity securities, we also consider the extent or the duration of the decline. The quantitative factors include the following:

the market price of the equity securities was more than 50% below their cost at the reporting date;

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the market price of the equity securities was more than 20% below their cost for a period of at least six months at the reporting date; and

the market price of the equity securities was below their cost for a period of more than one year (including one year) at the reporting date.

When the decline in value is considered impairment, held-to-maturity debt securities are written down to their present value of estimated future cash flows discounted at the securities effective interest rates; available-for-sale debt securities and equity securities are written down to their fair value, and the change is recorded in net realized gains on financial assets in the period the impairment is recognized. The impairment loss is reversed through net profit if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through net profit. The impairment losses recognized in net profit on equity instruments are not reversed through net profit.

As of December 31, 2018, debt securities of RMB 215,460 million (US\$ 31,337million) contain guarantees issued by third parties and, of those, 83.27% were guaranteed by either the Chinese government or a Chinese government controlled financial institution. Of the guarantees issued by government or government controlled financial institutions, 92.10% relates to debt securities issued by a government railway infrastructure entity. We monitor the credit worthiness of the third parties which have issued these guarantees using local Chinese credit ratings which are generally only utilized within China.

*The methods and assumptions used by us in measuring the fair value of the financial instruments are as follows:*

*Debt securities.* The fair values of debt securities are generally based on current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions, values obtained from current bid prices of comparable investments or valuation techniques when the market is not active.

*Equity securities.* The fair values of equity securities are generally based on current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions or commonly used market pricing model. Equity securities, for which fair values cannot be measured reliably, are recognized at cost less impairment.

*Securities purchased under agreements to resell, policy loans, term deposits, interest-bearing loans and borrowings, and securities sold under agreements to repurchase.* The carrying amounts of these assets in the consolidated statement of financial position approximate fair value. Fair values of other loans are obtained from valuation techniques.

Valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and, through the use of widely accepted valuation models, provide a theoretical quote on various securities.

We utilize one pricing service for substantially all of our Chinese domestic debt securities. This pricing service provider is the only publicly-recognized pricing service provider in China, and its pricing information is used by the mutual fund industry and almost all companies in China. We utilize international pricing services for our overseas debt securities. These pricing service providers are internationally-recognized, and their pricing information is commonly used by international companies. The prices obtained from the pricing service are non-binding. Our review

and testing have shown the prices obtained from our pricing service to be appropriate. As such, during the year ended December 31, 2018, we did not consider it necessary to adjust the prices obtained from our pricing service.

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As at December 31, 2018, RMB 804,316 million of RMB 900,831 million debt securities with prices obtained from our pricing service were issued by the Chinese government and government controlled organizations. This pricing service utilized a discounted cash flow valuation model using market observable inputs, mainly interest rates, to determine a fair value. There are no other significant market inputs. As such, we have classified these debt securities as Level 2 in the fair value hierarchy.

Management subjects the fair values provided by valuation service providers to a number of validation procedures. These procedures include a review of the valuation models utilized, as well as our own test recalculation of the prices obtained from the pricing service at each reporting date.

We consider a combination of many factors in determining whether we believe a market for a financial instrument is active or inactive. Among these factors include:

whether there has been any trades within past 30 days of the reporting date;

the volume of the trades within this 30 day period; and

the degree which the implied yields for a debt security for observed transactions differs from our understanding of the current relevant market rates and information.

## ***Revenue Recognition***

*Premiums.* Premiums from long-term insurance contracts are recognized as revenue when due from the policyholders.

Premiums from the sale of short-term accident and health insurance contracts are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage.

*Policy fee income.* The policy fee income for investment contracts mainly consists of acquisition costs and various fee incomes (including handling fees and management fees) over the period during which service is provided. Policy fee income net of certain acquisition costs is amortized over the expected life of the contracts and recognized as other income.

*Investment income.* Investment income is comprised of interest income from term deposits, cash and cash equivalents, debt securities, securities purchased under agreements to resell, loans and dividend income from equity securities. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognized when the right to receive a dividend payment is established.

## ***Deferred taxation***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Substantively enacted tax rates are used in the determination of deferred income tax.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the reversal of temporary differences can be recognized.



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Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**Recently Issued Accounting Standards**

The following standards and amendments are adopted by us for the first time for the financial year beginning on January 1, 2018.

<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 2 Amendments	<i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
IFRS 4 Amendments	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	1 January 2018
IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 15 Amendments	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018
IFRS 2 Amendments	<i>Classification and Measurement of Share-based Payment Transactions</i>	

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met.

The Group's accounting treatment for cash-settled share-based payments is consistent with the clarification in the amendments. In addition, the Group has no share-based payment transactions with net settlement features for withholding tax obligations and has not made any modifications to the terms and conditions of its share-based payment transactions. Therefore, these amendments have no impact on the Group's consolidated financial statements.





**Table of Contents***IFRS 4 Amendments Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

Amendments to IFRS 4 address issues arising from the different effective dates of IFRS 9 and IFRS 17. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4 upon the adoption of IFRS 9, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until the effective date of IFRS 17. The amendments clarify that an insurer may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss and (ii) its activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016. The overlay approach allows entities applying IFRS 9 from 2018 onwards to remove from profit or loss the effects arising from the adoption of IFRS 9 and reclassify the amounts to other comprehensive income for designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after January 1, 2018, or apply the overlay approach when it applies IFRS 9 for the first time.

During 2016, we performed an assessment of the amendments and reached the conclusion that our activities were predominantly connected with insurance as at December 31, 2015. There has been no significant change in the activities of the Group since then that requires reassessment, and the Group considers that it continues to meet the criteria of applying the temporary exemption. We have decided to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to our financial assets and financial liabilities in our reporting period starting on January 1, 2018. Disclosures regarding our temporary exemption from IFRS 9 are contained in Note 32.

*IFRS 15 Revenue from Contracts with Customers and IFRS 15 Amendments*

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard supersedes all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal-versus-agent consideration, licenses of intellectual property and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. IFRS 15 and the amendments are effective for annual periods beginning on or after January 1, 2018, and early adoption is permitted.

Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard is on the accounting treatment of income from administrative and investment management services. Based on the standard's transitional provisions, the entity shall recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings or other component of equity of the annual reporting period that includes the date of initial application, and does not require a restatement of prior periods. The Group adopted IFRS 15 using the modified retrospective approach from January 1, 2018. Adoption of the standard has no significant impact on relative items of the Group's consolidated financial statements.

*IAS 40 Amendments Transfers of Investment Property*

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are to be applied prospectively, and shall be applied to the changes that occurred, during or after the financial year when it applies amendments for the first time. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The amendments do not have any significant impact on the Group's consolidated financial statements.

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In addition, the *Annual Improvements 2014-2016 Cycle* issued in December 2016 set out amendments to IFRS 1 and IAS 28, which are effective for annual periods beginning on or after January 1, 2018. There is no significant impact on the accounting policies of the Group as a result of these amendments.

*New accounting standards and amendments that are effective but a temporary exemption is applied by the Group for the financial year beginning on January 1, 2018:*

<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on or after 1 January 2018</b>
IFRS 9 <i>IFRS 9 Financial Instruments</i>	<i>Financial Instruments</i>	

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Based on the current assessment, the Group expects the adoption of IFRS 9 will have a significant impact on the Group's consolidated financial statements.

*Classification and measurement*

IFRS 9 requires that the Group classify debt instruments based on the combined effect of application of business models (hold to collect contractual cash flows, hold to collect contractual cash flows and sell financial assets or other business models) and contractual cash flow characteristics (solely payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are to be measured at fair value through profit or loss. Other debt instruments giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are to be measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on their respective business models. The Group analyzed the contractual cash flow characteristics of financial assets as at December 31, 2018 and made relevant disclosures in Note 32 according to IFRS 4 Amendments.

Equity instruments would generally be measured at fair value through profit or loss unless the Group elects to measure at fair value through other comprehensive income for certain equity investments not held for trading. This will result in unrealized gains and losses on equity instruments currently classified as available-for-sale securities being recorded in income going forward. Currently, these unrealized gains and losses are recognized in other comprehensive income. If the Group elects to record equity investments at fair value through other comprehensive income, gains and losses would never be recognized in income except for the received dividends which do not represent a recovery of part of the investment cost.

**Table of Contents***Impairment*

IFRS 9 replaces the incurred loss model with the expected credit loss model which is designed to include forward-looking information. The Group is in the process of developing and testing the key models required under IFRS 9 and analyzing the impact on the expected loss provision; the Group believes that the provision for debt instruments of the Group under the expected credit loss model would be larger than that under the previous incurred loss model.

*Hedge accounting*

The Group does not apply the hedge accounting currently, so the Group expects that the new hedge accounting model under IFRS 9 will have no impact on the Group's consolidated financial statements.

The following standards and amendments are not yet effective and have not been early adopted by the Group for the financial year beginning on January 1, 2018.

<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on</b>	<b>or after</b>
IFRS 16	<i>Leases</i>	1 January 2019	
IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020	
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020	
IFRS 17	<i>Insurance Contracts</i>	1 January 2021	
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	No mandatory effective date yet determined but	available for adoption

For a detailed discussion of the recently issued accounting standards, see Note 2.1.1 and Note 2.1.2 to our consolidated financial statements included elsewhere in this annual report.

**Inflation**

According to the National Statistics Bureau of China, China's overall national inflation rates, as represented by the general consumer price index, were approximately 2.1%, 1.6%, 2.0%, 1.4% and 2.0% in 2018, 2017, 2016, 2015 and 2014, respectively. Inflation has not had a significant effect on our business during the past three years.

**Foreign Currency Fluctuation**

See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk .



Table of Contents**A. OPERATING RESULTS****Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

<b>Total Revenues</b>	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>
	<i>(in millions)</i>	
Net premiums earned	506,910	532,023
Life insurance business	429,267	436,863
Health insurance business	63,323	80,279
Accident insurance business	14,320	14,881
Investment income	122,727	125,167
Investment income from securities at fair value through profit or loss	4,538	5,153
Investment income from available-for-sale securities	46,627	39,483
Investment income from held-to-maturity securities	30,669	34,657
Investment income from bank deposits	23,827	22,699
Investment income from loans	16,320	22,894
Other investment income	746	281
Net realized gains on financial assets	42	(19,591)
Net fair value gains through profit or loss	6,183	(18,278)
Other income	7,493	8,098
<b>Total</b>	<b>643,355</b>	<b>627,419</b>

***Net Premiums Earned***

Net premiums earned increased by RMB 25,113 million, or 5.0%, to RMB 532,023 million in 2018 from RMB 506,910 million in 2017.

***Life Insurance Business***

Net premiums earned from life insurance business increased by RMB 7,596 million, or 1.8%, to RMB 436,863 million in 2018 from RMB 429,267 in 2017. This was primarily due to the steady growth of our life insurance business.

***Health Insurance Business***

Net premiums earned from health insurance business increased by RMB 16,956 million, or 26.8%, to RMB 80,279 million in 2018 from RMB 63,323 million in 2017. This was primarily due to the expansion of our health insurance business.

***Accident Insurance Business***

Net premiums earned from accident insurance business increased by RMB 561 million, or 3.9%, to RMB 14,881 million in 2018 from RMB 14,320 million in 2017. This was primarily due to the steady growth of our accident insurance business.

***Investment Income***

Investment income increased by RMB 2,440 million, or 2.0%, from RMB 122,727 million in 2017 to RMB 125,167 million in 2018.

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**Table of Contents*****Investment Income from Securities at Fair Value through Profit or Loss***

Investment income from securities at fair value through profit or loss increased by RMB 615 million, or 13.6%, to RMB 5,153 million in 2018 from RMB 4,538 million in 2017. This was primarily due to an increase in interest income resulting from an increase in investments in corporate bonds at fair value through profit or loss.

***Investment Income from Available-for-Sale Securities***

Investment income from available-for-sale securities decreased by RMB 7,144 million, or 15.3%, to RMB 39,483 million in 2018 from RMB 46,627 million in 2017. This was primarily due to a decrease in dividends from available-for-sale equity securities investment funds.

***Investment Income from Held-to-Maturity Securities***

Investment income from held-to-maturity securities increased by RMB 3,988 million, or 13.0%, to RMB 34,657 million in 2018 from RMB 30,669 million in 2017. This was primarily due to an increase in interest income resulting from the increase in the allocation in government bonds.

***Investment Income from Bank Deposits***

Investment income from bank deposits decreased by RMB 1,128 million, or 4.7%, to RMB 22,699 million in 2018 from RMB 23,827 million in 2017. This was primarily due to a decrease in interest income resulting from the fact that new negotiated deposits were mainly made toward the end of 2018 and the decrease in the allocation in deposits other than negotiated deposits.

***Investment Income from Loans***

Investment income from loans increased by RMB 6,574 million, or 40.3%, to RMB 22,894 million in 2018 from RMB 16,320 million in 2017. This was primarily due to an increase in interest income from trust schemes.

***Net Realized Gains on Financial Assets***

Net realized gains on financial assets decreased by RMB 19,633 million to losses of RMB 19,591 million in 2018 from gains of RMB 42 million in 2017. This was primarily due to a decrease in spread income of stocks in available-for-sale securities and an increase in equity investment assets qualified for impairment.

***Net Fair Value Gains through Profit or Loss***

Net fair value gains through profit or loss decreased by RMB 24,461 million to losses of RMB 18,278 million in 2018 from gains of RMB 6,183 million in 2017. This was primarily due to a decrease in spread income and fair value of stocks in securities at fair value through profit or loss.

***Other Income***

Other income increased by RMB 605 million, or 8.1%, to RMB 8,098 million in 2018 from RMB 7,493 million in 2017. This was primarily due to the business growth of China Life Pension.





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Benefits, Claims and Expenses	For the year ended December 31,	
	2017 RMB	2018 RMB
	<i>(in millions)</i>	
Insurance benefits and claims expenses		
Life insurance death and other benefits	259,708	248,736
Accident and health claims and claim adjustment expenses	33,818	40,552
Increase in insurance contracts liabilities	172,517	189,931
Investment contracts benefits	8,076	9,332
Policyholder dividends resulting from participation in profits	21,871	19,646
Underwriting and policy acquisition costs	64,789	62,705
Finance costs	4,601	4,116
Administrative expenses	35,953	37,486
Other expenses	6,426	7,642
Statutory insurance fund contribution	1,068	1,097
<b>Total</b>	<b>608,827</b>	<b>621,243</b>
Segment information of insurance benefits and claims expenses		
Life insurance business	409,410	412,876
Health insurance business	50,624	59,689
Accident insurance business	6,009	6,654
<b>Total</b>	<b>466,043</b>	<b>479,219</b>

***Insurance Benefits and Claims Expenses***

Insurance benefits and claims, net of amounts ceded through reinsurance, increased by RMB 13,176 million, or 2.8%, to RMB 479,219 million in 2018 from RMB 466,043 million in 2017.

Life insurance death and other benefits payouts decreased by RMB 10,972 million, or 4.2%, to RMB 248,736 million in 2018 from RMB 259,708 million in 2017. This was primarily due to a decrease in maturities payable. Accident and health claims and claim adjustment expenses increased by RMB 6,734 million, or 19.9%, to RMB 40,552 million in 2018 from RMB 33,818 million in 2017. This was primarily due to an increase in the volume of short-term health insurance and accident insurance business. Increase in insurance contracts liabilities increased by RMB 17,414 million, or 10.1%, to RMB 189,931 million in 2018 from RMB 172,517 million in 2017. This was primarily due to an increase in the scale of insurance business.

***Life Insurance Business***

Insurance benefits and claims expenses attributable to life insurance business increased by RMB 3,466 million, or 0.8%, to RMB 412,876 million in 2018 from RMB 409,410 million in 2017. This was primarily due to an increase in the scale of life insurance business.

***Health Insurance Business***

Insurance benefits and claims expenses attributable to health insurance business increased by RMB 9,065 million, or 17.9%, to RMB 59,689 million in 2018 from RMB 50,624 million in 2017. This was primarily due to the growth in our health insurance business.

***Accident Insurance Business***

Insurance benefits and claims expenses attributable to accident insurance business increased by RMB 645 million, or 10.7%, to RMB 6,654 million in 2018 from RMB 6,009 million in 2017. This was primarily due to an increase in claims expenses of certain businesses.

**Table of Contents*****Investment Contract Benefits***

Investment contract benefits increased by RMB 1,256 million, or 15.6%, to RMB 9,332 million in 2018 from RMB 8,076 million in 2017. This was primarily due to an increase in the scale of universal insurance accounts.

***Policyholder Dividends Resulting from Participation in Profits***

Policyholder dividends resulting from participation in profits decreased by RMB 2,225 million, or 10.2%, to RMB 19,646 million in 2018 from RMB 21,871 million in 2017. This was primarily due to a decrease in investment yields from participating accounts.

***Underwriting and Policy Acquisition Costs***

Underwriting and policy acquisition costs decreased by RMB 2,084 million, or 3.2%, to RMB 62,705 million in 2018 from RMB 64,789 million in 2017. This was primarily due to the increase in the percentage of renewal premiums in gross written premiums as a result of our enhanced efforts in the adjustment of our business structure.

***Finance Costs***

Finance costs decreased by RMB 485 million, or 10.5%, to RMB 4,116 million in 2018 from RMB 4,601 million in 2017. This was primarily due to a decrease in interest paid due to redemptions of subordinated debts.

***Administrative Expenses***

Administrative expenses include employees' remuneration and other administrative expenses. Administrative expenses increased by RMB 1,533 million, or 4.3%, to RMB 37,486 million in 2018 from RMB 35,953 million in 2017. This was primarily due to the growth of our business.

***Other Expenses***

Other expenses increased by RMB 1,216 million, or 18.9%, to RMB 7,642 million in 2018 from RMB 6,426 million in 2017. This was primarily due to the change in foreign exchange rates applicable to our assets and liabilities held in foreign currencies and interest from dividends.

<b>Profit</b>	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>
	<b>(in millions)</b>	
Profit before income tax	41,671	13,921
Life insurance business	29,315	1,630
Health insurance business	3,246	4,100
Accident insurance business	528	495
Other businesses	8,582	7,696
Income tax	8,919	1,985
Net profit attributable to equity holders of the company	32,253	11,395

***Profit before Income Tax***

Our profit before income tax decreased by RMB 27,750 million, or 66.6%, to RMB 13,921 million in 2018 from RMB 41,671 million in 2017.

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### ***Life Insurance Business***

Profit before income tax in the life insurance business decreased by RMB 27,685 million, or 94.4%, to RMB 1,630 million in 2018 from RMB 29,315 million in 2017. This was primarily due to a significant decrease in the income from open market equity investments due to the overall volatility and downward trend in equity markets.

### ***Health Insurance Business***

Profit before income tax in the health insurance business increased by RMB 854 million, or 26.3%, to RMB 4,100 million in 2018 from RMB 3,246 million in 2017. This was primarily due to the growth and quality improvement in the short-term health insurance business.

### ***Accident Insurance Business***

Profit before income tax in the accident insurance business decreased by RMB 33 million, or 6.3%, to RMB 495 million in 2018 from RMB 528 million in 2017. This was primarily due to fluctuation in claims expenses of certain accident insurance businesses.

### ***Other Business***

Profit before income tax in other business decreased by RMB 886 million, or 10.3%, to RMB 7,696 million in 2018 from RMB 8,582 million in 2017. This was primarily due to fluctuation in exchange rates for liabilities of our subsidiaries held in foreign currencies.

### ***Income Tax***

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax decreased by RMB 6,934 million, or 77.7%, to RMB 1,985 million in 2018 from RMB 8,919 million in 2017. This was primarily due to the combined impact of taxable income and deferred income tax.

### ***Net Profit Attributable to Equity Holders of the Company***

For the reasons set forth above, net profit attributable to equity holders of the Company decreased by RMB 20,858 million, or 64.7%, to RMB 11,395 million in 2018 from RMB 32,253 million in 2017. This was primarily due to a significant decrease in the income from open market equity investments due to the overall volatility and downward trend in equity markets.

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Major Assets	As of December 31,	
	2017	2018
	RMB	RMB
	(in millions)	
Investment assets <sup>1</sup>	2,753,124	3,104,014
Term deposits	449,400	559,341
Held-to-maturity securities	717,037	806,717
Available-for-sale securities	810,734	870,533
Securities at fair value through profit or loss	136,809	138,717
Securities purchased under agreements to resell	36,185	9,905
Cash and cash equivalents	48,586	50,809
Loans	383,504	450,251
Statutory deposits restricted	6,333	6,333
Investment properties	3,064	9,747
Investment in associates and joint ventures	161,472	201,661
Other assets	144,467	150,389
<b>Total</b>	<b>2,897,591</b>	<b>3,254,403</b>

1. Beginning in 2018, the scope of investment assets has been revised to include investments in associates and joint ventures, and the amounts of investment assets for 2017 and 2016 have also been revised to conform to this revised scope.

**Investment Assets**

Our total investment assets increased by RMB 350,890 million, or 12.7%, to RMB 3,104,014 million as of December 31, 2018 from RMB 2,753,124 million as of December 31, 2017.

**Term Deposits**

Term deposits increased by RMB 109,941 million, or 24.5%, to RMB 559,341 million as of December 31, 2018 from RMB 449,400 million as of December 31, 2017. This was primarily due to an increase in the scale of the negotiated deposits.

**Held-to-Maturity Securities**

Held-to-maturity securities increased by RMB 89,680 million, or 12.5%, to RMB 806,717 million as of December 31, 2018 from RMB 717,037 million as of December 31, 2017. This was primarily due to an increase in the allocation of government bonds.

**Available-for-Sale Securities**

Available-for-sale securities increased by RMB 59,799 million, or 7.4%, to RMB 870,533 million as of December 31, 2018 from RMB 810,734 million as of December 31, 2017. This was primarily due to an increase in the allocation of financial bonds in available-for-sale securities.

**Securities at Fair Value Through Profit or Loss**

Securities at fair value through profit or loss increased by RMB 1,908 million, or 1.4%, to RMB 138,717 million as of December 31, 2018 from RMB 136,809 million as of December 31, 2017. This was primarily due to an increase in the scale of corporate bonds in securities at fair value through profit or loss.



**Table of Contents*****Cash and Cash Equivalents***

Cash and cash equivalents increased by RMB 2,223 million, or 4.6%, to RMB 50,809 million as of December 31, 2018 from RMB 48,586 million as of December 31, 2017. This was primarily due to the needs for liquidity management.

***Loans***

Loans increased by RMB 66,747 million, or 17.4%, to RMB 450,251 million as of December 31, 2018 from RMB 383,504 million as of December 31, 2017. This was primarily due to an increase in the scale of policy loans.

***Investment Properties***

Investment properties increased by RMB 6,683 million, or 218.1%, to RMB 9,747 million as of December 31, 2018 from RMB 3,064 million as of December 31, 2017. This was primarily due to new investments in investment properties.

***Investments in associates and joint ventures***

Our investments in associates and joint ventures increased by RMB 40,189 million, or 24.9%, to RMB 201,661 million as of December 31, 2018 from RMB 161,472 million as of December 31, 2017. This was primarily due to the fact that we increased our allocation in investments in associates and joint ventures, and that the equity of investments in associates and joint ventures increased.

<b>Major Liabilities</b>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>
	<b>(in millions)</b>	
<b>Liabilities</b>		
Insurance contracts	2,025,133	2,216,031
Investment contracts	232,500	255,434
Securities sold under agreements to repurchase	87,309	192,141
Policyholder dividends payable	83,910	85,071
Annuity and other insurance balances payable	44,820	49,465
Interest-bearing loans and borrowings	18,794	20,150
Deferred tax liabilities	4,871	
Other liabilities	74,944	112,821
<b>Total</b>	<b>2,572,281</b>	<b>2,931,113</b>

***Liabilities***

Our total liabilities increased by RMB 358,832 million, or 13.9%, to RMB 2,931,113 million as of December 31, 2018 from RMB 2,572,281 million as of December 31, 2017.

***Insurance Contracts***

Liabilities of insurance contracts increased by RMB 190,898 million, or 9.4%, to RMB 2,216,031 million as of December 31, 2018 from RMB 2,025,133 million as of December 31, 2017. This was primarily due to the accumulation of insurance liabilities from new policies and renewal business. As at the date of the statement of financial position, our insurance contracts reserves passed liability adequacy testing.

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**Table of Contents*****Investment Contracts***

The account balance of investment contracts increased by RMB 22,934 million, or 9.9%, to RMB 255,434 million as of December 31, 2018 from RMB 232,500 million as of December 31, 2017. This was primarily due to an increase in the scale of universal insurance accounts.

***Securities Sold under Agreements to Repurchase***

Securities sold under agreements to repurchase increased by RMB 104,832 million, or 120.1%, to RMB 192,141 million as of December 31, 2018 from RMB 87,309 million as of December 31, 2017. This was primarily due to the needs for liquidity management.

***Policyholder Dividends Payable***

Policyholder dividends payable increased by RMB 1,161 million, or 1.4%, to RMB 85,071 million as of December 31, 2018 from RMB 83,910 million as of December 31, 2017. This was primarily due to the increase of dividend on deposit.

***Annuity and Other Insurance Balances Payable***

Annuity and other insurance balances payable increased by RMB 4,645 million, or 10.4%, to RMB 49,465 million as of December 31, 2018 from RMB 44,820 million as of December 31, 2017. This was primarily due to an increase in maturities payable.

***Interest-bearing Loans and Borrowings***

Our borrowings in foreign currency increased in 2018. Interest-bearing loans and other borrowings include a five-year bank loan of GBP 275 million with a maturity date on June 17, 2019, a three-year bank loan of US\$ 970 million with a maturity date on September 27, 2019, a three-year bank loan of US\$ 940 million with a maturity date on September 30, 2019, a three-year bank loan of EUR 67 million with a maturity date on January 18, 2021, a six-month bank loan of EUR 127 million with a maturity date on January 11, 2019 and to be automatically renewed upon maturity, all of which are fixed rate loans, and a three-year loan of EUR 400 million with a maturity date on December 6, 2020, which is a floating rate loan.

***Deferred Tax Liabilities***

Deferred tax liabilities as of December 31, 2017 were RMB 4,871 million, and there were no deferred tax liabilities as of December 31, 2018. This change was primarily due to the decrease in the fair value of available-for-sale securities.

***Equity Attributable to Equity Holders of the Company***

As of December 31, 2018, equity attributable to our equity holders was RMB 318,371 million, a decrease of RMB 2,562 million, or 0.8%, from RMB 320,933 million as of December 31, 2017. This was primarily due to the combined impact of total comprehensive income and profit distributions during 2018.

**Table of Contents****Year Ended December 31, 2017 Compared with Year Ended December 31, 2016**

<b>Total Revenues</b>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>
	<i>(in millions)</i>	
Net premiums earned	426,230	506,910
Life insurance business	361,649	429,267
Health insurance business	50,590	63,323
Accident insurance business	13,991	14,320
Investment income	109,147	122,727
Investment income from securities at fair value through profit or loss	6,210	4,538
Investment income from available-for-sale securities	37,243	46,627
Investment income from held-to-maturity securities	24,854	30,669
Investment income from bank deposits	27,851	23,827
Investment income from loans	12,018	16,320
Other investment income	971	746
Net realized gains on financial assets	6,038	42
Net fair value gains through profit or loss	(7,094)	6,183
Other income	6,460	7,493
<b>Total</b>	<b>540,781</b>	<b>643,355</b>

***Net Premiums Earned***

Net premiums earned increased by RMB 80,680 million, or 18.9%, to RMB 506,910 million in 2017 from RMB 426,230 million in 2016.

***Life Insurance Business***

Net premiums earned from life insurance business increased by RMB 67,618 million, or 18.7%, to RMB 429,267 in 2017 from RMB 361,649 million in 2016. This was primarily due to a rapid increase in renewals and first-year regular premiums.

***Health Insurance Business***

Net premiums earned from health insurance business increased by RMB 12,733 million, or 25.2%, to RMB 63,323 million in 2017 from RMB 50,590 million in 2016. This was primarily due to rapid development in protection-oriented businesses.

***Accident Insurance Business***

Net premiums earned from accident insurance business increased by RMB 329 million, or 2.4%, to RMB 14,320 million in 2017 from RMB 13,991 million in 2016.

***Investment Income***

Investment income increased by RMB 13,580 million, or 12.4%, from RMB 109,147 million in 2016 to RMB 122,727 million in 2017.

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***Investment Income from Securities at Fair Value through Profit or Loss***

Investment income from securities at fair value through profit or loss decreased by RMB 1,672 million, or 26.9%, to RMB 4,538 million in 2017 from RMB 6,210 million in 2016. This was primarily due to a decrease in interest income resulting from a decrease in investments in commercial papers in bonds at fair value through profit or loss.

***Investment Income from Available-for-Sale Securities***

Investment income from available-for-sale securities increased by RMB 9,384 million, or 25.2%, to RMB 46,627 million in 2017 from RMB 37,243 million in 2016. This was primarily due to an increase in dividend income from available-for-sale equity investments.

***Investment Income from Held-to-Maturity Securities***

Investment income from held-to-maturity securities increased by RMB 5,815 million, or 23.4%, to RMB 30,669 million in 2017 from RMB 24,854 million in 2016. This was primarily due to an increase in interest income resulting from the increase in the allocation in financial bonds.

***Investment Income from Bank Deposits***

Investment income from bank deposits decreased by RMB 4,024 million, or 14.4%, to RMB 23,827 million in 2017 from RMB 27,851 million in 2016. This was primarily due to a decrease in interest income resulting from the decrease in the allocation in deposits.

***Investment Income from Loans***

Investment income from loans increased by RMB 4,302 million, or 35.8%, to RMB 16,320 million in 2017 from RMB 12,018 million in 2016. This was primarily due to an increase in interest income from the increase in the allocation in trust schemes.

***Net Realized Gains on Financial Assets***

Net realized gains on financial assets decreased by RMB 5,996 million, or 99.3%, to gains of RMB 42 million in 2017 from gains of RMB 6,038 million in 2016. This was primarily due to a decrease in spread income of stocks and funds in available-for-sale securities.

***Net Fair Value Gains through Profit or Loss***

Net fair value gains through profit or loss increased by RMB 13,277 million to gains of RMB 6,183 million in 2017 from losses of RMB 7,094 million in 2016. This was primarily due to an increase in spread income and fair value of stocks in securities at fair value through profit or loss.

***Other Income***

Other income increased by RMB 1,033 million, or 16.0%, to RMB 7,493 million in 2017 from RMB 6,460 million in 2016. This was primarily due to an increase in the commission fees earned from CLPCIC.



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Benefits, Claims and Expenses	For the year ended December 31,	
	2016 RMB	2017 RMB
	<i>(in millions)</i>	
Insurance benefits and claims expenses		
Life insurance death and other benefits	253,157	259,708
Accident and health claims and claim adjustment expenses	27,269	33,818
Increase in insurance contracts liabilities	126,619	172,517
Investment contracts benefits	5,316	8,076
Policyholder dividends resulting from participation in profits	15,883	21,871
Underwriting and policy acquisition costs	52,022	64,789
Finance costs	4,767	4,601
Administrative expenses	31,854	35,953
Other expenses	4,859	6,426
Statutory insurance fund contribution	1,048	1,068
<b>Total</b>	<b>522,794</b>	<b>608,827</b>
Segment information of insurance benefits and claims expenses		
Life insurance business	360,922	409,410
Health insurance business	40,513	50,624
Accident insurance business	5,610	6,009
<b>Total</b>	<b>407,045</b>	<b>466,043</b>

**Insurance Benefits and Claims Expenses**

Insurance benefits and claims, net of amounts ceded through reinsurance, increased by RMB 58,998 million, or 14.5%, to RMB 466,043 million in 2017 from RMB 407,045 million in 2016.

Life insurance death and other benefits payouts increased by RMB 6,551 million, or 2.6%, to RMB 259,708 million in 2017 from RMB 253,157 million in 2016. This was primarily due to an increase in surrenders. Accident and health claims and claim adjustment expenses increased by RMB 6,549 million, or 24.0%, to RMB 33,818 million in 2017 from RMB 27,269 million in 2016. This was primarily due to an increase in the volume of short-term health insurance and accident insurance business. Increase in insurance contracts liabilities increased by RMB 45,898 million, or 36.2%, to RMB 172,517 million in 2017 from RMB 126,619 million in 2016. This was primarily due to an increase in the scale of insurance business.

**Life Insurance Business**

Insurance benefits and claims expenses attributable to life insurance business increased by RMB 48,488 million, or 13.4%, to RMB 409,410 million in 2017 from RMB 360,922 million in 2016. This was primarily due to an increase in the scale of life insurance business.



***Health Insurance Business***

Insurance benefits and claims expenses attributable to health insurance business increased by RMB 10,111 million, or 25.0%, to RMB 50,624 million in 2017 from RMB 40,513 million in 2016. This was primarily due to an increase in the scale of health insurance business.

***Accident Insurance Business***

Insurance benefits and claims expenses attributable to accident insurance business increased by RMB 399 million, or 7.1%, to RMB 6,009 million in 2017 from RMB 5,610 million in 2016. This was primarily due to fluctuation in claims expenses of certain businesses.

**Table of Contents*****Investment Contract Benefits***

Investment contract benefits increased by RMB 2,760 million, or 51.9%, to RMB 8,076 million in 2017 from RMB 5,316 million in 2016. This was primarily due to an increase in the scale of investment contracts.

***Policyholder Dividends Resulting from Participation in Profits***

Policyholder dividends resulting from participation in profits increased by RMB 5,988 million, or 37.7%, to RMB 21,871 million in 2017 from RMB 15,883 million in 2016. This was primarily due to an increase in investment yields from participating accounts.

***Underwriting and Policy Acquisition Costs***

Underwriting and policy acquisition costs increased by RMB 12,767 million, or 24.5%, to RMB 64,789 million in 2017 from RMB 52,022 million in 2016. This was primarily due to an increase in underwriting costs for regular premium business due to the growth of our business and the optimization of our business structure.

***Finance Costs***

Finance costs decreased by RMB 166 million, or 3.5%, to RMB 4,601 million in 2017 from RMB 4,767 million in 2016. This was primarily due to a decrease in interest paid due to redemptions of subordinated debts.

***Administrative Expenses***

Administrative expenses include employees' remuneration and other administrative expenses. Administrative expenses increased by RMB 4,099 million, or 12.9%, to RMB 35,953 million in 2017 from RMB 31,854 million in 2016. This was primarily due to the growth of our business.

***Other Expenses***

Other expenses increased by RMB 1,567 million, or 32.2%, to RMB 6,426 million in 2017 from RMB 4,859 million in 2016. This was primarily due to payables to third party holders of consolidated structured entities and the change in foreign exchange rates applicable to our assets and liabilities held in foreign currencies.

<b>Profit</b>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>
	<b>(in millions)</b>	
Profit before income tax	23,842	41,671
Life insurance business	14,732	29,315
Health insurance business	2,093	3,246
Accident insurance business	852	528
Other businesses	6,165	8,582
Income tax	4,257	8,919
Net profit attributable to equity holders of the company	19,127	32,253



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### ***Profit before Income Tax***

Our profit before income tax increased by RMB 17,829 million, or 74.8%, to RMB 41,671 million in 2017 from RMB 23,842 million in 2016.

### ***Life Insurance Business***

Profit before income tax in the life insurance business increased by RMB 14,583 million, or 99.0%, to RMB 29,315 million in 2017 from RMB 14,732 million in 2016. This was primarily due to a relatively rapid increase in investment income and the impact of the update of discount rate assumptions for reserves for traditional insurance contracts.

### ***Health Insurance Business***

Profit before income tax in the health insurance business increased by RMB 1,153 million, or 55.1%, to RMB 3,246 million in 2017 from RMB 2,093 million in 2016. This was primarily due to an increase in investment income.

### ***Accident Insurance Business***

Profit before income tax in the accident insurance business decreased by RMB 324 million, or 38.0%, to RMB 528 million in 2017 from RMB 852 million in 2016. This was primarily due to fluctuation in claims expenses of certain businesses.

### ***Other Business***

Profit before income tax in other business increased by RMB 2,417 million, or 39.2%, to RMB 8,582 million in 2017 from RMB 6,165 million in 2016. This was primarily due to an increase in net share of profit of associates and joint ventures.

### ***Income Tax***

We pay income tax according to applicable Chinese enterprise income tax regulations and rules. Income tax increased by RMB 4,662 million, or 109.5%, to RMB 8,919 million in 2017 from RMB 4,257 million in 2016. This was primarily due to the combined impact of taxable income and deferred tax.

### ***Net Profit Attributable to Equity Holders of the Company***

For the reasons set forth above, net profit attributable to equity holders of the Company increased by RMB 13,126 million, or 68.6%, to RMB 32,253 million in 2017 from RMB 19,127 million in 2016. This was primarily due to an increase in the investment income and the impact of the update of discount rate assumptions for reserves of traditional insurance contracts.

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Major Assets	As of December 31,	
	2016	2017
	RMB	RMB
	(in millions)	
Investment assets <sup>1</sup>	2,573,049	2,753,124
Term deposits	538,325	449,400
Held-to-maturity securities	594,730	717,037
Available-for-sale securities	766,423	810,734
Securities at fair value through profit or loss	209,124	136,809
Securities purchased under agreements to resell	43,538	36,185
Cash and cash equivalents	67,046	48,586
Loans	226,573	383,504
Statutory deposits restricted	6,333	6,333
Investment properties	1,191	3,064
Investment in associates and joint ventures	119,766	161,472
Other assets	123,902	144,467
<b>Total</b>	<b>2,696,951</b>	<b>2,897,591</b>

1 Beginning in 2018, the scope of investments assets has been revised to include investments in associates and joint ventures, and the amounts of investment assets for 2017 and 2016 have also been revised to conform to this revised scope.

**Investment Assets**

Our total investment assets increased by RMB 180,075 million, or 7.0%, to RMB 2,753,124 million as of December 31, 2017 from RMB 2,573,049 million as of December 31, 2016.

**Term Deposits**

Term deposits decreased by RMB 88,925 million, or 16.5%, to RMB 449,400 million as of December 31, 2017 from RMB 538,325 million as of December 31, 2016. This was primarily due to the maturity of certain term deposits.

**Held-to-Maturity Securities**

Held-to-maturity securities increased by RMB 122,307 million, or 20.6%, to RMB 717,037 million as of December 31, 2017 from RMB 594,730 million as of December 31, 2016. This was primarily due to an increase in the allocation in financial bonds.

**Available-for-Sale Securities**

Available-for-sale securities increased by RMB 44,311 million, or 5.8%, to RMB 810,734 million as of December 31, 2017 from RMB 766,423 million as of December 31, 2016. This was primarily due to an increase in the allocation in stocks in available-for-sale securities.

**Securities at Fair Value Through Profit or Loss**

Securities at fair value through profit or loss decreased by RMB 72,315 million, or 34.6%, to RMB 136,809 million as of December 31, 2017 from RMB 209,124 million as of December 31, 2016. This was primarily due to a decrease in the allocation in commercial papers in bonds at fair value through profit or loss.

**Table of Contents*****Cash and Cash Equivalents***

Cash and cash equivalents decreased by RMB 18,460 million, or 27.5%, to RMB 48,586 million as of December 31, 2017 from RMB 67,046 million as of December 31, 2016. This was primarily due to the needs for liquidity management.

***Loans***

Loans increased by RMB 156,931 million, or 69.3%, to RMB 383,504 million as of December 31, 2017 from RMB 226,573 million as of December 31, 2016. This was primarily due to an increase in the allocation in trust schemes in loans.

***Investment Properties***

Investment properties increased by RMB 1,873 million, or 157.3%, to RMB 3,064 million as of December 31, 2017 from RMB 1,191 million as of December 31, 2016. This was primarily due to an increase in investment properties.

***Investments in associates and joint ventures***

Our investments in associates and joint ventures increased by RMB 41,706 million, or 34.8%, to RMB 161,472 million as of December 31, 2017 from RMB 119,766 million as of December 31, 2016. This primarily reflected our new investments in associates and joint ventures.

<b>Major Liabilities</b>	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>
	<b>(in millions)</b>	
<b>Liabilities</b>		
Insurance contracts	1,847,986	2,025,133
Investment contracts	195,706	232,500
Securities sold under agreements to repurchase	81,088	87,309
Policyholder dividends payable	87,725	83,910
Annuity and other insurance balances payable	39,038	44,820
Interest-bearing loans and borrowings	16,170	18,794
Bonds payable	37,998	
Deferred tax liabilities	7,768	4,871
Other liabilities	75,824	74,944
<b>Total</b>	<b>2,389,303</b>	<b>2,572,281</b>

***Liabilities***

Our total liabilities increased by RMB 182,978 million, or 7.7%, to RMB 2,572,281 million as of December 31, 2017 from RMB 2,389,303 million as of December 31, 2016.

***Insurance Contracts***

Liabilities of insurance contracts increased by RMB 177,147 million, or 9.6%, to RMB 2,025,133 million as of December 31, 2017 from RMB 1,847,986 million as of December 31, 2016. This was primarily due to the accumulation of insurance liabilities from new insurance business and renewal business. As at the date of the statement of financial position, our insurance contracts reserves passed liability adequacy testing.



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**Table of Contents*****Investment Contracts***

The account balance of investment contracts increased by RMB 36,794 million, or 18.8%, to RMB 232,500 million as of December 31, 2017 from RMB 195,706 million as of December 31, 2016. This was primarily due to an increase in the scale of certain investment contracts.

***Securities Sold under Agreements to Repurchase***

Securities sold under agreements to repurchase increased by RMB 6,221 million, or 7.7%, to RMB 87,309 million as of December 31, 2017 from RMB 81,088 million as of December 31, 2016. This was primarily due to the needs for liquidity management.

***Policyholder Dividends Payable***

Policyholder dividends payable decreased by RMB 3,815 million, or 4.3%, to RMB 83,910 million as of December 31, 2017 from RMB 87,725 million as of December 31, 2016. This was primarily due to dividends paid to policyholders.

***Annuity and Other Insurance Balances Payable***

Annuity and other insurance balances payable increased by RMB 5,782 million, or 14.8%, to RMB 44,820 million as of December 31, 2017 from RMB 39,038 million as of December 31, 2016. This was primarily due to an increase in maturities payable.

***Interest-bearing Loans and Borrowings***

Our borrowings in foreign currency increased in 2017. Interest-bearing loans and other borrowings include a five-year bank loan of GBP 275 million with a maturity date on June 17, 2019, a three-year bank loan of US\$ 970 million with a maturity date on September 27, 2019, a three-year bank loan of US\$ 940 million with a maturity date on September 30, 2019 and a one-month bank loan of EUR 100 million with a maturity date on January 11, 2018, all of which are fixed rate loans, and a three-year loan of EUR400 million with a maturity date on December 6, 2020, which is a floating rate loan.

***Bonds Payable***

Bonds payable as of December 31, 2016 were RMB 37,998 million, and there were no bonds payable as of December 31, 2017. The reduction in bonds payable was primarily due to redemption of subordinated debts.

***Deferred Tax Liabilities***

Deferred tax liabilities decreased by RMB 2,897 million, or 37.3%, to RMB 4,871 million as of December 31, 2017 from RMB 7,768 million as of December 31, 2016. This was primarily due to the decrease in the fair value of available-for-sale securities.

***Equity Attributable to Equity Holders of the Company***

As of December 31, 2017, equity attributable to our equity holders was RMB 320,933 million, an increase of RMB 17,312 million, or 5.7%, from RMB 303,621 million as of December 31, 2016. This was primarily due to the

combined effect of an increase in total comprehensive income and profit distributions during 2017.

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**B. LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity Sources**

Our principal cash inflows come from insurance premiums, deposits from investment contracts, proceeds from sales and maturity of investment assets and investment income. The primary liquidity risks with respect to these cash inflows are the risk of surrenders by contract holders and policyholders, as well as the risks of default by debtors, interest rate changes and other market volatilities. We closely monitor and manage these risks. See Item 4. Information on the Company Business Overview Investments .

Our cash and bank deposits provide us with a source of liquidity to meet normal cash outflows. As of December 31, 2018, the amount of cash and cash equivalents was RMB 50,809 million. In addition, substantially all of our term deposits with banks allow us to withdraw funds on deposit, subject to a penalty interest charge. As of December 31, 2018, the amount of term deposits was RMB 559,341 million.

Our investment portfolio also provides us with a source of liquidity to meet unexpected cash outflows. We are also subject to market liquidity risk due to the large size of our investments in some of the markets in which we invest. In some circumstances, some of our holdings of investment securities may be large enough to have an influence on the market value. These factors may adversely affect our ability to sell these investments at an adequate price, or at all.

**Liquidity Uses**

Our principal cash outflows primarily relate to the payables for the liabilities associated with our various life insurance, annuity, accident insurance and health insurance products, operating expenses, income taxes and dividends that may be declared and paid to our shareholders. Cash outflows arising from our insurance activities primarily relate to benefit payments under these insurance products, as well as payments for policy surrenders, policy withdrawals and policy loans.

We believe that our sources of liquidity are sufficient to meet our current cash requirements.

**Consolidated Cash Flows**

We have established a cash flow testing system and conduct regular tests to monitor the cash inflows and outflows under various changing circumstances and adjust accordingly the asset portfolio to ensure sufficient sources of liquidity.

Net cash flow from operating activities amounted to a net inflow of RMB 147,552 million (US\$ 21,461 million) in 2018. Net cash flow from operating activities amounted to a net inflow of RMB 200,990 million in 2017. The change was primarily due to the change in the scale of securities at fair value through profit or loss.

Net cash flow from investing activities amounted to a net outflow of RMB 238,373 million (US\$ 34,670 million) in 2018. Net cash flow from investing activities amounted to a net outflow of RMB 173,676 million in 2017. This change was primarily due to the uneven distribution of cash flows at maturity from investment assets for each year.

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Net cash flow from financing activities amounted to net inflow of RMB 92,963 million (US\$ 13,521 million) in 2018. Net cash flow from financing activities amounted to net outflow of RMB 45,595 million in 2017. This change was primarily due to the change in account balance of securities sold under agreements to repurchase from time to time as a result of liquidity management activities and the impact of redemptions of subordinated debts in 2017.

Our global share offering in December 2003 provided cash proceeds of approximately RMB 24,707 million (US\$ 3,062 million). As of the date of this annual report, a part of the cash proceeds from our global offering was held in bank deposit accounts denominated in foreign currencies in China, and part of the cash proceeds was invested in securities listed on overseas stock exchanges, multi-asset portfolios and private equity funds. We invested approximately US\$ 433 million, in addition to RMB 2,282 million, in Guangdong Development Bank in December 2006. We used a total of approximately HK\$ 12 billion for investments in Sino-Ocean Group Holding Limited in 2009, 2010 and 2013. As of December 31, 2018, we had engaged 13 third party overseas investment managers to manage US\$ 1,404 million for investment in overseas public markets.

Our A share offering in December 2006 provided cash proceeds of approximately RMB 27,810 million. As at the end of 2018, the cash proceeds from our A share offering were used to increase our share capital.

Our issuance of Core Tier 2 Capital Securities in July 2015 provided cash proceeds of approximately US\$ 1,274 million. As at the end of 2018, cash proceeds from the issuance of Core Tier 2 Capital Securities were used to replenish our capital and raise our solvency ratio in accordance with applicable laws and approvals by regulatory authorities.

In March 2019, we issued the bonds in the principal amount of RMB 35 billion in the national inter-bank bond market. The bonds have a 10-year maturity and a fixed coupon rate of 4.28% per annum. We have a conditional right to redeem the bonds on the fifth anniversary of issuance. The proceeds from the issuance of the bonds will be used to replenish our capital so as to enhance our solvency according to applicable laws and approvals from regulatory authorities.

**Ratio of Assets and Liabilities**

Our ratio of assets and liabilities (total liabilities divided by total assets) as at December 31, 2018, 2017 and 2016 are as follows:

**As at December 31, 2018    As at December 31, 2017    As at December 31, 2016**

Ratio of assets and liabilities	88.59%	88.77%	90.07%
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**Insurance Solvency Requirements**

We are required by CIRC regulation to maintain our solvency at a level in excess of minimum solvency levels. On January 1, 2016, the CIRC implemented a new set of solvency regulations, or C-ROSS, which replaced Solvency I. Under C-ROSS, the core solvency adequacy ratio of an insurer is calculated by dividing the core capital of an insurer by the minimum capital it is required to meet, and the comprehensive solvency adequacy ratio of an insurer is calculated by dividing the sum of core capital and supplementary capital of an insurer by the minimum capital it is required to meet. See Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements . The following table shows our solvency as of December 31, 2016, 2017 and 2018:



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	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
	<i>(RMB in millions, except percentage data)</i>		
Core capital	761,353	706,516	639,396
Actual capital	761,367	706,623	677,768
Minimum capital	303,872	254,503	228,080
Core solvency ratio	250.55%	277.61%	280.34%
Comprehensive solvency ratio	250.56%	277.65%	297.16%

The decrease in our solvency ratio in 2018 was primarily due to the growth of our business and an increase in the scale of investment assets.

In 2018, the CIRC conducted a review under the Solvency Aligned Risk Management Requirements and Assessment framework, or SARMRA, on the solvency aligned risk management of some insurers. We received one of the highest scores among life insurers. The SARMRA score links the risk management capacity of insurers with capital requirements.

**Contractual Obligations and Commitments**

The following table sets out our contractual obligations and commitments as of December 31, 2018.

	Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years		Later than 5 years	Total
			Later than 3 years but not later than 5 years	Later than 5 years		
<b>As of December 31, 2018</b>	<i>(RMB in millions)</i>					
Securities sold under agreements to repurchase	192,141					192,141
Annuity and other insurance balances payable	49,465					49,465
Insurance contracts	(197,289)	(222,170)	13,489	4,391,739		3,985,769
Investment contracts	13,098	10,293	11,422	629,318		664,131
Interest bearing loans and borrowings	16,977	3,798				20,775
Off balance sheet operating leases	1,049	1,119	254	52		2,474
Capital commitments	69,913	10,882	4,872	480		86,147
<b>Total</b>	<b>145,354</b>	<b>(196,078)</b>	<b>30,037</b>	<b>5,021,589</b>		<b>5,000,902</b>

Capital commitments mainly represent our commitments with respect to the acquisition of property, plant and equipment, and our investments.

The amounts set forth in the table above for insurance contracts and investment contracts in each column represent expected future cash inflows and outflows on policies in force as at December 31, 2018. The estimate is affected by numerous assumptions, including assumptions related to mortality, morbidity, surrenders and other expense assumptions. Many of these estimates are inherently uncertain and the actual experience may differ from our estimates.



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The expected net cash outflows for our insurance contracts are negative in the periods not later than 1 year and later than 1 year but not later than 3 years in the above table. This is primarily because we have increased our sales of products with regular premiums, which has resulted in an increase in the proportion of insurance contracts that are in premium payment period. As premiums for products with regular premiums are paid by installments during the premium payment period, insurance future cash inflows occur at an earlier stage of the policy term, while benefits payments and other insurance future cash outflows occur gradually throughout the entire policy period. Furthermore, as the expected future cashflows reported in the table above are not discounted from the date of payment back to December 31, 2018, the sum of the expected future cashflows are different from the amount of corresponding liabilities in our consolidated balance sheet as of December 31, 2018. Policyholder dividends will not become a contractual obligation until the applicable policy anniversary is reached and the dividend amount is credited to the policy benefit liability or paid to the policyholder, and hence are not included in the table above. Reinsurance recoveries have not been taken into account.

Other than as set forth under capital commitments, we had no material, individually or in the aggregate, purchase obligations as of December 31, 2018.

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

None.

**D. TREND INFORMATION**

Please refer to our discussion in each section under [Overview of Our Business](#) , [Factors Affecting Our Results of Operations](#) , [Critical Accounting Policies](#) and [Operating Results](#) .

We review assumptions used in establishing reserves for long term insurance contracts and the impact of changes in these assumptions on our net profit. Changes in these assumptions may have a significant impact on our operating results. Changes in these assumptions resulted in an increase of RMB 3,074 million in profit before income tax in 2018, a decrease of RMB 9,023 million in profit before income tax in 2017 and a decrease of RMB 14,736 million in profit before income tax in 2016. The sensitivity analysis of these assumptions is as follows:

holding all other variables constant, if mortality rates and morbidity rates were to increase or decrease from the current best estimate by 10%, pre-tax profit for the year would have been RMB 23,322 million lower or RMB 24,177 million higher, respectively.

holding all other variables constant, if lapse rates were to increase or decrease from the current best estimate by 10%, pre-tax profit for the year would have been RMB 1,672 million lower or RMB 1,535 million higher, respectively.

holding all other variables constant, if the discount rates were 50 basis points higher or lower than the current best estimate, pre-tax profit for the year would have been RMB 83,634 million higher or RMB 95,212 million lower, respectively.

See also Note 4.1.3 and Note 14 to our consolidated financial statements included elsewhere in this annual report.



**E. OFF-BALANCE SHEET ARRANGEMENTS**

As of December 31, 2018, there were no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Table of Contents**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

See Liquidity and Capital Resources Contractual Obligations and Commitments .

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT**

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o China Life Insurance Company Limited, 16 Financial Street, Xicheng District, Beijing 100033, China.

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>
Wang Bin	November 1958	Chairman of the board of directors and executive director
Su Hengxuan	February 1963	Executive director and president
Xu Haifeng	May 1959	Executive director and vice president
Yuan Changqing	September 1961	Non-executive director
Liu Huimin	June 1965	Non-executive director
Yin Zhaojun	July 1965	Non-executive director
Chang Tso Tung Stephen	November 1948	Independent director
Robinson Drake Pike	October 1951	Independent director
Tang Xin	September 1971	Independent director
Leung Oi-Sie Elsie	April 1939	Independent director
Li Mingguang	July 1969	Vice president, chief actuary and board secretary
Zhao Lijun	July 1963	Vice president
Xiao Jianyou	September 1968	Vice president
Zhao Peng	April 1972	Vice president
Ruan Qi	July 1966	Vice president
Zhan Zhong	April 1968	Marketing director
Yang Hong	February 1967	Operation director
Xu Chongmiao	October 1969	Compliance Officer

**Directors**

**Wang Bin** has been an executive director and the chairman of the board of directors of our company since December 2018. Mr. Wang also acts as the chairman of the board of directors and the secretary to the party committee of CLIC, the chairman of the board of directors of AMC, the chairman of the board of directors of China Life Insurance (Overseas) Company Limited and a director and the chairman of the board of directors of China Guangfa Bank Co., Ltd. Mr. Wang has successively been employed by government authorities and financial institutions with nearly 30 years of experience in financial management. He has worked at the People's Bank of China, participating in the preparation and establishment of Agricultural Development Bank of China as an important member. Mr. Wang served as the general manager of Jiangxi Branch of Agricultural Development Bank of China, and the president of Tianjin Branch and Beijing Branch of the Bank of Communications Co., Ltd. (the Bank of Communications). He also served as the vice president of the Bank of Communications from 2005 to 2012 and concurrently served as an executive director of the Bank of Communications from 2010 to 2012. From March 2012 to August 2018, he served as the

chairman of the board of directors and the secretary to the Party Committee of China Taiping Insurance Group Ltd. Mr. Wang holds a doctoral degree in economics. He is a researcher, a delegate to the 19th National Congress of the Communist Party of China and a member of the 12th and 13th National Committee of the Chinese People's Political Consultative Conferences.

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***Su Hengxuan*** has been an executive director of our company since December 2018 and has been our president since April 2019. He has served as the vice president of CLIC since December 2017. He was the president of China Life Pension from March 2015 to February 2018. Mr. Su served various positions in the company from 2000 to 2015, including the deputy general manager of the Henan Branch, the general manager of the individual insurance department of the company, the general manager of the individual insurance sales department of the company and as an assistant to the president and the vice president of the company. Mr. Su graduated from Wuhan University and the University of Science and Technology of China and obtained a doctoral degree in management science and engineering from the University of Science and Technology of China in 2011. Mr. Su, a senior economist, has over 35 years of experience in the operation and management of life insurance businesses.

***Xu Haifeng*** has been an executive director of our company since July 2015 and has been a vice president of the company since November 2014. He has been a non-executive director of AMC since September 2015. Mr. Xu served as the non-executive director of China Life E-commerce Company Limited from January 2015 to January 2017. He served as the business controller of our company and general manager of our Hebei branch concurrently from February 2014 to November 2014. Mr. Xu served as the general manager of our Beijing branch and the general manager of our Hebei branch from 2006 to 2014. Prior to that, Mr. Xu served as the deputy general manager and general manager of our Linyi branch in Shandong Province and the general manager of the business management department in our Shandong branch, the general manager of our Jinan branch and the deputy general manager of our Beijing branch. Mr. Xu graduated from Linyi Foreign Language Normal University in 1982 and from Shandong Provincial Party School majoring in economic management in 1996, and obtained a master degree in business administration from Zhongnan University of Economics and Law in 2007. Mr. Xu, a senior economist, has over 30 years of experience in the operation of life insurance businesses and insurance management.

***Yuan Changqing*** has been a non-executive director of our company since February 2018. He serves as the vice chairman and president of CLIC and the deputy secretary to the party committee of CLIC. Mr. Yuan served as the chairman of the supervisory committee and the deputy secretary to the party committee of Agricultural Bank of China Limited from April 2015 to May 2017. He served as the deputy general manager and the secretary to the discipline inspection committee of China Everbright Group Corporation Limited from November 2014 to April 2015, the secretary to the discipline inspection committee of China Everbright Group Limited from December 2008 to August 2012, and an executive director, the deputy general manager and the secretary to the discipline inspection committee of China Everbright Group Limited from August 2012 to November 2014, during which he concurrently acted as the chairman of Everbright Securities Company Limited. During the period from 1995 to 2008, he served as the vice president, president and secretary to the party committee of Xinjiang branch, the president and secretary to the party committee of Henan branch, and the director of the organization department of the party committee and the general manager of the human resources department of the head office of Industrial and Commercial Bank of China Limited. During the period from 1981 to 1995, he held various professional and management positions in branch offices of the People's Bank of China and Industrial and Commercial Bank of China. Mr. Yuan, a senior economist, graduated from the University of Hong Kong, majoring in international business administration with a master's degree in business administration.

***Liu Huimin*** has been a non-executive director of our company since July 2017. He has been the vice president of CLIC since September 2013. He served as the vice president of AMC from 2004, and the president and director of the same company from 2006, during which he concurrently served as the chairman of China Life Franklin Asset Management Company Limited and the chairman of China Life AMP Asset Management Co., Ltd., etc. Mr. Liu graduated from Peking University with a doctoral degree in international law. Before that, he graduated from the School of Social Sciences of the University of Sussex in the United Kingdom with a master's degree in development economics and Peking University with a bachelor's degree in national economic management.



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**Yin Zhaojun** has been a non-executive director of our company since July 2017. He has been the vice president of CLIC since October 2016. He joined the Bank of Communications in July 1990, and consecutively served as the assistant to the president of Beijing branch and the vice president of Shanxi branch of the Bank of Communications from 2005, and as the president of Shanxi branch, Hebei branch and Beijing branch of the Bank of Communications from 2011. Mr. Yin graduated from China University of Political Science and Law with a master's degree in public administration. Before that, he graduated from the Faculty of Accounting of Beijing College of Finance and Commerce with a bachelor's degree in economics.

**Chang Tso Tung Stephen** has been an independent director of our company since October 2014. He served as the vice chairman of the Greater China Region of Ernst & Young, the managing partner for professional services and the chairman of auditing and consulting service of Ernst & Young until his retirement in 2004. From 2007 to 2013, Mr. Chang was an independent non-executive director of China Pacific Insurance (Group) Co., Ltd. Mr. Chang is currently an independent non-executive director of China Cinda Asset Management Co., Ltd., Kerry Properties Limited and Hua Hong Semiconductor Limited, all of which are listed on the Hong Kong Stock Exchange. Mr. Chang has been practicing as a certified public accountant in Hong Kong for approximately 30 years and has extensive experience in accounting, auditing and financial management. Mr. Chang holds a bachelor's degree of science from the University of London, and is a fellow member of the Institute of Chartered Accountants in England and Wales.

**Robinson Drake Pike** has been an independent director of our company since July 2015. Before his retirement from Goldman Sachs in 2014, Mr. Pike served as the managing director of Goldman Sachs and the chief representative of the Beijing Representative Office of Goldman Sachs International Bank UK from August 2011 to May 2014, and the managing director of Goldman Sachs and a senior advisor and project coordinator seconded to the Industrial and Commercial Bank of China by Goldman Sachs from January 2007 to August 2011. From July 2000 to December 2006, he was Lehman Brothers' senior vice president, deputy head and head of Asia Credit Risk Management. He has over 30 years of experience in Asian financial industry with a focus on risk management and China's banking industry. He holds a bachelor's degree of arts in Chinese Language and Literature from Yale University and a master's degree of public affairs in development economics from Princeton University's Woodrow Wilson School.

**Tang Xin** has been an independent director of our company since March 2016. He is a professor of the School of Law of Tsinghua University, the deputy head of the commercial law research center of Tsinghua University, an associate editor of *Tsinghua Law Review*, a member of the listing committee of the Shanghai Stock Exchange, the chairman of the independent director committee of the China Association for Public Companies, and an independent director of each of Harvest Fund Management Co., Ltd., GF Securities Co., Ltd. and Oriza Holdings Co., Ltd. Mr. Tang was elected as a member of the first and second sessions of the merger, acquisition and reorganization review committee of the China Securities Regulatory Commission from 2008 to 2010. He served as an independent director of China Spacesat Co., Ltd. from 2008 to 2014, an independent director of each of SDIC Power Holdings Co., Ltd. and Changjiang Securities Company Limited from 2009 to 2013, and an independent director of Beijing Rural Commercial Bank Co., Ltd. from 2009 to 2015. Mr. Tang graduated from Renmin University of China with bachelor's, master's and doctorate degrees in law.

**Leung Oi-Sie Elsie** has been an independent director of our company since July 2016. She was previously the first Secretary for Justice of Hong Kong as well as a member of the Executive Council of Hong Kong, the deputy director of the Hong Kong Basic Law Committee of the Standing Committee of the National People's Congress and a consultant of Iu, Lai & Li Solicitors & Notaries. Ms. Leung served as a member of the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Social Welfare Advisory Committee and the Equal Opportunities Commission, an executive committee member and a council member of the Hong Kong Federation of Women, the Chairperson and President of the International Federation of Women Lawyers and the Honorary President of the Nanhai Worldwide Friendship Federation. She is a Justice of the Peace, a notary public and a China-appointed attesting officer. She has been awarded the Grand Bauhinia Medal and

admitted as a solicitor by the Law Societies of Hong Kong and England. Ms. Leung graduated from the University of Hong Kong with a master's degree in law, and is a fellow of the International Academy of Matrimonial Lawyers. She has been an independent non-executive director of United Company RUSAL Plc since December 2009, an independent non-executive director of China Resources Power Holdings Company Limited since April 2010. She has been an independent non-executive director of PetroChina Company Limited since June 2017.

**Table of Contents****Supervisors**

The following table sets forth information regarding our current supervisors.

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>
Jia Yuzeng	June 1962	Chairperson of the board of supervisors
Luo Zhaohui	March 1974	Supervisor
Tang Yong	July 1972	Supervisor
Song Ping	June 1964	Employee representative supervisor
Huang Xin	February 1974	Employee representative supervisor

**Jia Yuzeng** has been the chairperson of our board of supervisors since July 2018. During the period from 2006 to March 2018, he served as a supervisor, the general manager of the human resources department, an assistant to the president, the vice president, the board secretary, an executive director and the compliance officer of China Life Pension Company Limited. During the period from 2004 to 2006, he served as the general manager of the work department of the Trade Union, the executive deputy director of the Trade Union and a supervisor of the company. During the period from 1988 to 2004, he successively served as the division head of the General Office and a secretary (at the deputy director level) of the PRC Ministry of Supervision, the deputy director (responsible for daily operation) of the minister office of the general supervision office under the supervision department of the Central Commission for Discipline Inspection, and an inspector (at the director level), supervisor, inspector (at the deputy bureau chief level) and special supervisor of the general office of the Central Commission for Discipline Inspection. Mr. Jia graduated from the Open University of Hong Kong in 2003, majoring in business administration with a master's degree in business administration.

**Luo Zhaohui** has been a supervisor of our company since February 2018. Mr. Luo worked at the risk management department of China Life Insurance Company and the general office of CLIC from August 2002 to August 2013, and was appointed as the senior manager of the comprehensive information division of the general office of CLIC in May 2009 and an assistant to the general manager of the strategic planning department of CLIC in August 2013. Mr. Luo was seconded to our Shijiazhuang branch in Hebei Province as the deputy general manager during the period from November 2013 to October 2015, and was then appointed as the deputy general manager of the strategic planning department of CLIC in July 2016. Mr. Luo has been long been involved in strategic management related work, with considerable working experience in such aspects as risk management, market analysis and research and life insurance operations, as well as strategic planning and management. Mr. Luo, a senior economist, graduated from Peking University, majoring in finance with a doctoral degree.

**Tang Yong** has been a supervisor of our company since February 2019. He was the deputy general manager of the supervision department of our company from August 2018 to March 2019, responsible for the daily operation of the supervision department. From October 2016 to August 2018, he served as an assistant to the general manager and the deputy general manager of the human resources department of our company. From 2011 to 2016, Mr. Tang served as the division chief of the system staff management division of the human resources department, the general manager of the human resources department of Jiangxi branch and the division chief of the planning division of the human resources department of the company. From 2006 to 2011, he served as the senior supervisor and the deputy division chief of the organization division, and the deputy division chief of the system staff management division of the human resources department of our company. From 2004 to 2006, he served as the secretary at the level of battalion commander and the secretary at the level of deputy regimental commander of the general office of the general political department of the Chinese People's Liberation Army. Mr. Tang graduated from the Party School of the Central



Committee of the Chinese Communist Party majoring in political science and law in December 1998 and from Tianjin Normal University majoring in Chinese language and literature in June 2006.

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**Song Ping** has been a supervisor of our company since March 2018. He has been serving as the general manager of the administration office of our company since January 2017. From 2006 to 2017, he successively served as an assistant to the general manager of the development and reform department, an assistant to the general manager of our Beijing branch, the deputy general manager of the legal and compliance department, the deputy general manager of the human resources department and the general manager of the e-commerce department of our company. From 1999 to 2006, he successively served as the division chief of the agents management department, the individual insurance department and the group insurance department of our company. Mr. Song graduated from Peking University in July 1987, majoring in Chinese language and literature with a bachelor's degree of arts.

**Huang Xin** has been a supervisor of our company since June 2018. He served as the general manager of the human resources department of our company from March 2018 to December 2018. He served as the deputy general manager of the human resources department of the company from August 2014 to March 2018. From December 2010 to August 2014, Mr. Huang successively served as an assistant to the general manager and the deputy general manager of the human resources department of CLIC, during which he was seconded to the Shijiazhuang Branch of our company in Hebei Province as the deputy general manager from February 2011 to February 2013. From 2004 to 2010, he successively served as the deputy division chief of the labor and wages division, and the deputy division chief and division chief of the performance and remuneration management division of the human resources department of CLIC. Mr. Huang graduated from Central University of Finance and Economics in July 1996 majoring in taxation with a bachelor's degree in economics, and is a senior economist and PRC certified public accountant.

**Senior Management**

**Su Hengxuan**, see Directors and Senior Management Directors for his profile.

**Xu Haifeng**, see Directors and Senior Management Directors for his profile.

**Li Mingguang** has been a vice president of our company since November 2014, our chief actuary since March 2012 and our board secretary since June 2017. Mr. Li joined our company in 1996 and subsequently served as deputy division chief, division chief, assistant to the general manager of product development department, responsible actuary of our company and general manager of our actuarial department. Mr. Li graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1991, Central University of Finance and Economics majoring in monetary banking (actuarial science) with a master's degree in 1996 and Tsinghua University with an EMBA in 2010, and also studied at the University of Pennsylvania in the United States in 2011. Mr. Li is a fellow of the China Association of Actuaries (FCAA) and a fellow of the Institute and Faculty of Actuaries (FIA). He was the chairman of the first session of the China Actuarial Working Committee and the secretary-general of the first and the second session of the China Association of Actuaries. He is currently an executive director of the China Association of Actuaries, and a member of the China National Master of Insurance Education Supervisory Committee.

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**Zhao Lijun** has been a vice president of our company since July 2016. He was the chief financial officer and general manager of the finance department of CLIC from May 2014 to April 2016. From 2012 to 2014, Mr. Zhao successively served as the deputy general manager (responsible for daily operations) and general manager of the data center of our company. From 2010 to 2012, Mr. Zhao served as the general manager of the legal and compliance department of our company. From 2008 to 2010, Mr. Zhao served as the deputy general manager of the Shandong branch of our company. From 2003 to 2008, Mr. Zhao successively served as an assistant to the general manager and the general manager of the finance department of our company. Prior to that, he served as a cadre in the finance and planning department of People's Insurance Company of China, the director and deputy manager of the planning & finance department of China Reinsurance Corporation in Hong Kong, the deputy manager and manager of the planning and finance department of China Insurance H.K. (Holdings) Company Limited, the deputy division chief, the division chief and an assistant to the general manager of the planning and finance department of China Life Insurance Company. Mr. Zhao graduated from the Accounting Department of Anhui Finance & Trade College with a bachelor's degree in industrial accounting and finance in 1987 and from Tsinghua University with an EMBA in 2010. Mr. Zhao is a senior accountant.

**Xiao Jianyou** has been a vice president of our company since October 2016. He served as an assistant to the president of our company from July 2015 to October 2016 and the non-executive director of CLPCIC since September 2015. He served as the general manager of our Jiangsu branch from January 2014 and the deputy general manager (responsible for daily operations) of our Jiangsu branch from April 2013 to January 2014. From 2006 to 2013, he successively served as the deputy general manager, an assistant to the general manager and the marketing director of Jiangsu branch and the general manager and the deputy general manager of Taizhou branch in Jiangsu Province. Before that, Mr. Xiao held various other positions at the our Jiangsu branch, including the deputy manager of the marketing department and management department, an assistant to the general manager, the deputy general manager (responsible for daily operations) and the general manager of the personal insurance department. Mr. Xiao, a senior economist, graduated from Jiangxi Traditional Chinese Medicine College in 1991 with a bachelor's degree, and received double bachelor's degrees in medicine and law from Jiangxi Traditional Chinese Medicine College and Nanjing University, respectively.

**Zhao Peng** has been a vice president of our company since March 2018. He served as an assistant to the president of our company since October 2017 to March 2018, and the general manager of our Zhejiang branch since January 2015 to October 2017. From 2014 to 2015, he successively served as the deputy general manager (at the general manager level of the provincial branches) and the person-in-charge of our Zhejiang branch. From 2003 to 2014, he successively held various positions in CLIC, including the division chief of the capital management division of the finance department, an assistant to the general manager and the division chief of the capital management division of the finance department, an assistant to the general manager, the deputy general manager and the general manager of the finance and accounting department, and the general manager of the finance department. From 1995 to 2003, Mr. Zhao successively served as a staff member of the capital division, a staff member of the financial management division, the deputy division chief and the division chief of the capital division of the planning and finance department of China Life Insurance Company. Mr. Zhao graduated from Hunan College of Finance and Economics in July 1995, majoring in actuarial science with a bachelor's degree in economics; from Central University of Finance and Economics in June 2002, majoring in finance with a master's degree in economics; and from Tsinghua University in January 2007, majoring in business administration with a master's degree in Business Administration.

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**Ruan Qi** has been a vice president of our company since April 2018. He has been the chief information technology officer of our company from January 2018 to April 2018. Mr. Ruan served as the chief information technology officer and the general manager of the information technology department of our company from October 2016 to January 2018. He also served as the General Manager (at the general manager level of the provincial branches) of the Information Technology Department of the Company from March 2016 to October 2016. He served as the general manager of China Life Data Center and the general manager (at the general manager level of the provincial branches) of the information technology department of our company from 2014 to 2016, and the deputy general manager and the general manager of the information technology department of our company from 2004 to 2014. He successively served as the deputy division chief of the computer division of our Fujian branch, and the deputy manager (responsible for daily operations) and the manager of the information technology department of our company from 2000 to 2004. Mr. Ruan is a senior engineer. He graduated from Beijing Institute of Posts and Telecommunications in August 1987, majoring in computer science and communications with a bachelor's degree in engineering; and from Xiamen University with a master's degree in business administration for senior management (EMBA) in December 2007.

**Zhan Zhong** has been the marketing director of our company since August 2017. He has been the general manager (at the general manager level of the provincial branches) of the individual insurance division of our company since July 2014 and was an employee representative supervisor of our company from July 2015 to August 2017. Mr. Zhan served as the deputy general manager (responsible for daily operations) and the general manager of our Qinghai branch from 2013 to 2014. From 2009 to 2013, Mr. Zhan successively served as the deputy general manager (responsible for daily operations) and the general manager of the individual insurance division of our company. From 2005 to 2009, he successively served as the general manager of the individual insurance division of our Guangdong branch and an assistant to the general manager of our Guangdong branch. From 1996 to 2005, he successively served as the director of the marketing department of the Chengdu High-tech Sub-branch of Zhongbao Life Insurance Company, an assistant to the manager and the manager of the marketing department of the Chengdu branch and the deputy general manager of the Chengdu branch of Taikang Life Insurance Company. Mr. Zhan graduated from Kunming Institute of Technology in July 1989, majoring in industrial electric automation with a bachelor's degree in engineering.

**Yang Hong** has been the operating director of our company since March 2018. She has been the general manager of the operation service center of our company since January 2018. Ms. Yang successively served as the deputy general manager (responsible for daily operations) and general manager of the research and development center, the general manager (at the general manager level of the provincial branches) of the business management department and the general manager (at the general manager level of the provincial branches) of the business process management department of our company from 2011 to 2018. From 2002 to 2011, she successively served as an assistant to the general manager and the deputy general manager of the business management department, and the general manager of the customer service department of our company. Ms. Yang graduated from the Computer Science Department of Jilin University in 1989, majoring in system structure with a bachelor's degree of science, and from the School of Economics and Management of Tsinghua University in 2013 with a master's degree in business administration for senior management.

**Xu Chongmiao** has been the compliance officer of our company since July, 2018. He has been the general manager of the legal and compliance department and the legal officer of our company since September 2014. From 2006 to 2014, he successively served as the deputy general manager of the legal affair department, the deputy general manager of the legal and compliance department and the legal officer at the general manager level of our company. From 2000 to 2006, he successively served as the deputy division chief of the regulations division of the development and research department and a senior regulations researcher of the legal affairs department of our company. Mr. Xu graduated from Fudan University in August 1991, majoring in economic law with a bachelor's degree in law, and from Renmin

University of China in July 1996 and July 2005, respectively, majoring in economic law with master's and doctorate degrees in law. Mr. Xu is admitted as a lawyer and certified public accountant in the PRC.

**Table of Contents****B. COMPENSATION****Compensation of Directors, Supervisors and Officers**

Our directors, supervisors and executive officers receive compensation in the form of salaries, bonuses and other benefits-in-kind, including our contribution to the pension plan on behalf of our directors, supervisors and executive officers. As required by PRC regulations, we participate in various defined contribution retirement plans organized by provincial and municipal governments for our employees, including employees who are directors, supervisors and executive officers.

The following table sets forth the amounts of compensation paid to each of our directors and supervisors for the fiscal year ended December 31, 2018. The total compensation package for our executive directors and chairman of the board of supervisors for the year ended December 31, 2018 has not yet been finalized in accordance with regulations of the relevant PRC authorities. The amount of the compensation not provided for is not expected to have a significant impact on our financial statements for the year ended December 31, 2018. We will make further disclosure of the amount of the final compensation when it is determined.

Name	Salaries/Fees	Inducement Fees	Other <sup>(1)</sup> Benefits	Compensation for	Total
				loss of office as director	
<i>RMB in ten thousands</i>					
Wang Bin <sup>(2)</sup>					
Yang Mingsheng <sup>(3)</sup>					
Lin Dairen <sup>(4)</sup>	179.00		23.46		202.46
Su Hengxuan <sup>(5)</sup>					
Yuan Changqing <sup>(6)</sup>					
Liu Huimin					
Yin Zhaojun					
Wang Sidong <sup>(7)</sup>					
Chang Tso Tung Stephen	32.00				32.00
Xu Hengping <sup>(8)</sup>	143.20		23.24		166.44
Xu Haifeng	143.20		23.24		166.44
Robinson Drake Pike	32.00				32.00
Tang Xin	32.00				32.00
Leung Oi-Sie Elsie	30.00				30.00
Jia Yuzeng <sup>(9)</sup>	62.65		11.90		74.55
Miao Ping <sup>(10)</sup>	71.60		11.33		82.93
Shi Xiangming <sup>(11)</sup>	59.38		30.89		90.27
Luo Zhaohui <sup>(12)</sup>					
Tang Yong <sup>(13)</sup>					
Xiong Junhong <sup>(14)</sup>					
Wang Cuifei <sup>(15)</sup>	27.72		16.56		44.28
Song Ping <sup>(16)</sup>	40.29		26.75		67.04
Huang Xin <sup>(17)</sup>	28.20		19.01		47.21
Li Guodong <sup>(18)</sup>					

<b>Total</b>	<b>881.24</b>	<b>186.38</b>	<b>1,067.62</b>
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(1) Include benefits-in-kind, social insurance, housing fund and enterprise annuity to be paid by the employer.

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- (2) Appointed as executive director and chairman of the board of directors on December 3, 2018.
- (3) Resigned as executive director and chairman of the board of directors on November 13, 2018.
- (4) Resigned as executive director on December 19, 2018.
- (5) Appointed as non-executive director on July 11, 2018 and as executive director on December 20, 2018.
- (6) Appointed as non-executive director on February 11, 2018.
- (7) Resigned as non-executive director on January 12, 2018.
- (8) Resigned as executive director on January 24, 2019.
- (9) Appointed as supervisor on July 11, 2018, and appointed as chairperson of the board of supervisors on July 20, 2018.
- (10) Term as supervisor expired on June 6, 2018.
- (11) Resigned as supervisor on February 18, 2019.
- (12) Appointed as supervisor on February 11, 2018.
- (13) Appointed as supervisor on February 2, 2019.
- (14) Resigned as supervisor on February 23, 2018.
- (15) Term as employee representative supervisor expired on June 6, 2018.
- (16) Appointed as employee representative supervisor on March 15, 2018.
- (17) Appointed as employee representative supervisor on June 20, 2018.



(18) Resigned as employee representative supervisor on January 2, 2018.

The following table sets forth the amounts of compensation paid to each of our executive officers other than those disclosed in the table above, including vice presidents who are not our directors and our assistant president, chief actuary, chief financial officer and board secretary, for the year ended December 31, 2018. The total compensation package for our executive officers for the year ended December 31, 2018 has not yet been finalized in accordance with regulations of the relevant PRC authorities. The amount of the compensation not provided for is not expected to have a significant impact on our financial statements for the year ended December 31, 2018. We will make further disclosure of the amount of the final compensation when it is determined.

Name	Salaries/Fees	Inducement Fees	Other (1) Benefits	Compensation for	Total
				loss of office as director	
<i>RMB in ten thousands</i>					
Li Mingguang	143.20		23.36		166.56
Zhao Lijun	143.20		23.29		166.49
Xiao Jianyou	125.30		23.29		148.59
Zhao Peng <sup>(2)</sup>	124.55		23.34		147.89
Ruan Qi <sup>(3)</sup>	123.81		23.93		147.74
Zhan Zhong	107.40		31.57		138.97
Yang Hong <sup>(4)</sup>	89.50		26.28		115.78
Xu Chongmiao <sup>(5)</sup>	25.28		16.38		41.66
<b>Total</b>	<b>882.24</b>		<b>191.44</b>		<b>1,073.68</b>

(1) Include benefits-in-kind, social insurance, housing fund and enterprise annuity to be paid by the employer.

(2) Appointed as vice president on March 2, 2018.

(3) Appointed as vice president on April 8, 2018.

(4) Appointed as operating director on March 2, 2018.

(5) Appointed as compliance officer on July 17, 2018.

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The aggregate amount of compensation we paid to our five highest paid individual employees, including three directors and two members of senior management during the year ended December 31, 2018, was approximately RMB 8.6839 million (US\$ 1.26 million). The amount of compensation we paid to our highest paid individual employee, during the year ended December 31, 2018, was approximately RMB 2.0246 million.

### **Senior Management Compensation**

Our senior management's compensation consists of four components, including basic salaries, performance-based salaries, fringe benefits and mid to long-term incentive compensation.

We have established a comprehensive performance management system. A performance appraisal method for our officers is used to appraise the performance of the officers annually. Measures for such appraisal include a business performance index based on our budget and targets as approved by our board of directors; a management performance index based on the duties and functions of the office position; and a risk compliance index based on risk management and compliance management of our daily operation, establishing a connection between the achievement of our major business targets and the office performance appraisal.

In accordance with relevant policies of the PRC government, no stock appreciation rights of our company were granted or exercised in 2018. For other details of the stock appreciation rights which were previously granted by us, please refer to Note 30 to our consolidated financial statements included elsewhere in this annual report.

## **C. BOARD PRACTICES**

### **General**

Our board of directors consists of ten members. Our directors are elected to serve a term of three years, which is renewable upon re-election. Our directors are elected at meetings of our shareholders, and, unless they resign at an earlier date, are deceased or removed, will serve three-year terms. The current term for our board of directors began in June 2018. Our directors are not currently entitled to severance benefits other than benefits provided by law upon termination of employment. In the event our Company is acquired, including an acquisition of control by another person, and a director leaves employment or retires following the acquisition, the director may receive severance and other payments upon approval by the shareholders in general meeting.

We have identified various board members as being independent, in accordance with Hong Kong laws and regulations. These requirements vary in certain respects from independence requirements under U.S. law. The members of our audit committee are independent as defined by the rules of the Securities and Exchange Act and the New York Stock Exchange which are applicable to us.

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The PRC company law requires a joint stock company with limited liability to establish a board of supervisors. Our board of supervisors is responsible for monitoring our financial matters and supervising the actions of our board of directors and our management personnel. Our board of supervisors consists of five members. At least one-third of our board of supervisors must be elected by our employees. The remaining members must be elected by our shareholders in a general meeting. One member of our board of supervisors is designated as the chairman. Members of our board of supervisors may not serve as director or member of senior management. The term of office for our supervisors is three years, which is renewable upon re-election. The current term for our board of supervisors began in June 2018.

## **Board Committees**

We have established standing audit, nomination and remuneration, risk management and strategy and assets and liabilities management committees.

The primary duties of the audit committee are to review and supervise the financial reporting process, to assess the effectiveness of our internal control system, to supervise our internal audit system and its implementation and to implement and recommend the engagement or replacement of external auditors. Our audit committee is also responsible for communications between our internal and external auditors and our internal reporting system. Our audit committee is currently comprised of Robinson Drake Pike, Chang Tso Tung Stephen and Tang Xin. Mr. Robinson Drake Pike serves as the chairman.

The primary duties of the nomination and remuneration committee are to review the structure and components of our board of directors, to formulate the appointment and successors to our board of directors and senior management, to review and recommend the nomination of our directors and senior officers, as well as to propose to our board of directors the remuneration policy for our directors, supervisors and senior management. Our nomination and remuneration committee is currently comprised of Tang Xin, Robinson Drake Pike and Yuan Changqing. Mr. Tang Xin serves as the chairman.

The primary duties of the risk management committee are to formulate our risk control benchmark system, to assist the management in establishing and improving our risk management and internal control system, to review our risk preference and tolerance policy, to formulate our risk management policy, to review the assessment reports with respect to our risk management and internal control, to conduct research on important findings from internal investigations with respect to risk management and internal control and management's responses to such findings and to coordinate and handle disagreements on risk management and sudden and significant risks or crises. Our risk management committee is currently comprised of Leung Oi-Sie Elsie, Liu Huimin and Yin Zhaojun. Ms. Leung-Oi-Sie Elsie serves as the chairman.

The primary duties of the strategy and assets and liabilities management committee are to formulate our long-term development strategies and the management system for insurance fund usage, to conduct research and to make recommendations on significant strategic investments and management of assets and liabilities, so as to provide an important basis for the decision making by the board of director in respect of strategy and assets and liabilities. Our strategy and assets and liabilities management committee is currently comprised of Chang Tso Tung Stephen, Su Hengxuan, Xu Haifeng and Leung Oi-Sie Elsie. Mr. Chang Tso Tung Stephen serves as the chairman.

## **D. EMPLOYEES**

As of December 31, 2016, 2017 and 2018, we had approximately 99,739, 102,297 and 102,817 employees, respectively. The following table sets forth the number of our employees by their functions as of December 31, 2016, 2017 and 2018.



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	As of December 31					
	2016		2017		2018	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Management and administrative staff	21,868	21.93%	22,307	21.81%	23,166	22.53%
Financial and auditing staff	5,225	5.24%	5,122	5.01%	5,140	5.00%
Sales and sales management staff	36,091	36.19%	38,859	37.99%	40,194	39.09%
Underwriters, claim specialists and customer service staff	28,420	28.49%	27,960	27.33%	26,695	25.96%
Other professional and technical staff <sup>(1)</sup>	3,488	3.50%	4,106	4.01%	4,274	4.16%
Other	4,647	4.66%	3,943	3.85%	3,348	3.26%
<b>Total<sup>(2)</sup></b>	<b>99,739</b>	<b>100%</b>	<b>102,297</b>	<b>100%</b>	<b>102,817</b>	<b>100.00%</b>

(1) Includes actuaries, product development personnel, investment management personnel and information technology specialists.

(2) Includes employees of our subsidiaries.

As of December 31, 2016, 2017 and 2018, we had approximately 1,495,000, and 1,578,000 and 1,439,000 exclusive agents, respectively. During 2018, we continued to improve the quality of our agent force by carrying out performance reviews and dismissing agents with lower productivity, which have led to the decrease of the number of our exclusive agents.

See Item 4. Information on the Company Business Overview Regulatory and Related Matters Regulation of Insurance Agencies, Insurance Brokers and Other Intermediaries and Item 3. Key Information Risk Factors Risks Relating to Our Business Our growth is dependent on our ability to attract and retain productive agents.

None of our employees is subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

## E. SHARE OWNERSHIP

As of the date of this annual report, none of our directors, supervisors or senior managers is a legal or beneficial owner of any shares of our share capital.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

### A. MAJOR SHAREHOLDERS

The table below sets forth information regarding the ownership of our share capital as of April 5, 2019 by all persons who are known to us to be the beneficial owners of 5% or more of each class of our share capital.

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<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Amount Owned</b>	<b>Percentage of Class</b>	<b>Percentage of Total Share Capital</b>
A Shares	China Life Insurance (Group) Company	19,323,530,000 (Long position)	92.80%	68.37%
H Shares	BlackRock, Inc. <sup>(1)</sup>	591,071,341 (Long position)	7.94%	2.09%
		5,623,000 (Short position)	0.08%	0.02%
H Shares	JPMorgan Chase & Co. <sup>(2)</sup>	496,874,336 (Long position)	6.67%	1.76%
		74,752,351 (Short position)	1.00%	0.26%
		228,106,216 (Lending pool)	3.06%	0.81%

*Note (1):* BlackRock, Inc. was interested in a total of 591,071,341 H shares in accordance with the provisions of Part XV of the SFO. Of these shares, BlackRock Investment Management, LLC, BlackRock Financial Management, Inc., BlackRock Institutional Trust Company, National Association, BlackRock Fund Advisors, BlackRock Advisors, LLC, BlackRock Japan Co., Ltd., BlackRock Asset Management Canada Limited, BlackRock Investment Management (Australia) Limited, BlackRock Asset Management North Asia Limited, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock International Limited, BlackRock Asset Management Ireland Limited, BLACKROCK (Luxembourg) S.A., BlackRock Investment Management (UK) Limited, BlackRock Asset Management Deutschland AG, BlackRock Fund Managers Limited, BlackRock Life Limited, BlackRock (Singapore) Limited and BlackRock Asset Management (Schweiz) AG were interested in 3,975,000 H shares, 10,255,000 H shares, 149,397,927 H shares, 236,713,000 H shares, 1,174,000 H shares, 24,758,829 H shares, 1,183,000 H shares, 4,201,000 H shares, 24,592,064 H shares, 1,024,000 H shares, 1,101,000 H shares, 2,315,700 H shares, 56,896,088 H shares, 4,621,975 H shares, 28,483,338 H shares, 479,000 H shares, 27,401,787 H shares, 12,143,619 H shares, 48,000 H shares, and 307,014 H shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of BlackRock, Inc. Of these 591,071,341 H shares, 193,000 H shares were cash settled unlisted derivatives.

BlackRock, Inc. held by way of attribution a short position as defined under Part XV of the SFO in 5,623,000 H shares (0.08%). Of these 5,623,000 H shares, 2,222,000 H shares were cash settled unlisted derivatives.

*Note (2):* JPMorgan Chase & Co. was interested in a total of 496,874,336 H Shares in accordance with the provisions of Part XV of the SFO. Of these shares, China International Fund Management Co., Ltd., JPMorgan Chase Bank, N.A. Taipei Branch, JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan GT Corporation, J.P. Morgan Bank Luxembourg S.A. Amsterdam Branch, J.P. Morgan Bank Luxembourg S.A.- Stockholm Bankfilial, J.P. Morgan Securities LLC, Highbridge Capital Management, LLC, JPMORGAN CHASE BANK, N.A. LONDON BRANCH, J.P. Morgan Investment Management Inc., JPMORGAN ASSET MANAGEMENT (UK) LIMITED, J.P. Morgan Structured Products B.V., CIFM Asset Management (Hong Kong) Limited, JPMorgan Chase Bank, N.A. Sydney Branch, J.P. Morgan Bank Luxembourg S.A. Oslo Branch, J.P. Morgan Bank Luxembourg S.A., JPMorgan Chase Bank, N.A. Hong Kong Branch, JPMorgan Chase Bank, National Association, JF Asset Management Limited, J.P.

MORGAN SECURITIES PLC and J.P. Morgan (Suisse) SA were interested in 167,000 H Shares, 2,955,000 H Shares, 5,252,000 H Shares, 1,500,000 H Shares, 810,100 H Shares, 4,000,779 H Shares, 3,238,033 H Shares, 967,000 H Shares, 78,772,402 H Shares, 61,002,361 H Shares, 18,995,000 H Shares, 5 H Shares, 22,000 H Shares, 3,225,000 H Shares, 300,240 H Shares, 13,133,000 H Shares, 10,036,503 H Shares, 119,806,876 H Shares, 56,502,000 H Shares, 111,210,721 H Shares and 4,978,316 H Shares respectively. All of these entities are either controlled or indirectly controlled subsidiaries of JPMorgan Chase & Co.

Included in the 496,874,336 H Shares are 228,106,216 H Shares (3.06%) which are held in the lending pool, as defined under Section 5(4) of the Securities and Futures (Disclosure of Interests Securities Borrowing and Lending) Rules. Of these 496,874,336 H Shares, 17,806,000 H Shares were physically settled listed derivatives, 4,835,000 H Shares were cash settled listed derivatives, 6,116,338 H Shares were physically settled unlisted derivatives, 14,549,515 H Shares were cash settled unlisted derivatives and 26 H Shares were convertible instruments listed derivatives.

JPMorgan Chase & Co. held a short position as defined under Part XV of the SFO in 74,752,351 H Shares (1.00%). Of these 74,752,351 H Shares, 12,356,000 H Shares were physically settled listed derivatives, 24,975,400 H Shares were cash settled listed derivatives, 17,860,256 H Shares were physically settled unlisted derivatives, 14,873,750 H Shares were cash settled unlisted derivatives and 37 H Shares were convertible instruments listed derivatives.

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Our A shares and H shares generally vote together as a single class, including in the election of directors. Each A share and each H share is entitled to one vote. In addition, in certain matters which affect the rights of the holders of H shares or A shares, the H shares or A shares, as the case may be, are entitled to vote as a separate class.

CLIC converted and sold 676,470,000 domestic shares in the form of H shares or ADSs in connection with our global offering in December 2003.

Based on the information provided by Deutsche Bank Trust Company Americas, our depositary bank, as of December 31, 2018 and April 5, 2019, there were, respectively, 27,528,819 ADRs representing 137,644,095 H shares, with 55 registered holders, and 26,123,931 ADRs representing 130,619,655 H shares, with 55 registered holders. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or number of ADSs beneficially held by U.S. persons.

CLIC, our controlling shareholder, is a wholly state-owned enterprise controlled by the PRC government. See Item 4. Information on the Company History and Development of the Company . None of our major shareholders has voting rights that differ from the voting rights of other shareholders, except that in certain matters which affect the rights of the holders of H shares or A shares, holders of H shares or A shares, as the case may be, are entitled to vote as a separate class. We are not aware of any arrangement which may at a subsequent date result in a change of control of our company.

## **B. RELATED PARTY TRANSACTIONS**

As at the date of this annual report, CLIC owns approximately 68.37% of our issued share capital, a 40% equity interest in AMC, a 60% equity interest in CLPCIC, a 100% equity interest in China Life Overseas, a 100% equity interest in China Life Investment Holding Company Limited, or IHC, and a 100% equity interest in China Life E-commerce Company Limited, or China Life E-commerce. CLIC, AMC, CLPCIC, China Life Overseas, IHC and China Life E-commerce are therefore considered as our connected persons under the HKSE Listing Rules. AMC owns a direct 48% equity interest and an indirect 52% equity interest in China Life Wealth Management Company Limited, or China Life Wealth, and approximately 85.03% equity interest in China Life AMP Asset Management Co., Ltd., or AMP. China Life Wealth and AMP are therefore also considered as our connected persons under the HKSE Listing Rules. Each of AMC, China Life Wealth and AMP is also a subsidiary of the Company. Chongqing International Trust Inc., or Chongqing Trust, is an associate of CLIC and CLPCIC by virtue of its acting as the trustee of a trust scheme of which CLPCIC is a beneficiary, and is therefore also a connected person of the Company under the HKSE Listing Rules. China Life Capital Investment Company Limited ( China Life Capital ), an indirect wholly owned subsidiary of CLIC, is an associate of CLIC and also a connected person of the Company under the HKSE Listing Rules.

During the reporting period, we engaged in the following related party transactions with these companies:

On January 31, 2018, we and CLPCIC entered into a new insurance sales framework agreement;

On March 26, 2018, China Life Pension and China Life Wealth entered into a framework agreement in relation to asset management services, advisory services and other daily transactions;





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On June 7, 2018, we and China Life Capital entered into a cooperation framework agreement for investment management with insurance funds;

On December 31, 2018, we and IHC entered into a new asset management agreement;

On November 7, 2018, AMC and Chongqing Trust entered into a framework agreement in relation to the subscription of trust products, asset management service and other daily transactions; and

On December 28, 2018 and December 29, 2018, we and CLIC each entered into a new asset management agreement with AMC.

We also continued to carry out certain other continuing related party transactions with CLIC, China Life Pension, CLPCIC, China Life Wealth, AMP and Chongqing Trust in the reporting period. These transactions constitute connected transactions for us under the HKSE Listing Rules. Details of these transactions are set forth below.

As at the date of this annual report, we own a 43.686% equity interest in CGB and have become the largest shareholder of CGB. Our chairman and executive director, Wang Bin, serves as the chairman of CGB. CGB is therefore considered as our related party under applicable PRC laws and regulations. On January 12, 2017, we entered into a new framework agreement with CGB for daily related party transactions. We also continued to carry out continuing related party transactions with CGB in the reporting period. These transactions are not regarded as connected transactions for us under the HKSE Listing Rules. Details of these transactions are set forth below.

As at the date of this annual report, we directly own a 70.74% equity interest in China Life Pension. China Life Pension is not considered as our related party under the HKSE Listing Rules or applicable PRC laws and regulations. As our subsidiary, China Life Pension also continued to carry out continuing related party transactions with CLIC, AMC, AMP and China Life Wealth in the reporting period. These transactions are regarded as connected transactions for us under the HKSE Listing Rules. Details of these transactions are set forth below.

### **Continuing Related Party Transactions with CLIC**

During the reporting period, we engaged in continuing related party transactions with CLIC. These transactions are governed by several agreements between CLIC and us, including a restructuring agreement, a policy management agreement, a trademark license agreement and a non-competition agreement. A detailed discussion of these agreements is set forth in Note 33 to our consolidated financial statements included elsewhere in this annual report and under the heading **Item 7. Major Shareholders and Related Party Transactions** **Related Party Transactions** in our annual report on Form 20-F filed with the Securities and Exchange Commission on April 28, 2009.

Our policy management agreement with CLIC expired on December 31, 2017. On December 26, 2017, we and CLIC entered into a new policy management agreement for a term of three years ending on December 31, 2020. During its term, this new agreement may be terminated by either party giving to the other party not less than 90 days' prior written notice. Pursuant to this new policy management agreement, we continued to accept CLIC's entrustment to provide policy administration services relating to non-transferred policies, and CLIC will pay a service fee to us in cash on a semi-annual basis. The annual cap in respect of the service fees to be paid by CLIC to us under the new policy management agreement for each of the three years ending on December 31, 2020 is RMB 708 million. The service fees paid by CLIC to us under the new policy management agreement for the year ended on December 31, 2018 were RMB 629.46 million (US\$ 91.6 million).



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**Table of Contents****Continuing Related Party Transactions with AMC*****Asset Management Agreement between AMC and Us***

On December 29, 2015, we and AMC entered into an asset management agreement. This agreement expired on December 31, 2018. The service fees paid by us to AMC under the asset management agreement for the year ended December 31, 2018 were RMB 1,325.91 million (US\$ 192.8 million).

On December 28, 2018, we entered into a new asset management agreement with AMC for a term of three years effective from January 1, 2019 and expiring on December 31, 2021. Under the new asset management agreement, AMC agreed to invest and manage assets entrusted to it by us, on a discretionary basis, within the scope granted by us and in accordance with our investment guidelines. We retain the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of us. We may add to or withdraw from the assets managed by AMC pursuant to the new agreement. We have the right to establish, amend and change the investment guidelines and also have the right to monitor the investment management activities of AMC.

In consideration of AMC's service in respect of investing and managing assets entrusted to it by us under the new agreement, we agreed to pay service fees to AMC, which consist of a fixed service fee and a variable service fee. The fixed service fee is payable on a quarterly basis and is calculated according to the net asset value of the assets under management and a fixed management fee rate of 0.05% per annum. The variable service fee is payable on an annual basis and is determined after an appraisal has been conducted by us with respect to the assets under management and the relevant services provided by AMC each year. The variable service fee is calculated on the basis of 20% of the fixed service fee per annum, by multiplying a payment ratio determined by us based on the results of its annual appraisal of AMC. The management fee rate for directive operation investments or special projects will be separately negotiated by the parties and specified in the investment guidelines. The service fees under the new agreement were determined by us and AMC based on an analysis of the cost of service, market practice, the rate charged by AMC to us in previous years, the rates charged by independent third parties for the provision of similar services, and the size and composition of the assets managed by AMC. The annual cap in respect of the service fees to be paid by us to AMC under the new asset management agreement for each of the three years ending on December 31, 2021 is RMB 2,000 million.

***Asset Management Agreement between AMC and CLIC***

On December 30, 2015, AMC and CLIC entered into an asset management agreement. This agreement expired on December 31, 2018. The service fees paid by CLIC to AMC under the asset management agreement for the year ended on December 31, 2018 were RMB 99.78 million (US\$ 14.5 million).

On December 29, 2018, AMC and CLIC entered into a new asset management agreement for a term expiring on December 31, 2021. Under the new asset management agreement, AMC agreed to invest and manage assets entrusted to it by CLIC, on a discretionary basis, subject to the investment guidelines and instructions given by CLIC. CLIC retains the title of the entrusted assets and AMC is authorized to operate the accounts associated with the entrusted assets for and on behalf of CLIC. CLIC may add to or withdraw from the assets managed by AMC pursuant to the agreement. CLIC has the right to establish, amend and change the investment guidelines and also has the right to monitor the investment management activities of AMC.

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In consideration of AMC's service in respect of investing and managing assets entrusted to it by CLIC under the new agreement, CLIC agreed to pay AMC a base service fee for asset management at the rate of 0.05% per annum. Such service fee is calculated and payable on a monthly basis, by multiplying the average of book balance of the assets under management (after deducting the funds obtained and interests accrued from repurchase transactions, the principals and interest of debt investment plans, equity investment plans, project asset-backed plans and customized non-standard products) at the beginning and at the end of any given month by the rate of 0.05%, divided by 12. After the end of each fiscal year, CLIC will evaluate the investment performance with respect to the assets entrusted to AMC in the previous year, and adjust the base service fee for asset management by reference to the actual and targeted investment returns. The service fees under the new agreement will be determined by CLIC and AMC based on an analysis of the cost of service, market practice, the rate charged by AMC to CLIC in previous years, the rates charged by independent third parties for the provision of similar services, and the size and composition of the assets managed by AMC. The annual cap in respect of the service fees to be paid by CLIC to AMC under the new asset management agreement for the three years ending on December 31, 2021 is RMB 320 million, RMB 310 million and RMB 300 million, respectively.

**Continuing Related Party Transactions with IHC*****Property Leasing Agreement with IHC***

On December 29, 2017, we entered into a property leasing agreement with IHC for a term from January 1, 2018 to December 31, 2020. Under the property leasing agreement, IHC agreed to lease to us 1,893 properties owned by it. The annual rent is determined by reference to market rent or, where there is no available comparison, by reference to the costs incurred by IHC in holding and maintaining the properties, plus a margin of approximately 5%.

The rent paid by us to IHC under the property leasing agreement for the year ended December 31, 2018 was approximately RMB 82.94 million (US\$ 12.06 million).

***Asset Management Agreement with IHC***

On June 30, 2017, we entered into an asset management agreement with IHC. This agreement expired on December 31, 2018. The basic service fee, floating management fee and performance-based fee paid by us to IHC under the asset management agreement for the year ended December 31, 2018 was RMB 528.58 million (US\$ 76.9 million). As at December 31, 2018, the contractual amount of the assets entrusted by us to IHC for investment and management was RMB 297,636.67 million (US\$ 43,289.5 million), among which, for the year of 2018, the contractual amount of the assets newly entrusted by us was RMB 61,146.28 million (US\$ 8,893.4 million).

On December 31, 2018, we entered into a new asset management agreement with IHC, which took effect from January 1, 2019 with a term of two years. Unless a party serves the other party a written notice for non-renewal prior to 90 working days before the expiry date of the new agreement, the new asset management agreement will be automatically renewed for one year from the expiry date thereof. Pursuant to the new asset management agreement, IHC continued to invest, operate and manage the assets entrusted to it by us for investment in real property, equity interests of companies, related financial products and quasi-securitization financial products on a discretionary basis, subject to the investment guidelines and instructions given by us.

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In consideration of the services provided by IHC under the asset management agreement, we agreed to pay IHC fees based on fixed return projects and non-fixed return projects, respectively. With respect to the fixed return projects, we agreed to pay IHC a basic service fee which is determined based on the investment rate of return of the projects. With respect to the non-fixed return projects, we agreed to pay IHC a basic service fee and also pay a performance-based fee at the time of exit from the projects with reference to the internal rate of return of the projects. In addition, we will make adjustments to the basic service fee for fixed return projects and non-fixed return projects based on the result of our annual business evaluation on IHC (such adjusted amount is referred to as floating management fee). In consideration of the management services for real estate operation provided by IHC or its subsidiaries, we agreed to pay IHC a real estate operation management service fee.

The basic service fee is paid on a quarterly basis, calculated separately for the projects invested prior to the execution of the agreement and those newly invested during the term of the agreement. With respect to the projects invested prior to the execution of the agreement, the basic service fee is calculated by multiplying the total amount of assets invested by the applicable management fee rate (which is set forth in the relevant entrusted investment and management agreements for alternative investments with insurance funds then in force when such projects were entrusted). With respect to the projects newly invested during the term of the agreement, the basic service fee is calculated by multiplying the total annual amount of assets newly invested by the applicable management fee rate stipulated in the new agreement and our investment guidelines. The floating management fee and the performance-based fee are calculated and confirmed by both parties annually, and then paid by us to IHC upon confirmation. The real estate operation management service fee is paid on a quarterly basis, calculated separately for the well-developed real estate projects and the new real estate projects. With respect to the well-developed real estate projects, the real estate operation management service fee is calculated by multiplying the earnings before interest, taxes, depreciation of fixed assets and amortization of intangible assets, long-term deferred assets and prepaid interest ( EBITDA ) derived from the relevant real estate project in a given year, by the fee rate of 3%. With respect to the new real estate projects, the real estate operation management service fee is calculated as follows: (i) the real estate operation management service fee for the first three years will be calculated by multiplying the estimated EBITDA derived from the relevant real estate project in the fourth year by the fee rate of 3%; and (ii) commencing from the fourth year, the real estate operation management service fee will be calculated in the same manner as the well-developed real estate projects as mentioned above. In addition, the assets entrusted by us to IHC will also be partially used for the subscription of the related financial products established and issued by IHC or of which IHC has participated in the establishment and issuance, and such related financial products will be limited to infrastructure investment plans and asset-backed plans. For each of the three years ending December 31, 2021, the annual cap on the amount of the basic service fee, floating management fee, performance-based fee and the real estate operation management service fee payable by us to IHC is RMB 1,391 million, RMB 1,982 million and RMB 2,266 million, respectively. For each of the three years ending December 31, 2021, the annual cap on the contractual amount of assets newly entrusted by us to IHC for investment and management is RMB 200,000 million, RMB 200,000 million and RMB 200,000 million, respectively.

**Continuing Related Party Transaction with China Life Pension**

On July 27, 2009, we, CLIC and AMC entered into an agreement for the entrustment of enterprise annuity funds and account management with China Life Pension. The agreement expired on December 1, 2012. On February 26, 2013, we, CLIC and AMC entered into a memorandum of understanding, which became effective retroactively on December 2, 2012, with China Life Pension to renew the agreement for a successive one-year term ended on December 1, 2013. On March 22, 2014, we, CLIC and AMC entered into a new agreement for the entrustment of enterprise annuity funds and account management with China Life Pension, which became effective retroactively to December 2, 2013. The agreement expired on December 31, 2016 and has been renewed for a successive three-year term. Under the agreement, China Life Pension was entrusted to serve as the trustee and account manager and to

provide entrusted management services and account management services for the enterprise annuity funds of the Company, CLIC and AMC. China Life Pension was further entrusted to serve as the investment manager and to provide investment management service for the enterprise annuity funds of the Company, CLIC and AMC. In consideration of the services provided by China Life Pension, we, CLIC and AMC agreed to pay China Life Pension entrusted management fee, account management fees and investment management fee.

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**Table of Contents****Continuing Related Party Transactions with CLPCIC**

On March 8, 2015, we entered into an insurance sales framework agreement with CLPCIC. This agreement expired on March 7, 2018.

On January 31, 2018, we entered into a new insurance sales framework agreement with CLPCIC for a term of three years from March 8, 2018 to March 7, 2021. Under the new insurance sales framework agreement, CLPCIC continued to entrust us to act as its agent to sell selected insurance products within authorized regions, and agreed to pay us an agency service fee in cash on a monthly basis, which, includes sales management fee and sales service fee. The sales management fee will be calculated by the parties on the basis of the principles of equality and fairness. The sales service fee will be determined according to the standard of service fees for specific insurance products as agreed by the branches of the parties based on market principles. The annual caps in respect of the agency service fees to be paid by CLPCIC to us under the new insurance sales framework agreement for the three years ending December 31, 2020 are RMB 4,260 million, RMB 5,540 million and RMB 7,050 million, respectively. The service fees paid to us for the year ended December 31, 2018 were RMB 2,958.77 million (US\$ 430.3 million).

**Continuing Related Party Transactions with China Life Capital**

On June 7, 2018, we and China Life Capital entered into a cooperation framework agreement with a term expiring on December 31, 2019. Under this agreement, we subscribed in the capacity of the limited partner for domestic RMB funds in which insurance funds are permitted for investment ( Fund Products ) and of which China Life Capital or any of its subsidiaries serves as the general partner, and/or Fund Products of which China Life Capital serves as the manager. We will enter into specific agreements with the counterparties including China Life Capital (or its subsidiaries) in respect of the subscription of specific Fund Products, and such specific agreements shall be subject to the principles set out in the framework agreement. Upon execution of the specific agreements, we will make our capital contribution as required by the payment notice of the general partner. The capital contribution to be made by us will be funded by our internal resources. As the general partner or the manager of the Fund Products, China Life Capital (or its subsidiaries) will provide daily operation, investment management and consulting and advisory services to the Fund Products. The management fee will be paid to the general partner or the manager in respect of the provision of such services on an annual or quarterly basis, and will be borne by all the limited partners. The investment scope of the Fund Products includes real estate, warehousing logistics, apartments for long-term lease, urban renewal, infrastructure assets, corporate shareholdings in relation to the operation of such underlying assets and asset securitization products in relation to such assets (including, but not limited to, asset-backed securities, real estate investment trusts and quasi-real estate investment trusts), as well as other targets in which the Fund Products are permitted for investment. For the two years ending December 31, 2019, the annual caps for the subscription by us in the capacity of the limited partner of the Fund Products of which China Life Capital or any of its subsidiaries serves as the general partner are RMB 5,000 million and RMB 5,000 million, respectively, and the annual caps for the management fee charged by China Life Capital as the general partner or the manager of the Fund Products are RMB 150 million and RMB 200 million respectively.



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For the year ended December 31, 2018, the subscription by us in the capacity of the limited partner of the Fund Products of which China Life Capital or any of its subsidiaries serves as the general partner were RMB 0 million and the management fee charged by China Life Capital as the general partner or the manager of the Fund Products were RMB 11.75 million (US\$ 1.7 million).

**Framework Agreements with China Life Wealth*****Framework Agreement between China Life Wealth and Us***

On December 30, 2015, we entered into a framework agreement with China Life Wealth in relation to asset management services, sales agency services for asset management products and other daily transactions. The agreement expired on December 31, 2017. On December 28, 2017, we and China Life Wealth entered into a new framework agreement having a term of three years ending on December 31, 2020. Under the agreement, we will continue to enter into certain daily transactions with China Life Wealth, including asset management services and sales agency services for asset management products. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2020, the annual caps on the management fee payable by us for asset management services are RMB 240 million, RMB 240 million and RMB 240 million, respectively; the annual caps on the fees payable by China Life Wealth in connection with sales agency services (including the sales commission fee, client maintenance fee, handling fee and intermediary fee) are RMB 100 million, RMB 100 million and RMB 100 million, respectively, and the annual caps on the fees for other daily transactions are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

For the year ended December 31, 2018, the fee payable by us for asset management services was RMB 3.60 million (US\$ 0.5 million), the fees in connection with the sales agency services payable by China Life Wealth (including the sales commission fee, client maintenance fee, handling fee and intermediary fee) were RMB 0 million, and the fees for other daily transactions were RMB 12.27 million (US\$ 1.8 million).

***Framework Agreement between China Life Wealth and CLIC***

On January 26, 2016, CLIC and China Life Wealth entered into a framework agreement for the subscription of asset management products. The agreement expired on December 31, 2017. On December 27, 2017, CLIC and China Life Wealth entered into a new framework agreement having a term of three years ending on December 31, 2020. Under the new agreement, CLIC and China Life Wealth will conduct certain daily transactions, including asset management services and advisory services. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending on December 31, 2020, the annual caps on the management fee payable by CLIC for asset management services are RMB 50 million, RMB 120 million and RMB 180 million, respectively, and the annual caps on the advisory fee payable by CLIC for the advisory services are RMB 50 million, RMB 80 million and RMB 120 million, respectively.

For the year ended December 31, 2018, the management fee payable by CLIC for asset management services was RMB 1.35 million (US\$ 0.2 million) and the advisory fee payable by CLIC was RMB 2.98 million (US\$ 0.4 million).

***Framework Agreement between China Life Wealth and CLPCIC***

On March 9, 2016, CLPCIC entered into a framework agreement with China Life Wealth in relation to asset management services, sales agency services for asset management products and other daily transactions. The agreement expired on December 31, 2017. On December 29, 2017, CLPCIC and China Life Wealth entered into a

new framework agreement having a term of three years ending on December 31, 2020. Under the new agreement, CLPCIC and China Life Wealth will conduct certain daily transactions, including asset management services, advisory services and other daily transactions permitted by laws and regulations. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2020, the annual caps on the management fee payable by CLPCIC for asset management services are RMB 50 million, RMB 150 million and RMB 240 million, respectively; the annual caps on the advisory fee payable by CLPCIC for the advisory services are RMB 40 million, RMB 80 million and RMB 120 million, respectively; and the annual caps on the fees for other daily transactions are RMB 150 million, RMB 400 million and RMB 700 million, respectively.

For the year ended December 31, 2018, the management fee payable by CLPCIC for asset management services was RMB 0.56 million (US\$ 0.1 million), the advisory fee payable by CLPCIC for advisory services was RMB 4.79 million (US\$ 0.7 million), and the fees for other daily transactions were RMB 0.01 million (US\$ 1,454.4).

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**Table of Contents*****Framework Agreement between China Life Wealth and IHC***

On February 3, 2016, IHC entered into a framework agreement with China Life Wealth in relation to asset management services, sales agency services for asset management products and other daily transactions. The agreement expired on December 31, 2017. On December 20, 2017, IHC and China Life Wealth entered into a new framework agreement having a term of three years ending on December 31, 2020. Under the new agreement, IHC and China Life Wealth will conduct certain daily transactions, including asset management services, advisory services and other daily transactions permitted by laws and regulations. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2020, the annual caps on the management fee for asset management services are RMB 40 million, RMB 80 million and RMB 120 million, respectively; the annual caps on the advisory fee for the advisory services are RMB 40 million, RMB 80 million and RMB 120 million, respectively; and the annual caps on the fees for other daily transactions are RMB 20 million, RMB 80 million and RMB 160 million, respectively.

For the year ended December 31, 2018, the management fee for asset management services was RMB 0.01 million (US\$ 1,454.4), the advisory fee for the advisory services was RMB 0 million, and the fees for other daily transactions were RMB 0 million.

***Framework Agreement between China Life Wealth and China Life E-commerce***

On December 29, 2017, China Life E-commerce and China Life Wealth entered into a framework agreement in relation to asset management services, advisory services and other daily transactions permitted by laws and regulations. The agreement has a term from January 1, 2018 to December 31, 2020. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2020, the annual caps on the management fee for asset management services are RMB 5 million, RMB 10 million and RMB 15 million, respectively; the annual caps on the advisory fee for the advisory services payable by China Life E-commerce for the advisory services are RMB 5 million, RMB 10 million and RMB 15 million, respectively; and the annual caps on the fees for other daily transactions are RMB 200 million, RMB 300 million and RMB 400 million, respectively.

For the year ended December 31, 2018, there was no payment made under the agreement.

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**Table of Contents*****Framework Agreement between China Life Wealth and China Life Pension***

On March 26, 2018, China Life Pension and China Life Wealth entered into a framework agreement in relation to asset management services, advisory services and other daily transactions permitted by laws and regulations. The agreement has a term from January 1, 2018 to December 31, 2020. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2020, the annual caps on the management fee payable by China Life Pension for asset management services are RMB 100 million, RMB 150 million and RMB 200 million, respectively; the annual caps on the advisory fee payable by China Life Pension for the advisory services are RMB 40 million, RMB 80 million and RMB 90 million, respectively; and the annual caps on the fees for other daily transactions are RMB 90 million, RMB 180 million and RMB 270 million, respectively.

For the year ended December 31, 2018, the fee payable by China Life Pension for asset management services was RMB 0 million, the advisory fee for the advisory services was RMB 0.24 million (US\$ 0.03 million), and the fees for other daily transactions were RMB 0 million.

**Framework Agreements with AMP*****Framework Agreement between AMP and Us***

On December 30, 2016, we and AMP entered into a framework agreement, for a term starting from January 1, 2017 and ending on December 31, 2019. Under the agreement, we will enter into certain daily transactions with AMP, including subscription and redemption of fund products, sales agency services, asset management for specific clients and other daily transactions permitted by laws and regulations. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription price and corresponding subscription fee for the subscription of fund products are RMB 72,600 million, RMB 72,600 million and RMB 72,600 million, respectively; the annual caps on the redemption price and corresponding redemption fee for the redemption of fund products are RMB 72,600 million, RMB 72,600 million and RMB 72,600 million, respectively; the annual caps on the sales commission fee and client maintenance fee payable by AMP are RMB 700 million, RMB 800 million and RMB 900 million, respectively; the annual caps on the management fee and performance-based fee payable by us for the asset management for specific clients are RMB 300 million, RMB 400 million and RMB 500 million, respectively; and the annual caps on the fees for other daily transactions are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

For the year ended December 31, 2018, the subscription price and corresponding subscription fee for the subscription of fund products was RMB 2,187.00 million (US\$ 318.1 million), the redemption price and corresponding redemption fee for the redemption of fund products was RMB 3,514.50 million (US\$ 511.2 million), the sales commission fee and client maintenance fee paid by AMP was RMB 0 million, the management fee and performance-based fee paid by us for the asset management for specific clients was RMB 27.85 million (US\$ 4.1 million) and the fees for other daily transactions were RMB 1.96 million (US\$ 0.3 million).

***Framework Agreement between AMP and China Life Pension***

On December 23, 2016, China Life Pension and AMP entered into a framework agreement, for a term starting from January 1, 2017 and ending on December 31, 2019. Under the agreement, China Life Pension will enter into certain daily transactions with AMP, including subscription and redemption of fund products, sales agency services, asset management for specific clients and other daily transactions permitted by laws and regulations. Pricing of the

transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription price and corresponding subscription fee for the subscription of fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; the annual caps on the redemption price and corresponding redemption fee for the redemption of fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; the annual caps on the sales commission fee and client maintenance fee payable by AMP are RMB 100 million, RMB 100 million and RMB 100 million, respectively; the annual caps on the management fee and performance-based fee payable by China Life Pension for the asset management for specific clients are RMB 100 million, RMB 100 million and RMB 100 million, respectively; and the annual caps on the fees for other daily transactions are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

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For the year ended December 31, 2018, the subscription price and corresponding subscription fee for the subscription of fund products was RMB 773.27 million (US\$ 112.5 million), the redemption price and corresponding redemption fee for the redemption of fund products was RMB 601.77 million (US\$ 87.5 million), the sales commission fee and client maintenance fee paid by AMP was RMB 0 million, the management fee and performance-based fee paid by China Life Pension for asset management for specific clients was RMB 0 million and the fees for other daily transactions were RMB 0 million.

***Framework Agreement between AMP and CLIC***

On December 16, 2016, CLIC and AMP entered into a framework agreement, for a term starting from January 1, 2017 and ending on December 31, 2019. Under the agreement, CLIC will enter into certain daily transactions with AMP, including subscription and redemption of fund products and asset management for specific clients. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription price and corresponding subscription fee for the subscription of fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; the annual caps on the redemption price and corresponding redemption fee for the redemption of fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; and the annual caps on the management fee and performance-based fee payable by CLIC for the asset management for specific clients are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

For the year ended December 31, 2018, the subscription price and corresponding subscription fee for the subscription of fund products was RMB 1,500.00 million (US\$ 218.2 million), the redemption price and corresponding redemption fee for the redemption of fund products was RMB 1,156.47 million (US\$ 168.2 million) and the management fee and performance-based fee payable by CLIC for the asset management for specific clients were RMB 24.81 million (US\$ 3.6 million).

***Framework Agreement between AMP and CLPCIC***

On December 22, 2016, CLPCIC and AMP entered into a framework agreement, for a term starting from January 1, 2017 and ending on December 31, 2019. Under the agreement, CLPCIC will enter into certain daily transactions with AMP, including subscription and redemption of fund products, sales agency services, asset management for specific clients and other daily transactions permitted by laws and regulations. Pricing of the transactions under the agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription price for the fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; the annual caps on the redemption price for the fund products are RMB 10,000 million, RMB 10,000 million and RMB 10,000 million, respectively; the annual caps for the subscription fee for the fund products are RMB 100 million, RMB 100 million and RMB 100 million, respectively; the annual caps for the redemption fee for the fund products are RMB 100 million, RMB 100 million and RMB 100 million, respectively; the annual caps on the sales commission fee and client maintenance fee payable by AMP are RMB 100 million, RMB 100 million and RMB 100 million, respectively; the annual caps on the management fee and performance-based fee payable by CLPCIC for the asset management for specific clients are RMB 100 million, RMB 100 million and RMB 100 million, respectively; and the annual caps on the fees for other daily transactions are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

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For the year ended December 31, 2018, the subscription price for fund products was RMB 0 million, the redemption price for fund products was RMB 0 million, the subscription fee for fund products was RMB 0 million, the redemption fee for the fund products was RMB 0 million, the sales commission fee and client maintenance fee paid by AMP was RMB 0 million, the management fee and performance-based fee payable by CLPCIC for asset management for specific clients was RMB 4.51 million (US\$ 0.7 million) and the fees for other daily transactions were RMB 0.08 million (US\$ 0.01 million).

***Framework Agreement between AMP and IHC***

On December 20, 2017, AMP and IHC entered into a framework agreement which became effective upon signing and will end on December 31, 2019. Under this agreement, IHC will enter into certain daily transactions with AMP, including subscription and redemption of fund products, asset management for specific clients and other daily transactions permitted by laws and regulations. Pricing of the transactions under the framework agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription price and corresponding subscription fee for the subscription of fund products are RMB 5,000 million, RMB 7,000 million and RMB 7,000 million, respectively; the annual caps on the redemption price and corresponding redemption fee for the redemption of fund products are RMB 5,000 million, RMB 7,000 million and RMB 7,000 million, respectively; the annual caps on the management fee and performance-based fee payable by IHC for the asset management for specific clients are RMB 50 million, RMB 50 million and RMB 50 million, respectively; and the annual caps on the fees for other daily transactions are RMB 50 million, RMB 50 million and RMB 50 million, respectively.

For the year ended December 31, 2018, the subscription price and corresponding subscription fee for the subscription of fund products was RMB 539.36 million (US\$ 78.5 million), the redemption price and corresponding redemption fee for the redemption of fund products was RMB 591.71 million (US\$ 86.1 million), the management fee and performance-based fee payable by IHC for asset management for specific clients was RMB 0 million, and the fees for other daily transactions were RMB 0 million.

**Agreements with Chongqing Trust*****Framework Agreement between Chongqing Trust and Us***

On June 21, 2017, we entered into a framework agreement with Chongqing Trust in relation to the subscription and redemption of trust products and other daily transactions. The framework agreement became effective upon signing by the parties and will expire on December 31, 2019. Under the framework agreement, we and Chongqing Trust will enter into transactions including subscription and redemption of trust products and other daily transactions permitted by laws and regulations. Pricing of the transactions under the framework agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the three years ending December 31, 2019, the annual caps on the subscription amount for the subscription of trust products, including the trustee's remuneration to be received by Chongqing Trust from the trust assets, are RMB 50,000 million, RMB 50,000 million and RMB 50,000 million, respectively; the annual caps on the redemption amount for the redemption of trust products are RMB 4,500 million, RMB 4,500 million and RMB 4,500 million, respectively; and the annual caps on the fees for other daily transactions are RMB 100 million, RMB 100 million and RMB 100 million, respectively.

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For the year ended December 31, 2018, the subscription amount for the subscription of trust products was RMB 11,439.89 million (US\$ 1,663.9 million), the redemption amount for the redemption of trust products was RMB 0 million and the fees for other daily transactions were RMB 0 million.

### ***Framework Agreement between Chongqing Trust and AMC***

On November 7, 2018, AMC entered into a framework agreement with Chongqing Trust, pursuant to which AMC and Chongqing Trust will conduct certain daily transactions, mainly including the subscription of trust products and asset management services. The framework agreement has a term up to December 31, 2019, effective upon signing by the representatives of the parties and affixing of official seals of the parties. Pricing of the transactions under the framework agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the two years ending December 31, 2019, the annual caps on the amount of subscription by AMC and the asset management products managed by it of the trust products issued by Chongqing Trust (including the trustee's remuneration to be received by Chongqing Trust from the trust assets) are RMB 1,200 million and RMB 1,800 million, respectively; the annual caps on the management fee for asset management services are RMB100 million and RMB 150 million, respectively, and the annual caps on the fees for other daily transactions are RMB 100 million and RMB 100 million, respectively.

For the year ended December 31, 2018, there was no payment made under the agreement.

### ***Framework Agreement between Chongqing Trust and China Life Wealth***

On December 29, 2017, China Life Wealth entered into a framework agreement with Chongqing Trust, pursuant to which China Life Wealth and Chongqing Trust will conduct certain daily transactions, mainly including the subscription of trust products, asset management services, advisory services and other daily transactions. The framework agreement has a term from January 1, 2018 to December 31, 2019. Pricing of the transactions under the framework agreement will be determined by the parties through arm's length negotiations with reference to industry practices. For the two years ending December 31, 2019, the annual caps on the subscription amount of the trust products (including the trustee's remuneration to be received by Chongqing Trust from the trust assets) are RMB 10,000 million and RMB 10,000 million, respectively; the annual caps on the management fee for asset management services are RMB 150 million and RMB 150 million, respectively, the annual caps on the advisory fee for advisory services are RMB 150 million and RMB 150 million, respectively; and the annual caps on the fees for other daily transactions are RMB 100 million and RMB 100 million, respectively.

For the year ended December 31, 2018, there was no payment made under the agreement.

### **Continuing Related Party Transactions with CGB**

During the reporting period, we engaged in continuing related party transactions with CGB pursuant to several negotiated deposit agreements between CGB and us. A detailed discussion of these agreements is set forth under the heading "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions" in our annual reports on Form 20-F filed with the Securities and Exchange Commission on April 26, 2012 and April 26, 2013, respectively.



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On August 12, 2016, we entered into an insurance products cooperation agreement with CGB, pursuant to which CGB will sell our individual insurance products suitable for sale through banks, as jointly selected by CGB and us. Under this agreement, CGB will act as an intermediary to sell such products and will also act on our behalf to receive premiums. In return, we will pay CGB a commission fee for each such product sold by it, calculated and paid on a monthly basis, by multiplying (a) total new premiums received in such month minus the premiums for the policies cancelled during the cooling-off period in such month and (b) a fixed commission rate, which ranges from 1.5% to 30%. This agreement has a term of two years. Upon expiration of the two-year term, this agreement will be automatically renewed for successive one-year terms, provided that no objection has been raised by CGB or us.

On June 14, 2013, we entered into a related party transaction framework agreement with CGB. Under this agreement, which has a term of three years ending on December 31, 2015, we and CGB will carry out various deposit and non-deposit related party transactions. On July 25, 2014, we entered into a revised agreement with CGB, which further increased the daily cap of deposits in respect of all the deposit transactions, increased the annual cap in respect of all the non-deposit related party transactions and expanded the scope of non-deposit transactions. This agreement expired on December 31, 2016. A detailed discussion of this related party transaction framework agreement is set forth under the heading **Item 7. Major Shareholders and Related Party Transactions** **Related Party Transactions** in our annual report on Form 20-F filed with the Securities and Exchange Commission on April 25, 2014 and April 22, 2016, respectively. On January 12, 2017, we entered into a new framework agreement with CGB for daily related party transactions, for a term starting from January 1, 2017 and ending on December 31, 2019. Compared to the original agreement, the new framework agreement adjusted the scope of transactions and the classification of transaction types, and also increased the cap of the transaction amounts. A detailed discussion of this new agreement is set forth in our report on Form 6-K filed with the Securities and Exchange Commission on November 10, 2016.

As at December 31, 2018, the amount of our deposit balance at CGB for deposit related party transactions was RMB 61,879.86 million, the interest income arising from these transactions was RMB 1,424.91 million, the amount of the balance for financial market and peer related party transactions was RMB 0 million and the relevant fees or incomes arising from these transactions were RMB 0 million. For the year ended December 31, 2018, the amount of the financing related party transactions was RMB 0 million, the amount of investment and wealth management related party transactions was RMB 4,815.00 million, the amount of the co-investment related party transactions was RMB 0 million, the scale of entrusted funds under enterprise annuity related party transactions was RMB 0 million, the amount of transaction fees related to enterprise annuity related party transactions (including management fee, entrustment fee, account management fee and performance-based fee) incurred was RMB 0 million, the amount of transaction fees related to asset management related party transactions (including management fee, service fee and handling fee) incurred was RMB 0 million, the amount of transaction fees related to entrustment related party transactions (including entrustment fee, service fee and handling fee) incurred was RMB 0 million, the amount of transaction fees related to agency related party transactions (including agency fee, service fee and handling fee) incurred was RMB 111.60 million and the amount of other daily related party transactions was RMB 100.80 million.

**Compliance with HKSE Listing Rules**

The policy management agreement between CLIC and us, the asset management agreement between AMC and us, the insurance sales framework agreement between CLPCIC and us, the framework agreements between China Life Wealth and each of CLIC, CLPCIC, IHC, China Life Pension and China Life E-commerce, the framework agreement entered into by AMP with IHC, the framework agreement respectively entered into by China Life Wealth and AMC with Chongqing Trust and the framework agreement entered into by us and China Life Capital are only subject to reporting, announcement and annual review requirements under the HKSE Listing Rules and are exempt from independent shareholders' approval requirements. In compliance with applicable HKSE Listing Rules requirements, we made announcements disclosing these transactions on October 26, 2017, December 19, 2017, April 26,

2018, October 25, 2018 and December 20, 2018, respectively.

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The new asset management agreement entered into between IHC and us on December 31, 2018 is subject to reporting, announcement, annual review and independent shareholders' approval requirements under the HKSE Listing Rules. We made an announcement disclosing this transaction on April 26, 2018 and obtained the approval of the shareholders' general meeting of our company on June 6, 2018.

The framework agreements entered into by AMP with us, China Life Pension, CLIC and CLPCIC, respectively, are subject to reporting, announcement, annual review and independent shareholders' approval requirements under the HKSE Listing Rules. In compliance with applicable HKSE Listing Rules requirements, we made an announcement disclosing these transactions on October 27, 2016 and obtained the approval of the shareholders' general meeting of our company on December 27, 2016.

The framework agreement entered into between us and Chongqing Trust on June 21, 2017 in relation to the subscription and redemption of trust products and other daily transactions is subject to reporting, announcement, annual review and independent shareholders' approval requirements under the HKSE Listing Rules. In compliance with applicable HKSE Listing Rules requirements, we made an announcement disclosing this transaction on March 23, 2017 and obtained the approval of the shareholders' general meeting of our company on May 31, 2017.

The remaining related party transactions discussed above, other than the transactions with CGB, are exempt from reporting, announcement and independent shareholders' approval requirements under the HKSE Listing Rules. The related party transactions with CGB are not regarded as connected transactions for us under the HKSE Listing Rules.

### **Confirmation of Independent Non-executive Directors:**

Our independent non-executive directors have reviewed the above continuing related party transactions that were subject to reporting, announcement, annual review and/or independent shareholders' approval requirements under the HKSE Listing Rules and confirmed that:

- 1) the transactions were entered into in the ordinary and usual course of our business;
- 2) the transactions were conducted on normal commercial terms or more preferential terms;
- 3) the transactions were conducted in accordance with the agreements governing those transactions and on the terms that are fair and reasonable and in the interest of the shareholders; and
- 4) the amounts of the transactions had not exceeded the relevant annual caps as announced by us.

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**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION.**

**A. CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

Our audited consolidated financial statements are set forth beginning on page F-1.

**Legal and Regulatory Proceedings**

We are involved in litigation and arbitration proceedings involving our insurance operations on an ongoing basis. In addition, the CBIRC, as well as other PRC governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations, audits or investigations concerning our compliance with PRC laws and regulations. For example, in July 2018, the PBOC imposed a fine of RMB 700,000 on us for non-compliance with the anti-money laundering law and regulations during the period from July 1, 2015 to June 30, 2016. The non-compliance issues identified by the PBOC include failure to preserve clients identity information and transaction records and failure to submit reports on transactions of large payments and suspicious transactions to the PBOC. These litigation, arbitration and administrative proceedings have in the past resulted in damage awards, settlements or administrative sanctions, including fines, which have not been material to us. While we cannot predict the outcome of any pending or future litigation, arbitration, examination or investigation, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future litigation, arbitration or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows.

We currently have control procedures in place to monitor our litigation, arbitration and regulatory exposure. We have established a systematic prevention system whereby our management at each corporate level is responsible for compliance with laws, regulations and internal codes of conduct within their individual territories or departments. Our branches at the provincial level are required to report material litigation, arbitration and regulatory matters to our corporate headquarters on a timely basis. We plan to continue to improve our control and compliance policies in the future.

We may penalize or punish our employees or exclusive agents who commit misconduct or fraud, breach the terms of their employment or agency agreements, exceed their authorization limits or fail to follow prescribed procedures in delivering insurance policies and premium payments, in each case having regard to the severity of the offense. Employees or exclusive agents are required to reimburse us for any losses suffered by us resulting from their misconduct or fraud. In serious cases, we may terminate their employment or agency agreements. We report criminal offenses to the PRC authorities and may also bring concurrent civil actions against employees or exclusive agents. We have experienced agent and employee misconduct that has resulted in litigation, arbitration and administrative actions against us and these agents and employees, and in some cases criminal proceedings and convictions against the agent or employee in question. None of these actions has resulted in material losses, damages, fines or other sanctions against us. We cannot assure you, however, that agent or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

**Policy on Dividend Distributions**

Our board of directors passed a resolution on March 27, 2019 to propose for approval at the annual general meeting of the declaration of final dividends of RMB 0.16 per share, totaling approximately RMB 4,522 million (US\$ 658 million), for the year ended December 31, 2018. The proposed dividends have not been provided in our consolidated financial statements for the year ended December 31, 2018.

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The payment of any dividend by us must be approved by shareholders in a shareholders meeting. Our board of directors intends to make its recommendations regarding the declaration of cash dividends to the shareholders in general meeting. The decision to make a recommendation for the payment of any dividend and the amount of the dividend depends on, among other things:

our results of operations and cash flows;

our financial position;

statutory solvency requirements as determined under CBIRC rules;

our shareholders interests;

general business conditions;

our future prospects;

statutory and regulatory restrictions on the payment of dividends by us; and

other factors that our board of directors deems relevant.

We will pay dividends out of our after-tax profits only after we have made the following allowances and allocations:

recovery of accumulated losses, if any;

allocations to the statutory common reserve fund equivalent to 10% of our after-tax profits, as determined under PRC GAAP;

allocations to the general risks reserve fund equivalent to 10% of our after-tax profits, as determined under PRC GAAP; and

allocations to a discretionary common reserve fund as approved by the shareholders in a shareholders meeting.

When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, as determined under PRC GAAP, no further allocations to this fund will be required.

Under Chinese law, dividends may be paid only out of distributable profits. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. If we do not meet the minimum solvency margin required by the CBIRC, we may be prohibited from paying dividends. See [Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Solvency requirements](#) .

We paid dividends of RMB 0.40 per share in respect of 2014, RMB 0.42 per share in respect of 2015, RMB 0.24 per share in respect of 2016 and RMB 0.40 per share in respect of 2017. Our board of directors has recommended the declaration of final dividends of RMB 0.16 per share in respect of 2018. We expect to continue to pay dividends in line with our financial performance thereafter. We will declare dividends, if any, in Renminbi with respect to the H shares on a per share basis and will pay such dividends in Hong Kong dollars.

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**B. SIGNIFICANT CHANGES**

As of the date of this annual report, there was no significant change since the date of the financial statements filed as part of this annual report that has or is reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**C. EMBEDDED VALUE**

**Background**

China Life prepares financial statements to public investors in accordance with the relevant accounting standards. An alternative measure of the value and profitability of a life insurance company can be provided by the embedded value method. Embedded value is an actuarially determined estimate of the economic value of the life insurance business of an insurance company based on a particular set of assumptions about future experience, excluding the economic value of future new business. In addition, the value of one year's sales represents an actuarially determined estimate of the economic value arising from new life insurance business issued in one year based on a particular set of assumptions about future experience.

China Life believes that reporting our embedded value and value of one year's sales provides useful information to investors in two respects. First, the value of our in-force business represents the total amount of shareholders' interest in distributable earnings, in present value terms, which can be expected to emerge over time, in accordance with the assumptions used. Second, the value of one year's sales provides an indication of the value created for investors by new business activity based on the assumptions used and hence the potential of the business. However, the information on embedded value and value of one year's sales should not be viewed as a substitute of financial measures under the relevant accounting basis. Investors should not make investment decisions based solely on embedded value information and the value of one year's sales.

It is important to note that actuarial standards with respect to the calculation of embedded value are still evolving. There is still no universal standard which defines the form, calculation methodology or presentation format of the embedded value of an insurance company. Hence, differences in definition, methodology, assumptions, accounting basis and disclosures may cause inconsistency when comparing the results of different companies.

Also, the calculation of embedded value and value of one year's sales involves substantial technical complexity and estimates can vary materially as key assumptions are changed. Therefore, special care is advised when interpreting embedded value results.

The values shown below do not consider the future financial impact of transactions between China Life and CLIC, IHC, AMC, China Life Pension, CLPCIC, and etc.

**Definitions of Embedded Value and Value of One Year's Sales**

The embedded value of a life insurer is defined as the sum of the adjusted net worth and the value of in-force business allowing for the cost of required capital.



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Adjusted net worth is equal to the sum of:

Net assets, defined as assets less corresponding policy liabilities and other liabilities valued; and

Net-of-tax adjustments for relevant differences between the market value and the book value of assets, together with relevant net-of-tax adjustments to certain liabilities.

The market value of assets can fluctuate significantly over time due to the impact of the prevailing market environment. Hence the adjusted net worth can fluctuate significantly between valuation dates.

The value of in-force business and the value of one year's sales are defined here as the discounted value of the projected stream of future shareholders' interest in distributable earnings for existing in-force business at the valuation date and for one year's sales in the 12 months immediately preceding the valuation date.

The value of in-force business and the value of one year's sales have been determined using a traditional deterministic discounted cash flow methodology. This methodology makes implicit allowance for the cost of investment guarantees and policyholder options, asset/liability mismatch risk, credit risk, the risk of operating experience's fluctuation and the economic cost of capital through the use of a risk-adjusted discount rate.

## **Preparation and Review**

The embedded value and the value of one year's sales were prepared by China Life in accordance with the CAA Standards of Actuarial Practice: Appraisal of Embedded Value issued by the China Association of Actuaries (CAA) in November 2016. Willis Towers Watson, an international firm of consultants, performed a review of China Life's embedded value. The review statement from Willis Towers Watson is contained in the Willis Towers Watson's review opinion report on embedded value section.

## **Assumptions**

Economic assumptions: The calculations are based upon assumed corporate tax rate of 25% for all years. The investment return is assumed to be 5% per annum. 14% grading to 18% (remaining level thereafter) of the investment return is assumed to be exempt from income tax. The investment return and tax exempt assumptions are based on our strategic asset mix and expected future returns. The risk-adjusted discount rate used is 10% per annum.

Other operating assumptions such as mortality, morbidity, lapses and expenses are based on our recent operating experience and expected future outlook.

## **Summary of Results**

The embedded value as at 31 December 2018, the value of one year's sales for the 12 months ended 31 December 2018, and the corresponding results as at 31 December 2017 are shown below:

**Table of Contents****Table 1**

Components of Embedded Value and Value of One Year's Sales ITEM	RMB million	
	31 December 2018	31 December 2017
A Adjusted Net Worth	386,054	370,500
B Value of In-Force Business before Cost of Required Capital	454,786	398,723
C Cost of Required Capital	(45,788)	(35,050)
D Value of In-Force Business after Cost of Required Capital (B + C)	408,998	363,673
<b>E Embedded Value (A + D)</b>	<b>795,052</b>	<b>734,172</b>
F Value of One Year's Sales before Cost of Required Capital	54,728	64,627
G Cost of Required Capital	(5,218)	(4,510)
<b>H Value of One Year's Sales after Cost of Required Capital (F + G)</b>	<b>49,511</b>	<b>60,117</b>

Note: Numbers may not be additive due to rounding.

**Value of One Year's Sales by Channel**

The value of one year's sales for the 12 months ended 31 December 2018 by channel is shown below:

**Table 2**

Value of One Year's Sales by Channel Channel	RMB million	
	31 December 2018	31 December 2017
Exclusive Individual Agent Channel	42,839	53,170
Bancassurance Channel	6,357	6,536
Group Insurance Channel	314	410
<b>Total</b>	<b>49,511</b>	<b>60,117</b>

Note: Numbers may not be additive due to rounding.

The new business margin of one year's sales for the 12 months ended 31 December 2018 by channel is shown below:

**Table 3****New Business Margin of One Year's Sales by Channel**

Channel	By FYP		By APE	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Exclusive Individual Agent Channel	42.2%	47.2%	42.2%	47.3%
Bancassurance Channel	18.7%	8.0%	24.3%	23.2%
Group Insurance Channel	0.8%	1.1%	0.9%	1.1%

*Note: FYP (First Year Premium) is the written premium used for calculation of the value of one year's sales and APE (Annual Premium Equivalent) is calculated as the sum of 100 percent of first year regular premiums and 10 percent of single premiums.*

**Table of Contents****Movement Analysis**

The following analysis tracks the movement of the embedded value from the start to the end of the reporting period:

**Table 4**

<b>Analysis of Embedded Value Movement in 2018</b>		<b>RMB million</b>
<b>ITEM</b>		
<b>A</b>	Embedded Value at the Start of Year	734,172
<b>B</b>	Expected Return on Embedded Value	60,250
<b>C</b>	Value of New Business in the Period	49,511
<b>D</b>	Operating Experience Variance	277
<b>E</b>	Investment Experience Variance	(44,462)
<b>F</b>	Methodology, Model and Assumption Changes	(1,131)
<b>G</b>	Market Value and Other Adjustments	8,785
<b>H</b>	Exchange Gains or Losses	325
<b>I</b>	Shareholder Dividend Distribution and Capital Injection	(11,690)
<b>J</b>	Other	(986)
<b>K</b>	<b>Embedded Value as at 31 December 2018 (sum A through J)</b>	<b>795,052</b>

Notes:

- 1) Numbers may not be additive due to rounding.
- 2) Items B through J are explained below:

- B Reflects expected impact of covered business, and the expected return on investments supporting the 2018 opening net worth.
- C Value of one year's sales for the 12 months ended 31 December 2018.
- D Reflects the difference between actual operating experience in 2018 (including mortality, morbidity, lapse, and expenses etc.) and the assumptions.
- E Compares actual with expected investment returns during 2018.
- F Reflects the effects of appraisal methodology and model enhancement, and assumption changes.
- G Change in the market value adjustment from the beginning of year 2018 to 31 December 2018 and other adjustments.
- H Reflects the gains or losses due to changes in exchange rates.
- I Reflects dividends distributed to shareholders during 2018.
- J Other miscellaneous items.

**Sensitivity Results**

Sensitivity tests were performed using a range of alternative assumptions. In each of the sensitivity tests, only the assumption referred to was changed, with all other assumptions remaining unchanged. The results are summarized below:



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Sensitivity Results	RMB million	
	Value of In-Force Business after Cost of Required Capital	Value of One Year's Sales after Cost of Required Capital
Base case scenario	408,998	49,511
1. Risk discount rate +50bps	390,624	47,055
2. Risk discount rate -50bps	428,739	52,166
3. Investment return +50bps	481,049	57,005
4. Investment return -50bps	337,320	42,045
5. 10% increase in expenses	403,510	46,457
6. 10% decrease in expenses	414,486	52,565
7. 10% increase in mortality rate for non-annuity products and 10% decrease in mortality rate for annuity products	406,235	48,787
8. 10% decrease in mortality rate for non-annuity products and 10% increase in mortality rate for annuity products	411,761	50,236
9. 10% increase in lapse rates	408,527	48,529
10. 10% decrease in lapse rates	409,380	50,519
11. 10% increase in morbidity rates	403,733	48,090
12. 10% decrease in morbidity rates	414,391	50,936
13. Using 2017 EV appraisal assumptions	402,007	48,946
14. Allowing for diversification in calculation of VIF	438,900	

**Willis Towers Watson's Review Opinion Report on Embedded Value*****To The Directors of China Life Insurance Company Limited***

China Life Insurance Company Limited (China Life) has prepared embedded value results as at 31 December 2018 (EV Results). The disclosure of these EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Embedded Value section.

China Life has engaged Towers Watson Management Consulting (Shenzhen) Co. Ltd. Beijing Branch (Willis Towers Watson) to review its EV Results. This report is addressed solely to China Life in accordance with the terms of our engagement letter, and sets out the scope of our work and our conclusions. To the fullest extent permitted by applicable law, we do not accept or assume any responsibility, duty of care or liability to anyone other than China Life for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

***Scope of work***

Our scope of work covered:

a review of the methodology used to develop the embedded value and value of one year's sales as at 31 December 2018, in accordance with the CAA Standards of Actuarial Practice: Appraisal of Embedded Value issued by the China Association of Actuaries (CAA);

a review of the economic and operating assumptions used to develop the embedded value and value of one year's sales as at 31 December 2018; and

a review of the results of China Life's calculation of the EV Results.

In carrying out our review, we have relied on the accuracy of audited and unaudited data and information provided by China Life.

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***Opinion***

Based on the scope of work above, we have concluded that:

the embedded value methodology used by China Life is in accordance with the CAA Standards of Actuarial Practice: Appraisal of Embedded Value issued by the CAA;

the economic assumptions used by China Life are internally consistent, have been set with regard to current economic conditions, and have made allowance for the company's current and expected future asset mix and investment strategy;

the operating assumptions used by China Life have been set with appropriate regard to past, current and expected future experience; and

the EV Results have been prepared, in all material respects, in accordance with the methodology and assumptions set out in the Embedded Value section.

**For and on behalf of Willis Towers Watson**

**Mei-Chee Shum          Benjamin Chen**

27 March 2019

**ITEM 9. THE OFFER AND LISTING.**

In connection with our initial public offering, our American depositary shares, or ADSs, each representing 40 H shares, were listed and commenced trading on New York Stock Exchange on December 17, 2003 under the symbol LFC . Our H shares were listed and commenced trading on the Hong Kong Stock Exchange on December 18, 2003 under the stock code 2628 . Prior to these listings, there was no public market for our equity securities. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and H shares, which are not listed on any other exchanges in or outside the United States.

On December 29, 2006, the ratio of ADSs to H shares was reduced from 40 H shares to 15 H shares. On May 26, 2015, the ratio of ADSs to H shares was further reduced from 15 H shares to 5 H shares. Our A shares were listed and commenced trading on the Shanghai Stock Exchange on January 9, 2007 under the stock code 601628 .

**ITEM 10. ADDITIONAL INFORMATION.**

**A. SHARE CAPITAL**

Not applicable.

**B. ARTICLES OF ASSOCIATION**



The following is a brief summary of certain provisions of our current articles of association, the PRC company law and certain other laws and regulations applicable to us. Such summary is not purported to be complete. For further information, you should refer to the full text of our articles of association and to the texts of applicable laws and regulations.

**Objects and Purposes**

We are organized under the PRC company law as a joint stock company. We are registered with the SAMR in Beijing, China and our business license carries the registration number 100000000037965.

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Our business scope, set forth in Article 10 of our articles of association, is to engage in life, accident and health insurance businesses; reinsurance business relating to the foregoing; fund investment businesses authorized by laws, regulations or the State Council; agency business, consulting business and provision of services, in each case relating to life insurance; fund sales business; and other business as approved by the insurance regulatory authority of the PRC.

## **Sources of Shareholders' Rights**

The primary sources of shareholders' rights are the PRC company law, our articles of association, Special Rules applicable to overseas listed joint stock companies promulgated by the State Council, or Special Rules, relevant CSRC regulations, the Shanghai Stock Exchange Listing Rules, and the Hong Kong Stock Exchange Listing Rules that, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and CLIC, our controlling shareholder. The PRC company law was enacted in December 1993 and serves as the primary body of law regulating corporate actions of companies organized in the PRC and its directors and shareholders.

Our articles of association have incorporated the provisions set forth in the Mandatory Provisions for the Articles of Association of Companies Listed Overseas, or the Mandatory Provisions, adopted in 1994 pursuant to the requirements of the CSRC and the provisions set forth in the Guidelines on the Articles of Association of Listed Companies, or the Guidelines, as amended in 2014 by the CSRC. Any amendment to the relevant mandatory provisions will only become effective after approval by the relevant governmental departments authorized by the State Council and the CSRC. The Hong Kong Stock Exchange Listing Rules require a number of provisions in addition to the Mandatory Provisions to be included in our articles of association.

According to the HKSE Listing Rules, we may not amend certain provisions of our articles of association that have been mandated by the Hong Kong Stock Exchange. These provisions include, among others:

varying the rights of existing classes of shares;

voting rights;

our power to purchase our own shares;

rights of minority shareholders; and

liquidation procedures.

In addition, upon the listing of the H shares and for so long as the H shares are listed on the Hong Kong Stock Exchange, we are subject to the relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including, among other things, the Hong Kong Stock Exchange Listing Rules, the Securities and Futures Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below are derived from our articles of association and the PRC company law.

**Enforceability of Shareholders Rights**

Enforceability of our shareholders rights may be limited.

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In accordance with the rules applicable to Chinese overseas listed companies, our articles of association provide that, with certain limited exceptions, all disputes or claims based on our articles of association, the PRC company law or other relevant laws or administrative rules, and concerning matters between holders of H shares and holders of A shares, us, or our directors, supervisors, president, vice presidents or other senior officers, must be submitted for arbitration at either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center. If an applicant chooses to have the dispute arbitrated at the Hong Kong International Arbitration Center, either party may request that venue be changed to Shenzhen, a city in mainland China near Hong Kong. The governing law for the above-mentioned disputes or claims is Chinese law unless otherwise provided by Chinese law. Any such arbitration will be final and conclusive.

In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong for mutual enforcement of arbitration awards rendered in the PRC and Hong Kong according to their respective laws. This arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000.

There has not been any published report of judicial enforcement in the PRC by H shareholders of their rights under charter documents of PRC joint stock companies or the PRC company law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock companies.

The PRC company law allows shareholders to sue, on behalf of the corporation, against persons, including corporate officers, directors, who have allegedly wronged the corporation, where the corporation itself has failed to enforce such claim against such persons directly. Class action lawsuits based on violations of securities laws are generally not available.

We are subject to the Hong Kong Exchange Listing Rules, the Hong Kong Securities and Futures Ordinance, or Securities and Futures Ordinance, and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases. However, holders of H shares will not be able to bring actions on the basis of violations of the Hong Kong Stock Exchange Listing Rules and must instead rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission of Hong Kong and the securities and futures industry in Hong Kong. The Securities and Futures Ordinance establishes various obligations in relation to disclosure of shareholders' interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong.

See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China The laws in China differ from the laws in the United States and may afford less protection to our minority shareholders and Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on U.S. or other foreign laws against us, our management and some of the experts named in the annual report .

## **Dividends**

Our board of directors may propose dividend distributions. A distribution of dividends for any fiscal year is subject to shareholders' approval. Dividends may be distributed in the form of cash or shares or a combination of both. The H shares rank equally with A shares with regard to dividend rights. A distribution of shares must be approved by special resolution of the shareholders' meeting.



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We may only distribute dividends after allowance has been made for:

recovery of accumulated losses, if any;

allocations to the statutory common reserve fund equivalent to 10% of our after-tax profits;

allocations to the general risks reserve fund equivalent to 10% of our after-tax profits, as determined under PRC GAAP; and

allocations to a discretionary common reserve fund as approved by the shareholders in a shareholders meeting.

Under Chinese law, dividends may be paid only out of distributable profits. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, we will ordinarily not pay any dividends in a year when we do not have any distributable profits.

Payment of dividends by us is also regulated by the PRC insurance law. If we do not meet the solvency margin required by the CBIRC, we will be prohibited from paying dividends. See [Item 4. Information on the Company Business Overview Regulation and Related Matters Insurance Company Regulation Solvency requirements](#) .

Our articles of association require us to appoint, on behalf of the holders of H shares, a receiving agent that is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. Our articles of association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars. The depositary will convert these proceeds into U.S. dollars and will remit the converted proceeds to holders of our ADSs.

Subject to the requirements under applicable PRC laws and rules of the securities regulatory authorities of the PRC, Hong Kong and United States, we may exercise the power to forfeit unclaimed dividends, provided that such power cannot be exercised until after the expiration of applicable limitation period.

We anticipate that our controlling shareholder, CLIC, may incur future operating losses arising in part from the runoff of policies retained by it in connection with the restructuring. Dividends received from us may become one of CLIC's principal means of funding these losses. Although we believe that the reserves held by CLIC and other financial resources available to it will fund substantially all of any future operating shortfalls arising out of these policies, which should reduce CLIC's reliance on dividends from us, subject to the relevant provisions of the PRC company law and our articles of association as described above and in [Item 8. Financial Information Consolidated Financial Statements and Other Financial Information Policy on Dividend Distributions](#) , CLIC may seek to increase the amount of dividends we pay in order to satisfy its cash flow requirements. See [Item 3. Key Information Risk Factors Risks Relating to the Restructuring](#) .

Dividend payments may be subject to Chinese withholding tax. See [Taxation The People's Republic of China Taxation of Dividends](#) .



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### **Voting Rights and Shareholders Meetings**

Our board of directors will convene a shareholders annual general meeting once every year within six months from the end of the preceding fiscal year. Our board of directors must convene an interim meeting within two months of the occurrence of any of the following events:

where the number of directors is less than the number stipulated in the PRC company law or two-thirds of the number specified in our articles of association;

where our unrecovered losses reach one-third of the total amount of our share capital;

where shareholders, individually or jointly, holding 10% or more of our issued and outstanding voting shares so request in writing;

whenever our board of directors deems necessary, or more than half of directors (including at least two independent directors) or our board of supervisors so requests; or

any other event as maybe provided by applicable laws, rules, regulations or our articles of association.

All shareholders meetings must be convened by our board of directors by written notice given to shareholders no less than 45 days before the meeting. Shareholders holding at least one-half of our total voting shares will constitute a quorum for a shareholders meeting. If a quorum is not reached, we are required to notify our shareholders within five days by public announcement of the agenda, the date and the venue of the adjourned meeting. After the notice, we may conduct the shareholders meeting. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders meeting.

Shareholders at meetings have the power, among other matters, to approve or reject our profit distribution plans, annual budget, financial statements, increases or decreases in share capital, issuances of debentures, mergers, liquidation, any equity-based incentive plan and any amendment to our articles of association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of shareholders at a general shareholders meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate various amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including, among others, increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to those of shares of that class. There are no restrictions under PRC law or our articles of association on the ability of investors that are not Chinese residents to hold H shares and exercise voting rights, except that holders of H shares are unable to vote online and the prior approval of the CBIRC is required in respect of any acquisition which results in the acquirer holding more than 5% of the outstanding share capital of our company and the other restrictions set out under Item 4. Information on the Company Business Overview Regulatory and Related Matters Insurance Company Regulation Restriction of ownership in joint stock insurance companies .



Each of our ordinary shares, whether it be an A share or an H share, is entitled to one vote on all matters submitted for vote at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

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Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address or such other place as is specified in the meeting notice, no less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution.

Resolutions on any of the following matters must be approved by more than two-thirds of the voting rights held by shareholders who are present in person or by proxy:

an increase or decrease in our share capital or the issuance of shares, warrants, debentures and other similar securities;

our division, merger, dissolution or liquidation (shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price);

amendments to our articles of association;

purchase or sale within any single year of any material assets exceeding 30% of our latest audited total assets;

any equity-based incentive plan; and

any other matters as provided under applicable laws or regulations or determined by a majority of shareholders at a general meeting to have a material impact on us and should be approved by two-thirds of the voting rights.

An amendment of shareholders' rights of any class of shares must be approved by more than two-thirds of the voting rights held by holders of shares in the affected class who are present in person or by proxy.

All other actions taken by the shareholders will be approved by a majority of the voting rights held by shareholders who are present in person or by proxy at the shareholders' meeting.

Any shareholder resolution that is in violation of any laws or regulations of China or the articles of association will be null and void.

## **Liquidation Rights**

We are organized as a joint stock company with limited liability of indefinite duration, but must pass the annual inspection with the SAMR. In the event of our liquidation, the H shares will rank equally with the A shares, and payment of debts out of our remaining assets is required to be made in the order of priority prescribed by applicable laws and regulations or, if no such standards exist, in accordance with such procedures as the liquidation committee that has been appointed either by us or the People's Courts of China may consider to be fair and reasonable. After payment of debts, we are required to distribute the remaining property to shareholders in proportion to the number of

shares they hold.

### **Information Rights**

Our shareholders may, subject to reasonable fees and costs, obtain a copy of our articles of association and inspect and copy all parts of our register of shareholders, personal particulars of the directors, supervisors, president and other senior officers, reports on the state of our share capital, reports showing the aggregate par value, highest and lowest price paid in respect of each class of shares repurchased by us since the end of the last accounting year and the aggregate amount paid by us for this purpose, minutes of shareholders' general meetings, and counterfoils of company debt securities, resolutions of board meetings, resolutions of board of supervisors.

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Our fiscal year is the calendar year ending December 31. We must send to holders of H shares, no more than four months after the end of the relevant financial year, our annual report (including our annual accounts, together with a copy of the auditors' report thereon). Further, we must publish a preliminary results announcement no later than three months after the end of the relevant fiscal year. The results announcement in respect of the relevant financial year is required to be published on the HKSE's website no later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of our board of directors. These and any interim financial statements must be prepared in accordance with HKFRS, IFRS or PRC GAAP in the case of a PRC issuer that has adopted PRC GAAP for the preparation of its annual financial statements. The annual financial statements must be approved by a majority of our shareholders who are present in person or by proxy at the annual general meeting.

The HKSE Listing Rules also require us to send to holders of H shares an interim report no later than three months after the end of the first six months of each fiscal year. Further, we must publish a preliminary results announcement no later than two months after the end of the six-month period. The results announcement in respect of the relevant six-month period is required to be published on the HKSE's website no later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of our board of directors.

According to the HKSE Listing Rules, where in the view of the HKSE there is or there is likely to be a false market in our securities, we must, as soon as reasonably practicable after consultation with the HKSE, announce the information necessary to avoid a false market in our securities. In addition, according to the provisions of inside information under the Securities and Futures Ordinance of Hong Kong, we must, as soon as reasonably practicable after any inside information has come to our knowledge, disclose the information to the public. Inside information, in relation to a listed corporation, means specific information that

is about the corporation, a shareholder or officer of the corporation, or the listed securities of the corporation or their derivatives; and

is not generally known to the persons who are accustomed or would be likely to deal in the listed securities of the corporation but would if generally known to them be likely to materially affect the price of the listed securities.

Depending on the size of the transaction, we may also be required to disclose to our shareholders details of various acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

## **Restrictions on Transferability and the Share Register**

Unless otherwise permitted by relevant PRC rules or regulations or approved by relevant PRC authorities, H shares may be traded only among investors who are legal or natural persons resident outside of China, and may not be sold to investors resident within the PRC. There are no restrictions under PRC law or our articles of association on the ability of investors who are not PRC residents to hold H shares. However, under relevant PRC law, a legal person resident outside of China is only allowed to hold not more than 20% of our issued share capital and legal persons resident outside of China are only allowed to hold in aggregate not more than 25% of our issued share capital, unless otherwise approved by competent authorities.



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We are required to keep a register of our shareholders comprised of various parts, including one part which is to be maintained in Hong Kong in relation to holders of H shares. Shareholders have the right to inspect and, for a reasonable charge, to copy the share register. No transfers of ordinary shares will be recorded in our share register within thirty days prior to the date of a shareholders' general meeting or within five days prior to the record date established for the purpose of distributing a dividend.

We have appointed Computershare Hong Kong Investor Services Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares and enters transfers of H shares in such register upon the presentation of the documents described above.

## **Increases in Share Capital**

Under our articles of association, issuance of new securities, including ordinary shares, securities convertible into ordinary shares, options, warrants or similar rights to subscribe for any ordinary shares or convertible securities, must be approved by at least two-thirds of the shareholders who attend the shareholders meeting in person or by proxy. In addition, the issuance of A shares or H shares must be approved by two-thirds of the class of domestic shares or H shares, as the case may be, unless the number of shares to be issued shall not exceed 20% of the number of shares of the same class then outstanding in any 12-month period.

A special resolution was passed at the shareholders' annual general meeting held on June 6, 2018 to authorize our board of directors to issue additional shares, and amend the articles of association accordingly, in a nominal amount of no more than 20% of the aggregate nominal amount of our H shares in issue as at the date of such resolution, by the conclusion of next shareholders' annual general meeting, or the expiration of the 12-month period following the passing of this resolution, or the date on which the resolution is otherwise revised or revoked by a special resolution of our shareholders, whichever is the earliest.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms that were agreed upon by the subscriber of the relevant shares at the time of subscription. New issues of shares must also be approved by relevant Chinese authorities.

## **Decreases in Share Capital and Repurchases**

We may reduce our registered share capital only upon obtaining the approval of at least two-thirds of the shareholders who attend the shareholders meeting in person or by proxy and, in certain circumstances, of relevant Chinese authorities. The number of H shares that may be repurchased is subject to the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

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**Restrictions on Ownership**

Equity interests held by a single shareholder, including its related parties and persons acting in concert, must not exceed one-third of the registered capital of a single insurance company. An exception to the one-third cap applies to insurance companies establishing or investing in other insurance companies for the purposes of innovation and specialization of their business, or consolidating their operations under a single group management. See Item 4. Information on the Company Business Overview Regulation and Related Matters Insurance Company Regulation Restriction of ownership in joint stock insurance companies .

**Restrictions on Large or Controlling Shareholders**

Our articles of association define a controlling shareholder as any person who acting alone or in concert with others:

is in a position to elect more than one-half of the board of directors;

has the power to exercise, or to control the exercise of, 30% or more of our voting rights;

holds 30% or more of our issued and outstanding shares; or

has de facto control of us in any other way.

As of the date of this annual report, CLIC, a wholly state-owned enterprise, is our only controlling shareholder.

Our articles of association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the Hong Kong Stock Exchange Listing Rules, a controlling shareholder shall not exercise its voting rights in a manner prejudicial to the interests of other shareholders:

to relieve a director or supervisor from his or her duty to act honestly in our best interests;

to approve the appropriation by a director or supervisor, for his or her own benefit or for the benefit of any other person, of our assets in any way, including without limitation opportunities which may be advantageous to us; or

to approve the appropriation by a director or supervisor, for his or her own benefit or for the benefit of another person, of the individual rights of other shareholders, including without limitation rights to distributions and voting rights (except in accordance with a restructuring of our company which has been approved by the shareholders at a general meeting in accordance with our articles of association).

Our articles of association also provide that a controlling shareholder or an actual controlling person shall not exploit its affiliated relation in a manner prejudicial to the interest of our company, and shall be liable for any losses suffered by us as a result thereof. The controlling shareholder or actual controlling person shall have fiduciary duties to both

our company and our public shareholders. The controlling shareholder shall exercise its rights as a capital contributor of our company in strict compliance with the law. The controlling shareholder shall not cause any damage to the lawful rights and interest of our company and our public shareholders through, among others, any connected transactions, profit distribution, asset restructuring, external investment, fund appropriation and loan guarantee, or impair the interest of our company and our public shareholders through its controlling position.



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### **Board of Directors**

Our non-employee directors are elected by our shareholders at shareholders' general meetings, and employee directors are elected by our employees or other democratic means at the employee representative conference. Directors are elected for a term of three years and may serve consecutive terms if re-elected.

Article 23 of Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies provides that directors, supervisors, and senior officers of a company owe duties of honesty, care and diligence to their company.

Our articles of association provide that, in exercising their duties and powers, our directors, supervisors and senior officers will act with the care, diligence and skills that are expected of a reasonable person under similar circumstances, observe fiduciary principles and not place themselves in a situation where their interests conflict with the duties they are charged with performing. In addition to these fiduciary duties to our company, each director, supervisor and officer is obligated to each shareholder:

to act honestly in our company's best interests;

not to exploit corporate assets for personal gains; and

not to expropriate the rights of our shareholders.

If directors, supervisors or officers are found to have misappropriated our company's assets or misused their position for personal gain, the PRC company law provides that any misappropriated or misused property be returned and any illegal proceeds received by such director, supervisor or officer be confiscated, and allows us to impose punishment on them. In serious cases, criminal liability may also be imposed. According to our articles of association, our shareholders may bring a derivative suit against any director, supervisor or officer who has breached his fiduciary duties. Most disputes between H shareholders and directors, supervisors and officers are required to be resolved by final and binding arbitration.

Moreover, our articles of association provide that our directors, supervisors and senior officers must not enter into transactions or contracts with us or agree to make corporate loans to any persons or provide guarantees for loans of any shareholder or any other person with corporate assets. In particular, our directors, supervisors and senior officers have obligations to disclose to the board of directors any direct or indirect material interest they may have in any contracts or transactions with us. They may not vote on any contracts, transactions or arrangements in which they have any material interest. Further, we may not make loans or provide guarantees to directors, supervisors or senior officers, unless such loans or guarantees are approved at a shareholders' meeting or made in the ordinary course of business and to the extent permitted by applicable laws. All decisions relating to the compensation of directors are made at shareholders' meetings.

There are no provisions under our articles of association or PRC law which relate to:

the retirement or non-retirement of directors under any age limit requirement;

directors borrowing power; or

number of shares required for directors qualification.

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Subject to all relevant laws and administrative regulations, the shareholders may remove any director before the expiration of his or her term of office by a majority vote of the shareholders present in person or by proxy at shareholders' general meetings. A director, supervisor, president, vice president or other senior officer may be relieved of liability for a specific breach of his or her duties by the consent of shareholders so long as specified conditions are met.

### **Board of Supervisors**

Our board of supervisors consists of five supervisors. At least one-third of our board of supervisors must be employee representatives elected by our employees. The remaining members must be elected by our shareholders in a general meeting. One member of our board of supervisors is designated as the chairman. Members of the board of supervisors may not serve as director, president, vice president or other senior management of our company. The term of office for our supervisors is three years, which is renewable upon re-election.

The primary duty of the board of supervisors is to monitor our financial matters and management. The board of supervisors' powers are generally limited to carrying out investigations and reporting to shareholders, the China Securities Regulatory Commission and other relevant governmental authorities having jurisdiction over our affairs and to convening shareholders' interim meetings. Reasonable expenses incurred by the board of supervisors in carrying out its duties will be paid by us.

Our supervisors owe fiduciary duties to our company and our shareholders. Please see the discussion of the duties and the nature of recourse our shareholders may have against supervisors in breach of these duties in the subsection entitled "Board of Directors".

The board of supervisors is accountable, and will report, to the shareholders at the shareholders' general meetings.

### **Certain Differences Between PRC Company Law and Delaware Corporate Law**

The PRC company law and other laws applicable to us differ in a number of respects from laws generally applicable to United States corporations and their shareholders. The description set forth below includes a summary of certain provisions of the PRC company law, Special Rules, Mandatory Provisions and the Guidelines applicable to companies listed both in the PRC and overseas, such as us, which differ from provisions of the corporate law of the State of Delaware.

#### ***General***

We are a PRC joint stock company, which is a corporate entity organized under the PRC company law. Under the PRC company law, the registered capital of a joint stock company is divided into shares of equal par value. These shares are commonly called domestic ordinary shares. Each share of a joint stock company ranks equally with all other shares in its class as to voting rights (except for specified class voting rights) and rights to dividends and other distributions. Upon receiving approval from the relevant authorities, a joint stock company may offer its shares for sale to the public and seek to be listed on a stock exchange. The State Council may formulate separate regulations for the issuance of other classes of shares, including H shares. All of our issued shares are fully paid and nonassessable. Holders of H shares may transfer their shares without the approval of other shareholders. Among other things, a joint stock company must have (1) a board of directors of not fewer than five and not more than 19 members, and (2) a board of supervisors of not fewer than three members.

The shareholders' meeting of a joint stock company is the highest authority of the company and exercises the powers of the company with respect to significant matters, subject to applicable law and the articles of association of the company. The business of a joint stock company is under the overall management of a board of directors, subject to the PRC company law, other applicable laws and regulations (which in our case include the PRC insurance law and regulations), the company's articles of association and duly adopted resolutions of its shareholders. The day-to-day operations of a joint stock company are under the direction of its general manager or president, subject to applicable laws and regulations, the company's articles of association and duly adopted resolutions of the directors and shareholders. In addition, the PRC company law provides for the establishment of a board of supervisors for each joint stock company. The supervisors perform and exercise the functions and powers described below, including examination of the joint stock company's affairs and monitoring the actions of the directors and officers of the company. The directors, supervisors and officers are not required to hold any qualifying shares in the joint stock company.

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A joint stock company may be liquidated involuntarily due to insolvency or voluntarily in accordance with the terms of its articles of association or duly adopted shareholders' resolutions. The property of a joint stock company remaining after full payment of its liquidation expenses, wages, labor insurance premiums of its employees and statutory compensations, outstanding taxes and debts, is distributed in proportion to the holdings of its shareholders.

### ***Meetings of shareholders***

Under PRC law, shareholders are given the power to approve specified matters. See **Voting Rights and Shareholders Meetings** . In addition, the Mandatory Provisions provide that at shareholders' meetings shareholders are entitled to consider any proposals made by shareholders holding in the aggregate at least 3% of voting power over the company's shares. These proposals must fall within the scope of powers of the shareholders' meeting, have a clear agenda and specific matters and comply with laws, administrative regulations and articles of association of the company.

Under Delaware law, the business and affairs of a Delaware corporation are, in general, managed by or under the direction of its board of directors. Only certain fundamental matters regarding the corporation are reserved by statute to be exercised by the shareholders. These matters include, in general, election or removal of directors, retention or dismissal of the corporation's independent auditors, mergers or other business combinations involving the corporation, amendment of the corporation's certificate of incorporation and liquidation or dissolution of the corporation.

### ***Shareholders' approval by written consent***

PRC law does not provide shareholders of overseas listed joint stock companies with rights to approve corporate matters by written consent. Under Delaware law, unless otherwise provided in the certificate of incorporation, any action which is required or permitted to be taken at any shareholders' meeting may be taken without a meeting, subject to various conditions.

### ***Amendments of articles of association***

Under PRC law, an amendment of the articles of association must be approved by an affirmative vote of two-thirds of shareholders attending a shareholders' meeting. Amendments with respect to the Mandatory Provisions only become effective after approval by the relevant governmental department authorized by the State Council and the China Securities Regulatory Commission.

Under Delaware law, with certain exceptions, shareholder approvals must be obtained for any amendment to the certificate of incorporation. Board approvals are also required for any amendment to the certificate of incorporation, but no governmental approval is generally required.

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***Powers and responsibilities of directors***

Under PRC law, the board of directors is responsible for specified actions, including the following functions and powers of a joint stock company:

convening shareholders' meetings and reporting its work to shareholders at these meetings;

implementing shareholders' resolutions;

determining the company's business plans and investment proposals;

formulating the company's annual financial budgets and final accounts;

formulating the company's profit distribution plans and loss recovery plans;

formulating proposals for the increase or decrease in the company's registered capital and the issue of debentures;

formulating major acquisition and disposal plans and plans for the merger, division or dissolution of the company;

to the extent authorized by the shareholders' meeting, deciding on such matters as external investments, purchase or sale of assets, assets pledge and connected transactions of the company;

deciding on the company's internal management structure and formulating its basic management system; and

appointing or removing the company's principal executive officers; appointing and removing other senior officers based on the recommendation of the principal executive officer and deciding on the remuneration of the senior officers.

In addition, the Mandatory Provisions provide that the board has the authority to formulate any proposal to amend the articles of association and to exercise any other power conferred by a decision of the shareholders' meeting.

Under Delaware law, the business and affairs of a Delaware corporation are managed by or under the direction of its board of directors. Their powers include fixing the remuneration of directors, except as otherwise provided by statute or in the certificate of incorporation or by-laws of the corporation.

***Powers and responsibilities of supervisors***

Under PRC law, a PRC joint stock company must have a board of supervisors consisting of shareholder representatives and one or more employee representatives. Supervisors attend board meetings as non-voting observers. Directors, officers and company personnel in charge of financial matters may not serve as supervisors. The supervisors perform and exercise the following functions and powers:

examining the company's financial affairs;

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monitoring compliance with laws, regulations, the articles of association of the company and the shareholders resolutions by the directors and officers of the company; and suggesting removing the directors and officers who violate these laws and regulations;

requiring corrective action from directors and officers whose actions are contrary to the interests of the company;

examining the financial information, including financial statements, operation reports and plans for profit distribution, to be submitted by the board of directors to the shareholders meetings; and authorizing, in the company's name, public certified accountants or licensed auditors to assist in the re-examination of such information, should any doubt arise in respect thereof;

proposing the holding of extraordinary shareholders meetings;

proposing new items to be inserted in the agenda of the shareholders meeting;

bringing lawsuits against directors or members of senior management, if they violate laws, regulations or articles of association of the company; and

exercising and performing other powers and functions provided for in the company's articles of association. In addition, the Mandatory Provisions provide that supervisors of overseas listed joint stock companies are entitled to retain auditors in the name of the company to examine any financial or business reports or profit distribution proposals to be submitted by the directors to a meeting of the shareholders which the supervisors consider questionable, and negotiate or take legal action against any director or the directors in the name of the company. The fees and expenses of attorneys and other professionals incurred by the supervisors in connection with the discharge of their duties are to be paid by the company.

Delaware law makes no provision for a comparable corporate institution.

***Duties of directors, supervisors and officers***

Under PRC law, directors, supervisors and officers of a joint stock company are required to comply with relevant laws and regulations and the company's articles of association. A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties shall be personally liable to the company for any loss incurred by the company. Directors, supervisors and officers are required to carry out their duties honestly and diligently, and protect the interests of the company. They are also under a duty of confidentiality to the company and prohibited from divulging confidential information concerning the company, except as permitted by relevant laws and regulations or by a decision of a shareholders meeting. They may not use their position and authority in the company to seek personal gain. Directors and officers may not directly or indirectly engage in the same business as the company or in any other business detrimental to the interests of the company, and they are required to forfeit any profits from these activities to the company.



Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

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**Table of Contents*****Limitations on transactions with interested directors, supervisors and officers***

Under PRC law, directors and officers of a joint stock company may not enter into any contracts or transactions with the company unless permitted by the articles of association or approved by the shareholders. A company may not provide any guarantees to shareholders or any de facto control person of the company unless such guarantees are approved by a majority of shareholders present at the shareholders' meeting, excluding the shareholder who will be provided such guarantees. Under the Mandatory Provisions, a director, supervisor or officer is required to disclose to the board any transaction with the company in which he has a direct or indirect interest or in which there is a material conflict of interest between the company and himself. A director is not entitled to vote or be counted for quorum purposes in any board decision on any such transaction. A company may set aside any interested transaction which did not comply with these requirements, unless the other party to such transaction was honestly unaware of the breach of obligations by the interested director, supervisor or officer. A company may not loan or provide any guarantees to directors, supervisors or officers (including persons related to them), except for the loans made in accordance with employment contracts approved by the shareholders, or unless the company's business scope allows for the provision of loans and guarantees and such loans or guarantees are made under regular commercial terms.

Under Delaware law, an interested transaction is not voidable if (1) the material facts as to the interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which such a director derived an improper personal benefit.

***Election and removal of directors***

Under PRC law, the term of office of directors of a joint stock company must be specified in the articles of association, but may not exceed three years. Directors may be re-elected. No director may be removed from office without cause by shareholders prior to the expiration of the director's term. PRC law does not contemplate a classified board of directors.

Under Delaware law, directors of a Delaware corporation can be removed from office with or without cause by the holders of a majority of shares then entitled to vote at an election of directors, provided that except where the certificate of incorporation of the Delaware corporation otherwise provides, a member of a classified board may be removed by shareholders only for cause, and in a corporation with cumulative voting, if less than all of the directors are removed, no director may be removed if the votes cast against the director's removal is sufficient to elect the director if cumulatively voted at an election of directors. The Court of Chancery may remove a director who has been convicted of a felony or found by a court to have committed a breach of the duty of loyalty in connection with his or her duties to the corporation following application by the corporation or derivatively in the right of the corporation by any shareholder. The court may order the removal only if it determines that the director did not act in good faith in performing the acts resulting in the prior conviction or judgment and that removal is necessary to avoid irreparable harm to the corporation.

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### ***Dividend payments***

Under PRC law, proposals for distribution of profits are formulated by the board of directors and submitted for shareholder approval at a shareholders' meeting. Dividends may be distributed in the form of cash or shares.

Under Delaware law, the board of directors of a Delaware corporation may declare dividends out of distributable earnings and profits without the approval of the shareholders.

### ***Amalgamations and business combinations; appraisal rights***

Under PRC law, amalgamations and divisions involving joint stock companies are required to be approved by shareholders voting at a shareholders' meeting. The Mandatory Provisions require an amalgamation or division involving the company to be approved by an affirmative vote of two-thirds of the votes present at the shareholders' meeting called to consider the transaction. Any opposing shareholder may request the company or the consenting shareholders to purchase its shares at a fair price. In addition, a sale of fixed assets having a value exceeding 33% of the fixed assets as shown on the company's latest balance sheet most recently reviewed by the shareholders' meeting requires the approval of at least one third of the shareholders' meeting.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and holders of a majority of the outstanding shares entitled to vote. A shareholder objecting to the merger is entitled to appraisal rights pursuant to which the shareholder may receive cash in the amount of the fair value of the shares held by such shareholder (as determined by a court) in lieu of the consideration the shareholder would otherwise receive in the transaction.

### ***Transactions with significant shareholders***

Under Delaware law, a business combination between a Delaware corporation and an interested shareholder which takes place at any time during a period of three years commencing with the date the interested shareholder became an interested shareholder would need prior approval from the board of directors or a supermajority of the shareholders of the corporation, unless the corporation opted out of the relevant Delaware business combination statute. Under Delaware law, an interested shareholder of a corporation is someone who, together with its affiliates and associates, owns more than 15% of the outstanding common shares of the corporation. No such business combination statute or regulation applies to PRC joint stock companies.

### ***Shareholders' lawsuits***

The PRC law provides that most disputes involving an H shareholder are to be resolved by final and binding arbitration.

Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law.

### ***Limitations on liability and indemnification of directors and officers***

PRC law does not provide for any specific limitations on liability or indemnification of directors and officers.



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Under Delaware law, a corporation may indemnify a current director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, the director or officer had no reasonable cause to believe that his conduct was unlawful. Persons serving at the request of the corporation as directors, officers, employees or agents of another entity such as a subsidiary or an employee stock trust may receive advancement of expenses from the corporation. A corporation may not retroactively impair or eliminate indemnification or advancement rights by amending the corporation's certificate of incorporation or bylaws after the occurrence of the act or omission that gives rise to indemnification or advancement rights, unless the provision contains, at the time of the act or omission, an explicit authorization of such elimination or limitation.

***Shareholders' rights of inspection of corporate records***

Under PRC law, shareholders are entitled to inspect the articles of association, register of shareholders, corporate bond counter foils, minutes of shareholders' meetings and board meetings and reports of the financial accounts of the company. In addition, the Mandatory Provisions provide that, after paying reasonable fees, shareholders are entitled to inspect the company's shareholder list, certain personal information on the directors, supervisors and officers, the company's capital position and certain information regarding share repurchases conducted by the company during the most recent fiscal year.

Delaware law permits any shareholder of a Delaware corporation to examine or obtain copies of or extracts from the corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

**C. MATERIAL CONTRACTS**

See Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions for certain arrangements we have entered into with CLIC, AMC, China Life Pension, CLPCIC, IHC, China Life Capital, China Life Wealth, CGB, AMP and Chongqing Trust.

**D. EXCHANGE CONTROLS**

The Renminbi currently is not a freely convertible currency. The SAFE, under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Until July 20, 2005, the PBOC had been setting and publishing daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also took into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Under this system, the PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. On August 11, 2015, the PBOC adjusted the quotation mechanism of the Renminbi central parity to also consider demand and supply in foreign exchange markets and price movements of major currencies, in addition to the closing price on the previous working day. On May 26, 2017, the PBOC introduced the counter-cyclical factor into its formula that determines a central parity of the Renminbi against the U.S. dollar. Under the current mechanism, the central parity of the Renminbi against the U.S. dollar is determined based on the closing price, changes in a basket of

currencies and the counter-cyclical factor. See Item 3. Key Information Risk Factors Risks Relating to the People's Republic of China Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect our operations and financial results .

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Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. Although experimental policies were introduced in certain pilot areas such as the Shanghai free trade zone to reduce foreign exchange control, restrictions on the convertibility of Renminbi into foreign currency still remain in force in most parts of China.

In the event of shortages of foreign currencies, we may be unable to convert sufficient Renminbi into foreign currency to meet our foreign currency obligations or to pay dividends in foreign currency.

Our H shares are traded on the Hong Kong Stock Exchange. There are no limitations on the right of non-resident or foreign owners to remit dividends or capital including capital gains imposed by Hong Kong law.

## **E. TAXATION**

The taxation of income and capital gains of holders of H shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws other than the laws of the PRC and Hong Kong. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

### **The People's Republic of China**

The following is a discussion of the material Chinese tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to other investors subject to special treatment under the tax laws of the PRC. This discussion is based on the tax laws of China as in effect as of the date of this annual report, as well as on the Agreement between the United States of America and the People's Republic of China for the Avoidance of Double Taxation, or the China-U.S. Tax Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of Chinese taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Chinese and other tax consequences of owning and disposing of H shares.

### ***Taxation of Dividends***

*Individual investors.* According to the PRC Individual Income Tax Law, as amended, dividends paid by Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of China, the receipt of dividends from a company in China is normally subject to a withholding tax of 20% unless reduced pursuant to an applicable tax treaty. According to a notice issued by the Chinese State Administration of Taxation, or the SAT, on June 28, 2011, if the withholding tax rate under applicable tax treaties is 10% or less, the receipt of dividends will be subject to 10% withholding tax; and if the withholding tax rate under applicable tax treaties is between 10% and 20%, the receipt of dividends will be subject to the actual tax rate as agreed

under such tax treaties.



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*Enterprises.* According to the PRC Enterprise Income Tax Law and its implementation rules, effective on January 1, 2008, as well as any amendments from time to time and the Circular on Issues Relating to the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises, issued by the SAT on November 6, 2008, resident enterprises in China are required to, in distributing dividends for 2008 or any year hereafter to non-resident enterprises holding Overseas Shares including H-shares and ADSs of the enterprises, withhold enterprise income tax for such dividends at a tax rate of 10%. Non-resident enterprises holding H shares of any resident enterprise can, after receiving dividends due to them, apply for preferential tax treatment with competent tax authorities in accordance with tax treaties.

*Tax treaties.* Investors who do not reside in China and reside in countries that have entered into treaties for the avoidance of double-taxation with China may be entitled to a reduction of the withholding tax imposed on the payment of dividends to our investors who do not reside in China. China currently has treaties for the avoidance of double-taxation with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under the China-U.S. Tax Treaty, China may tax a dividend paid by us to an Eligible U.S. Holder up to a maximum of 10% of the gross amount of the dividend. For the purposes of this discussion, an Eligible U.S. Holder is a U.S. holder that (i) is a resident of the United States for the purposes of the China-U.S. Tax Treaty, (ii) does not maintain a permanent establishment or fixed base in China to which H shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) is not otherwise ineligible for benefits under the China-U.S. Tax Treaty with respect to income and gains derived in connection with the H shares.

***Taxation of Capital Gains***

According to the PRC Enterprise Income Tax Law and its implementation rules (effective on January 1, 2008) as well as any amendments from time to time, capital gains realized by foreign enterprises which have no establishment or residence in China or whose capital gains from China do not relate to their establishment or residence in China, are ordinarily subject to enterprise income tax at the rate of 10% with respect to the gains realized within China, unless reduced pursuant to an applicable tax treaty.

According to the Announcement on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source issued by the SAT on October 17, 2017, the balance of the income from the transfer of equity less the net value of equity is taxable income. Income from transfer of equity refers to the consideration received by the transferor of equity for transfer of equity, including various cash and non-cash incomes. Net value of equity refers to the taxable base for obtaining such equity. Taxable base is the cost of capital actually paid by the equity transferor when purchasing such equity.

According to the PRC Individual Income Tax Law, as amended, capital gains realized by individuals upon the transfer of shares, including Overseas Shares, are subject to capital gains tax levied at a flat rate of 20%; and relevant tax authorities are authorized to promulgate implementation rules in this regard. To date, the relevant tax authorities have not promulgated any implementation rules on the taxation of capital gains realized by individuals upon the transfer of shares, including Overseas Shares. If the relevant tax authorities promulgate such implementation rules in the future, a 20% tax may be levied on capital gains realized by foreign individuals in accordance with the PRC Individual Income Tax Law, as amended, unless reduced pursuant to an applicable tax treaty. To date, the relevant tax authorities have not collected capital gains tax on the income from the transfer of shares.



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*Chinese stamp duty.* Chinese stamp duty imposed on the transfer of shares of Chinese publicly traded companies under the Provisional Regulations of China Concerning Stamp Duty should not apply to the acquisition and disposal by non-Chinese investors of H shares or ADSs outside of China by virtue of the Provisional Regulations of China Concerning Stamp Duty, which became effective on October 1, 1988 and which provide that Chinese stamp duty is imposed only on documents executed or received within China that are legally binding in China and are protected under Chinese law.

*Estate tax.* No liability for estate tax under Chinese law will arise from non-Chinese nationals holding H shares.

*Investors under the Shanghai-Hong Kong Stock Connect Program.* According to the Notice on Tax Policies for the Shanghai-Hong Kong Stock Connect Pilot Program, jointly issued by the MOF, SAT and CSRC which became effective on November 17, 2014, between November 17, 2014 to November 16, 2017, gains realized by Chinese individual investors upon a transfer of H shares through the Shanghai-Hong Kong Stock Connect program were exempted from individual income tax. Gains realized by Chinese enterprise investors upon a transfer of H shares through the Shanghai-Hong Kong Stock Connect program must be included in their gross income and subject to enterprise income tax. For dividends received by Chinese individual investors and securities investment funds from investing in H shares through the Shanghai-Hong Kong Stock Connect program, the Chinese issuer of such H shares must withhold income tax at a tax rate of 20%. Dividends received by Chinese enterprise investors from investing in H shares through the Shanghai-Hong Kong Stock Connect program must be included in their gross income and subject to enterprise income tax, and the Chinese issuer of such H shares will not withhold income tax for the dividends. The enterprise investors in these circumstances must make tax filings by themselves. According to the Notice on Continuation of the Tax Policies for the Shanghai-Hong Kong Stock Connect Pilot Program, which was jointly issued by the MOF, SAT and CSRC and became effective on November 17, 2017, gains realized by Chinese individual investors upon a transfer of H shares through the Shanghai-Hong Kong Stock Connect Program are further exempted from individual income tax for the period from November 17, 2017 to December 4, 2019.

**Hong Kong**

The following is a discussion of the material Hong Kong tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under the tax laws of Hong Kong. This discussion is based on the tax laws of Hong Kong as in effect on the date of this annual report, which are subject to change (or changes in interpretation), possibly with retroactive effect. This discussion does not address any aspects of Hong Kong taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Hong Kong and other tax consequences of owning and disposing of H shares.

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### ***Tax on Dividends***

Under current practice, no tax is payable in Hong Kong in respect of dividends paid by us.

### ***Tax on Gains from Sale***

No tax is imposed in Hong Kong in respect of capital gains from the sale of property. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is imposed at the rate of 16.5% on corporations and at a rate of 15% on unincorporated businesses for the year of assessment 2008/09 onwards. Commencing from the year of assessment 2018/19 (i.e. on or after 1 April 2018), the profits tax rate for the first HK\$2,000,000 of profits of corporations will be lowered to 8.25% while the remaining profits will continue to be taxed at the rate of 16.5%; and the profits tax rate for the first HK\$2,000,000 of profits of unincorporated businesses will be lowered to 7.5%, while the remaining profits will continue to be taxed at the rate of 15%.

Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, for example, on the New York Stock Exchange.

### ***Stamp Duty***

Hong Kong stamp duty, currently charged at the *ad valorem* rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$ 5.00 is currently payable on any instrument of transfer of H shares. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

The withdrawal of H shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a passing of the beneficial interest in the H shares under Hong Kong law. The issuance of the ADRs upon the deposit of H shares issued directly to the depository of the ADSs, or for the account of the depository, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### ***Estate Duty***

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

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**Table of Contents****United States of America**

The following is a discussion of the material United States federal income tax consequences relating to the purchase, ownership and disposition of H shares or ADSs by U.S. Holders (as defined below) that acquire H shares or ADSs for cash and hold them as capital assets. This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, partnerships, dealers in securities, or other U.S. Holders that generally mark their securities to market for U.S. federal income tax purposes, certain former citizens or residents of the United States, persons who have acquired our H shares or ADSs as part of a straddle, hedge, conversion, or other integrated investment, persons who own, directly or by attribution, 10% or more of the combined voting power or value of all classes of stock of China Life or persons that have a functional currency other than the U.S. dollar). This discussion does not address any U.S. state or local or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of H shares or ADSs that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or of any state or political subdivision thereof, or therein, including the District of Columbia or (iii) an estate or trust the income of which is subject to U.S. federal income tax regardless of the source thereof.

Investors are urged to consult their own tax advisers as to the particular tax considerations applicable to them relating to the purchase, ownership and disposition of H shares or ADSs in their individual circumstances, including the applicability of U.S. federal, state and local tax laws, any changes in applicable tax laws and any pending or proposed legislation or regulations.

***Taxation of Dividends***

Subject to the discussion below under "Special Rules", cash distributions with respect to the H shares or ADSs owned by a U.S. Holder will, upon receipt, be includible in the gross income of such U.S. Holder as ordinary dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent that the amount of any such cash distribution exceeds our current and accumulated earnings and profits as so computed, it will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in such H shares or ADSs and, to the extent the amount of such cash distribution exceeds adjusted tax basis, will be treated as gain from the sale of such H shares or ADSs. Dividends paid by us generally will constitute income from sources outside the United States for foreign tax credit limitation purposes and will not be eligible for the dividends received deduction.

Dividends received by individuals from "qualified foreign corporations" are generally subject to a maximum U.S. federal income tax rate of 20%, so long as certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive income tax treaty with the United States which the Secretary of the Treasury determines is satisfactory for purposes of the relevant provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. The Treasury Department has determined that the China-U.S. Tax Treaty as currently in effect meets the requirements described in clause (i) above. In addition, the ADSs are readily tradable on

the New York Stock Exchange, an established securities market in the United States. Each U.S. Holder that is an individual is urged to consult his or her tax adviser regarding the applicability of this reduced rate to dividends received with respect to the H shares or ADSs in his particular circumstance.

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The U.S. dollar value of any distribution made by us in Hong Kong dollars (or other currency that is not the U.S. dollar, or a foreign currency), should be calculated by reference to the exchange rate in effect on the date of receipt of such distribution by Deutsche Bank Trust Company Americas, as depositary, in the case of ADSs, or by the U.S. Holder, in the case of H shares held directly by such U.S. Holder regardless of whether the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the date of receipt. If the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the date of receipt, such U.S. Holder generally should not recognize foreign currency gain or loss on such conversion. If the Hong Kong dollars (or such other foreign currency) are not converted into U.S. dollars on the date of receipt, such U.S. Holder will have a basis in the Hong Kong dollars (or such other foreign currency) equal to their U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the Hong Kong dollars (or such other foreign currency) generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to certain limitations, the Chinese tax withheld from dividends paid with respect to H shares or ADSs and paid over to China, as described above under *The People's Republic of China Taxation of Dividends*, may be creditable against a U.S. Holder's U.S. federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 20% U.S. federal income tax rate. A U.S. Holder of H shares or ADSs that does not elect to claim a U.S. foreign tax credit may instead claim a deduction for such withheld tax, but only for a taxable year in which the U.S. Holder elects to do so with respect to all non-U.S. income taxes paid or accrued in such taxable year. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and U.S. Holders are urged to consult their own U.S. tax advisers with respect to foreign tax credit considerations in their individual circumstances.

***Sale or other Disposition of H Shares or ADSs***

Subject to the discussion below under *Special Rules*, a U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes upon a sale or other disposition of H shares or ADSs that it owns in an amount equal to the difference, if any, between the amount realized from the sale or disposition and such U.S. Holder's adjusted tax basis in such H shares or ADSs. The gain or loss generally will be a capital gain or loss and will be long-term capital gain (taxable at a reduced rate for individuals) or loss if, on the date of sale or disposition, such H shares or ADSs were held by the U.S. Holder for more than one year and will generally be U.S. source gain or loss. The claim of a deduction in respect of a capital loss may be subject to limitations.

A U.S. Holder that receives Hong Kong dollars (or other foreign currency) from the sale or disposition generally will realize an amount equal to the U.S. dollar value of the Hong Kong dollars (or such other foreign currency) on the settlement date of the sale or disposition if (i) the U.S. Holder is a cash basis or electing accrual basis taxpayer and our H shares or ADSs, as the case may be, are treated as being traded on an established securities market for this purpose or (ii) the settlement date is the date of the sale or disposition. If the Hong Kong dollars (or such other foreign currency) so received are converted into U.S. dollars on the settlement date, the U.S. Holder should not recognize foreign currency gain or loss on the conversion. If the Hong Kong dollars (or such other foreign currency) so received are not converted into U.S. dollars on the settlement date, the U.S. Holder will have a basis in the Hong Kong dollars (or such other foreign currency) equal to the U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the Hong Kong dollars (or such other foreign currency) generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. A U.S. Holder should consult its own tax adviser regarding the U.S. federal income tax consequences of receiving Hong Kong dollars (or other currency) from a sale or disposition of the H shares or ADSs in cases not described in this paragraph.





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A U.S. Holder that is a non-resident enterprise may be subject to Chinese tax on the gain realized upon the sale or other disposition of H shares or ADS. See *The People's Republic of China Taxation of Capital Gains* above. Holders should consult their own tax advisers concerning their ability to credit such Chinese taxes against their U.S. federal income tax liability in their particular situation.

***Special Rules***

***Related Person Insurance Income.*** Certain adverse U.S. income and tax reporting rules may apply to U.S. shareholders who, directly or indirectly, own stock of a non-U.S. corporation that earns related person insurance income ( RPII ), if 25% or more of the non-U.S. corporation's direct or indirect shareholders are U.S. persons. RPII is generally defined as insurance income derived from the insurance (or reinsurance) of insureds who are U.S. shareholders in the non-U.S. corporation or who are related to such U.S. shareholders. If applicable, these rules would require U.S. Holders to include in taxable income each year their pro rata share of any RPII incurred by us for the year, regardless of whether such income is distributed, and also to file IRS Form 5471, disclosing certain information regarding their direct or indirect ownership of China Life. Special rules apply for purposes of determining each U.S. shareholder's pro rata share of any RPII. For organizations that are otherwise exempt from U.S. federal income tax under section 501(a) of the Code, any such income would constitute unrelated business taxable income. These rules could also apply to convert some or all of the gain recognized from the sale or disposition of H shares or ADSs from capital gain to ordinary income and to require such gain to be reported on IRS Form 5471.

Under a statutory exception, these rules do not apply if less than 20% of the non-U.S. corporation's insurance income is RPII or if less than 25% of the non-U.S. corporation's stock is owned by U.S. shareholders. Because CLIC holds approximately 68.37% of our share capital, and because we do not offer or intend to offer our products and services in the United States, it is highly unlikely that the RPII rules will apply. If more of our shares are sold to the public in the future, it is possible that such rules could apply at a later date.

***Passive Foreign Investment Company.*** In general, a non-U.S. corporation will be a passive foreign investment company, or a PFIC, if 75% or more of its gross income constitutes passive income or 50% or more of its assets produce passive income or are held for the production of passive income. In determining whether we are a PFIC, we will be treated as if we directly owned our proportionate share of the assets and received our proportionate share of the income of any other corporation in which we own 25% or more of the shares by value.

For the purpose of determining whether a non-U.S. corporation is a PFIC, passive income is defined to include income of the kind which would be foreign personal holding company income under section 954(c) of the Code, and generally includes interest, dividends, annuities and other investment income. Passive income does not include interest income or dividends received from controlled subsidiaries or certain other related persons, to the extent properly allocable to income of such related person that is not passive income. The PFIC provisions, as modified by the Tax Cuts and Jobs Act, or the TCJA, specifically exclude from the definition of passive income any income derived in the active conduct of an insurance business by a qualifying insurance corporation (the active insurance business exception). The active insurance business exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income. A foreign corporation is a qualifying insurance corporation if it would be subject to tax as an insurance company if it were a domestic corporation and (i) loss and loss adjustment expenses and certain reserves or applicable insurance liabilities, constitute more than 25% of the foreign corporation's gross assets for the relevant year or (ii) a U.S. Holder makes an election to apply an alternative facts and circumstances test that applies only in certain runoff-related or ratings-related circumstances involving the insurance business. The PFIC provisions also exclude from the definition of passive income any income derived in the active conduct of a banking trade or business. We believe that we were not classified as a PFIC in 2018. However, there is currently no guidance on the application of the active insurance business exception as modified by the TCJA, and there is little guidance on the

circumstances under which a non-U.S. company will be treated as engaged in the active conduct of a banking trade or business for purposes of determining PFIC status. Accordingly, there is no assurance that the IRS will not take a contrary position and assert that we are a PFIC. Furthermore, an actual determination of PFIC status is inherently factual in nature and cannot be made until the close of each applicable tax year and, accordingly, no assurances can be given that we will not become a PFIC at some point in the future. Prior to the TCJA, the IRS issued proposed regulations regarding the application of the PFIC provisions to insurance companies and banks, and additional regulations or pronouncements interpreting or clarifying these rules, including in light of the changes to the active insurance business exception made by the TCJA, may be forthcoming. We cannot predict what impact, if any, such guidance would have on the determination of our status as a PFIC.

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In general, a U.S. shareholder of a PFIC is subject to a special tax and an interest charge at the time of the sale of (or receipt of an excess distribution with respect to) its shares in the PFIC. In general, a shareholder is treated as having received an excess distribution if the amount of the distribution was more than 125% of the average distribution with respect to its shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). The special tax is computed by assuming that the excess distribution or, in the case of a sale, the gain with respect to the shares was earned in equal portions throughout the holder's period of ownership. The portion allocable to each year prior to the year of sale is taxed at the maximum marginal tax rate applicable for each such period. The interest charge is determined based on the applicable rate imposed on underpayments of U.S. federal income tax for the period. The special tax and the interest charge generally will not apply to a U.S. shareholder that validly makes a qualified electing fund election under section 1295 of the Code with respect to the shares of the PFIC. We do not intend to comply with the requirements necessary to permit a U.S. Holder to make such an election with respect to H shares or ADSs.

The above results may also be avoided if a mark-to-market election is available and a U.S. Holder validly makes such an election. If the election is made, such U.S. Holder generally will be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, its H shares or ADSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income), and to make corresponding adjustments to the tax basis of such H shares or ADSs. In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income). A mark-to-market election is available to a U.S. Holder only if our H shares or ADSs are considered marketable stock for these purposes. Generally, stock will be considered marketable stock if it is regularly traded on a qualified exchange within the meaning of applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. A non-U.S. securities exchange will constitute a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, listing, financial disclosure and other requirements set forth in the Treasury Regulations. We do not know whether our H shares or ADSs will be treated as marketable stock for these purposes.

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If we are a PFIC in any taxable year during which a U.S. Holder owns H Shares or ADSs, such U.S. Holder (i) may also suffer adverse tax consequences under the PFIC rules described above with respect to any other PFIC in which we have a direct or indirect equity interest and (ii) generally will be required to file annually a statement with its U.S. federal income tax returns. U.S. Holders should consult their own tax advisers regarding the U.S. federal income tax consequences of a direct or indirect investment in a PFIC.

### ***Medicare Taxes***

Certain U.S. Holders that are individuals, estates or trusts are subject to an additional tax at the rate of 3.8% on all or a portion of their net investment income, which may include all or a portion of their income arising from a distribution with respect to an ADS or an H Share and gain upon the sale, exchange or other disposition of such ADS or H Share.

### ***Information Reporting and Backup Withholding***

Under certain circumstances, information reporting and/or backup withholding may apply to U.S. Holders with respect to payments made on or proceeds from the sale, exchange or other disposition of ADSs or H Shares, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

### ***Reportable Transactions***

U.S. Holders that participate in reportable transactions (as defined in Treasury Regulations) must attach to their federal income tax returns a disclosure statement on Form 8886. We urge U.S. Holders to consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the ownership or disposition of any Hong Kong dollars (or other foreign currency) received as a dividend or as proceeds from the sale of H shares or ADSs, or any other aspect of the purchase, ownership or disposition of H shares or ADSs.

### ***Disclosure Requirements for Specified Foreign Financial Assets***

Individual U.S. Holders (and certain U.S. entities to the extent specified in future IRS guidance) who, during any taxable year, hold any interest in any specified foreign financial asset generally will be required to file with their U.S. federal income tax returns Form 8938, setting forth certain information with respect to such asset, if the aggregate value of all such assets exceeds the applicable reporting threshold. Specified foreign financial asset generally includes any financial account maintained with a non-U.S. financial institution and may also include H Shares or ADSs if they are not held in an account maintained with a U.S. financial institution. Substantial penalties may be imposed for a failure to comply. U.S. Holders should consult their own tax advisers as to the possible application to them of these filing requirements.

## **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

## **G. STATEMENT BY EXPERTS**

Not applicable.



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**H. DOCUMENTS ON DISPLAY**

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission, or SEC, at its public reference room located at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding the registrations that file electronically with the SEC.

The SEC allows us to incorporate by reference the information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

**I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our exposure to financial market risks relates primarily to changes in interest rates, equity prices and exchange rates.

The following discussions and tables, which constitute forward-looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value and maturity. Such discussions address market risk only and do not present other risks which we face in the normal course of business.

For further information on our management of market risk, including the objectives and general strategies of risk management, see Item 4 Information on the Company Business Overview Investments Risk Management and Note 4 to our consolidated financial statements included elsewhere in this annual report.

**Interest Rate Risk**

Our profitability is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including economic growth rate, inflation, governmental monetary and tax policies, domestic and international economic and political conditions, financial regulatory requirements and other factors beyond our control. If interest rates were to increase in the future, surrenders and withdrawals of life insurance and annuity policies and contracts may increase as policy holders may seek other investments with higher perceived returns. This process may result in cash outflows requiring that we sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. However, if interest rates were to decline in the future, the income we realize from our investments may decrease, affecting our profitability. In addition, as instruments in our investment portfolio mature, we might have to reinvest the funds we receive in investments bearing low interest rates, which may also affect our profitability.

For the years ended December 31, 2018, 2017 and 2016, our investment yield was 3.29%, 5.16%, and 4.69%, respectively. Investment contracts are generally priced with guaranteed interest rates. Dividends on participating policies are required to be at least 70% of distributable earnings attributable to such policies.

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The following tables set forth selected assets and liabilities with exposure to interest rates as of December 31, 2018, 2017 and 2016.

As of December 31, 2018	Expected Maturity Date						Total	Fair value
	2019	2020	2021	2022	2023	Thereafter		
<i>(RMB in millions, except as otherwise stated)</i>								
<b>Assets</b>								
<b>Held-to-maturity and available-for-sale debt securities</b>								
<b>Fixed rate bonds</b>								
in RMB	25,976	56,949	72,536	97,279	60,894	906,409	<b>1,220,043</b>	1,256,866
Average interest rate	5.19%	4.86%	4.46%	4.71%	5.06%	4.42%	<b>4.52%</b>	
in US\$	2,241	13	21	6	35	74	<b>2,390</b>	2,393
Average interest rate	2.93%	5.33%	6.55%	5.12%	5.05%	5.05%	<b>3.07%</b>	
<b>Variable rate bonds</b>								
in RMB		30				201	<b>231</b>	231
Average interest rate		5.23%				4.66%	<b>4.73%</b>	
<b>Term deposits</b>								
in RMB	151,418	77,441	33,830	88,950	122,800	77,400	<b>551,839</b>	551,839
Average interest rate	4.48%	5.17%	3.90%	4.58%	5.31%	4.78%	<b>4.78%</b>	
in US\$	7,502						<b>7,502</b>	7,502
Average interest rate	2.21%						<b>2.21%</b>	
<b>Liabilities</b>								
<b>Securities sold under agreements to repurchase</b>								
	192,141						<b>192,141</b>	192,141
Average interest rate	1.86%						<b>1.86%</b>	
<b>Interest-bearing loans and other borrowings</b>								
in British pound	2,385						<b>2,385</b>	2,385
Average interest rate	3.54%						<b>3.54%</b>	
in US\$	13,108						<b>13,108</b>	13,108
Average interest rate	2.35%						<b>2.35%</b>	
in Euro	993	3,139	525				<b>4,657</b>	4,657
Average interest rate	1.50%	3.80%	2.50%				<b>3.16%</b>	
<b>Investment contracts</b>								
	2,867	3,213	451	986	1,296	246,621	<b>255,434</b>	245,803
Average guaranteed interest rate	1.77%	1.61%	2.21%	2.20%	2.27%	2.40%	<b>2.38%</b>	
<b>Long-term insurance contracts</b>								
	62,349	24,371	22,294	26,533	16,696	2,037,551	<b>2,189,794</b>	

Average guaranteed interest rate	2.59%	2.56%	2.61%	2.68%	2.49%	2.67%	<b>2.67%</b>
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As of December 31, 2017	Expected Maturity Date						Total	Fair value
	2018	2019	2020	2021	2022	Thereafter		
<b>Assets</b>								
<b>Held-to-maturity and available-for-sale debt securities</b>								
<b>Fixed rate bonds</b>								
in RMB	59,591	52,756	59,967	56,044	93,085	786,998	<b>1,108,441</b>	1,084,377
Average interest rate	4.82%	5.23%	4.91%	4.59%	4.79%	4.56%	<b>4.65%</b>	
in US\$	1,229		13	32		110	<b>1,384</b>	1,393
Average interest rate	0.98%		5.50%	6.15%		5.25%	<b>1.48%</b>	
<b>Variable rate bonds</b>								
in RMB	209		28				<b>237</b>	237
Average interest rate	4.66%		5.35%				<b>4.74%</b>	
<b>Term deposits</b>								
in RMB	89,332	149,833	77,441	33,300	88,950	2,800	<b>441,656</b>	441,656
Average interest rate	4.90%	4.50%	5.17%	3.90%	4.54%	5.20%	<b>4.66%</b>	
in US\$	7,744						<b>7,744</b>	7,744
Average interest rate	1.96%						<b>1.96%</b>	
<b>Liabilities</b>								
<b>Securities sold under agreements to repurchase</b>								
	87,309						<b>87,309</b>	87,309
Average interest rate	5.39%						<b>5.39%</b>	
<b>Interest-bearing loans and other borrowings</b>								
in British pound		2,413					<b>2,413</b>	2,413
Average interest rate		3.54%					<b>3.54%</b>	
in US\$		12,480					<b>12,480</b>	12,480
Average interest rate		2.35%					<b>2.35%</b>	
in Euro	780		3,121				<b>3,901</b>	3,901
Average interest rate	1.50%		3.80%				<b>3.34%</b>	
<b>Investment contracts</b>	2,765	1,922	2,259	591	953	224,010	<b>232,500</b>	229,222
Average guaranteed interest rate	1.42%	0.80%	1.32%	2.12%	1.69%	2.49%	<b>2.44%</b>	
<b>Long-term insurance contracts</b>	107,665	23,963	23,861	25,615	81,730	1,736,232	<b>1,999,066</b>	
Average guaranteed interest rate	2.52%	2.58%	2.57%	2.68%	3.24%	2.61%	<b>2.63%</b>	

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As of December 31, 2016	Expected Maturity Date						Total	Fair value
	2017	2018	2019	2020	2021	Thereafter		
<b>Assets</b>								
<b>Held-to-maturity and available-for-sale debt securities</b>								
<b>Fixed rate bonds</b>								
in RMB	63,466	71,709	53,115	44,127	46,853	714,000	<b>993,270</b>	1,017,685
Average interest rate	4.87%	4.59%	5.25%	4.85%	4.58%	4.56%	<b>4.64%</b>	
in US\$				13	34	117	<b>164</b>	170
Average interest rate				5.50%	6.15%	5.25%	<b>5.46%</b>	
<b>Variable rate bonds</b>								
in RMB	409	207	10	28		400	<b>1,054</b>	1,055
Average interest rate	5.66%	4.65%	3.80%	5.29%		4.60%	<b>5.03%</b>	
<b>Term deposits</b>								
in RMB	179,729	88,157	149,833	70,500	36,300	7,700	<b>532,219</b>	532,219
Average interest rate	5.00%	4.94%	5.00%	5.29%	3.90%	3.80%	<b>4.94%</b>	
in US\$	6,106						<b>6,106</b>	6,106
Average interest rate	1.51%						<b>1.51%</b>	
<b>Liabilities</b>								
<b>Securities sold under agreements to repurchase</b>								
	81,088						<b>81,088</b>	81,088
Average interest rate	3.64%						<b>3.64%</b>	
<b>Interest-bearing loans and other borrowings</b>								
in British pound			2,339				<b>2,339</b>	2,339
Average interest rate			3.54%				<b>3.54%</b>	
in US\$			13,100				<b>13,100</b>	13,100
Average interest rate			2.35%				<b>2.35%</b>	
in Euro	731						<b>731</b>	731
Average interest rate	1.50%						<b>1.50%</b>	
<b>Investment contracts</b>								
Average guaranteed interest rate	2,632	1,872	1,882	543	585	188,192	<b>195,706</b>	192,373
	1.60%	1.24%	0.78%	2.30%	2.26%	2.37%	<b>2.34%</b>	
<b>Long-term insurance contracts</b>								
Average guaranteed interest rate	143,140	72,636	24,073	25,257	58,264	1,502,586	<b>1,825,956</b>	
	2.53%	2.51%	2.60%	2.62%	3.17%	2.59%	<b>2.60%</b>	



**Table of Contents****Equity Price Risk**

Our investments in securities investment funds or equity securities expose us to changes in equity prices. We manage this risk on an integrated basis with other risks through our asset-liability management strategies. We also manage equity price risk through industry and issuer diversification and asset allocation techniques.

The following table sets forth our exposure to equity securities as of December 31, 2018, 2017, and 2016.

	As of December 31,					
	2016		2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<i>(RMB in millions)</i>						
Equity securities	421,383	421,383	409,528	409,528	424,657	424,657
Securities at fair value through profit or loss	54,718	54,718	53,918	53,918	50,714	50,714
Available-for-sale	366,665	366,665	355,610	355,610	373,943	373,943

A hypothetical 10% decline in the December 31, 2018, 2017 and 2016 value of the securities at fair value through profit or loss equity securities would result in an unrealized loss charged to the income statement of approximately RMB 5,071 million, RMB 5,392 million and RMB 5,472 million, respectively.

A hypothetical 10% decline in the December 31, 2018, 2017 and 2016 value of the available-for-sale equity securities would result in an unrealized loss charged to the income statement of approximately RMB 37,394 million, RMB 35,561 million and RMB 36,667 million, respectively.

The selection of a 10% immediate change in the value of equity securities should not be construed as a prediction by us of future market events but rather as an illustration of the potential impact of such an event.

**Foreign Exchange Risk**

Our exposure to fluctuations in foreign currency exchange rates against RMB results primarily from our holdings in non-RMB denominated term deposits and our foreign currency-denominated loans. Our debts and capital expenditures are predominantly denominated in RMB, and the principal currencies which create foreign currency exchange rate risk in our deposits are the U.S. dollar and Hong Kong dollar. The principal currencies which expose us to foreign currency exchange risk in our loans are the British pound, U.S. dollar and Euro. Our borrowings in foreign currencies include a five-year bank loan of GBP 275 million with a maturity date on June 17, 2019, a three-year bank loan of US\$ 970 million with a maturity date on September 27, 2019, a three-year bank loan of US\$ 940 million with a maturity date on September 30, 2019, a three-year bank loan of EUR 67 million with a maturity date on January 18, 2021, a six-month bank loan of EUR 127 million with a maturity date on January 11, 2019 (subject to automatic renewal), all of which are fixed rate loans, and a three-year loan of EUR 400 million with a maturity date on December 6, 2020, which is a floating rate loan. We recorded RMB 194 million (US\$ 28 million) in foreign exchange losses for the year ended December 31, 2018, resulting mainly from the change in foreign exchange rates applicable to our assets and liabilities held in foreign currencies. Future movements in the exchange rate of RMB against the U.S. dollar and other foreign currencies may adversely affect our results of operations and financial condition.



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The following tables set forth assets denominated in currencies other than RMB as of December 31, 2018, 2017 and 2016.

As of December 31, 2018	Expected Maturity Date						Total	Fair value
	2019	2020	2021	2022	2023	Thereafter		
	<i>(in millions)</i>							
<b>Debt securities</b>								
in US\$	2,814	17	25	12	35	114	<b>3,017</b>	3,019
Average interest rate	2.52%	4.33%	5.60%	2.75%	5.05%	4.04%	<b>2.64%</b>	
Other	3					28	<b>31</b>	31
Average interest rate	0.14%					0.91%	<b>0.85%</b>	
<b>Term deposits</b>								
in US\$	7,502						<b>7,502</b>	7,502
Average interest rate	2.21%						<b>2.21%</b>	
<b>Loans</b>								
in US\$						1,766	<b>1,766</b>	1,835
Average interest rate						4.12%	<b>4.12%</b>	
<b>Cash and cash equivalents</b>								
in US\$	1,768						<b>1,768</b>	1,768
Average interest rate	0.01%						<b>0.01%</b>	
in HK\$	261						<b>261</b>	261
Average interest rate								
in British pound	286						<b>286</b>	286
Average interest rate								
in Euro	43						<b>43</b>	43
Average interest rate								
<b>Other</b>								
Average interest rate								
<b>Liabilities</b>								
<b>Interest-bearing loans and other borrowings</b>								
in British pound	2,385						<b>2,385</b>	2,385
Average interest rate	3.54%						<b>3.54%</b>	
in US\$	13,108						<b>13,108</b>	13,108
Average interest rate	2.35%						<b>2.35%</b>	
in Euro	993	3,139	525				<b>4,657</b>	4,657
Average interest rate	1.50%	3.80%	2.50%				<b>3.16%</b>	

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As of December 31, 2017	Expected Maturity Date					Total	Fair value
	2018	2019	2020	2021	2022 Thereafter		
	<i>(in millions)</i>						
<b>Debt securities</b>							
in US\$	1,587	1	17	33	181	<b>1,819</b>	1,828
Average interest rate	0.77%	0.13%	4.12%	5.95%	3.79%	<b>1.20%</b>	
Other		1			26	<b>27</b>	27
Average interest rate		0.14%			1.02%	<b>0.98%</b>	
<b>Term deposits</b>							
in US\$	7,744					<b>7,744</b>	7,744
Average interest rate	1.96%					<b>1.96%</b>	
<b>Loans</b>							
in US\$					952	<b>952</b>	952
Average interest rate					4.00%	<b>4.00%</b>	
<b>Cash and cash equivalents</b>							
in US\$	1,246					<b>1,246</b>	1,246
Average interest rate	0.09%					<b>0.09%</b>	
in HK\$	185					<b>185</b>	185
Average interest rate							
in British pound	282					<b>282</b>	282
Average interest rate							
in Euro	128					<b>128</b>	128
Average interest rate							
Other	3					<b>3</b>	3
Average interest rate							
<b>Liabilities</b>							
<b>Interest-bearing loans and other borrowings</b>							
in British pound		2,413				<b>2,413</b>	2,413
Average interest rate		3.54%				<b>3.54%</b>	
in US\$		12,480				<b>12,480</b>	12,480
Average interest rate		2.35%				<b>2.35%</b>	
in Euro	780		3,121			<b>3,901</b>	3,901
Average interest rate	1.50%		3.80%			<b>3.34%</b>	

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As of December 31, 2016	Expected Maturity Date						Total	Fair value
	2017	2018	2019	2020	2021	Thereafter		
	<i>(in millions)</i>							
<b>Debt securities</b>								
in US\$	288		1	13	34	176	<b>512</b>	518
Average interest rate			0.12%	5.50%	6.15%	3.82%	<b>1.87%</b>	
Other			3			26	<b>29</b>	29
Average interest rate			1.05%			1.26%	<b>1.24%</b>	
<b>Term deposits</b>								
in US\$	6,106						<b>6,106</b>	6,106
Average interest rate	1.51%						<b>1.51%</b>	
<b>Cash and cash equivalents</b>								
in US\$	2,685						<b>2,685</b>	2,685
Average interest rate	0.53%						<b>0.53%</b>	
in HK\$	2,083						<b>2,083</b>	2,083
Average interest rate								
in British pound	145						<b>145</b>	145
Average interest rate								
Other	15						<b>15</b>	15
Average interest rate								
<b>Liabilities</b>								
<b>Interest-bearing loans and other borrowings</b>								
in British pound			2,339				<b>2,339</b>	2,339
Average interest rate			3.54%				<b>3.54%</b>	
in US\$			13,100				<b>13,100</b>	13,100
Average interest rate			2.35%				<b>2.35%</b>	
in Euro	731						<b>731</b>	731
Average interest rate	1.50%						<b>1.50%</b>	



**Table of Contents****ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.****A. DEBT SECURITIES**

Not applicable.

**B. WARRANTS AND RIGHTS**

Not applicable.

**C. OTHER SECURITIES**

Not applicable.

**D. AMERICAN DEPOSITARY SHARES**

The table below sets forth all fees and charges that a holder of our ADRs may have to pay to the depositary bank of our ADR program, either directly or indirectly.

<b>Category</b>	<b>Depositary Actions</b>	<b>Associated Fee</b>
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of shares, including deposits and issuances in respect of:  share distributions, rights, merger  exchange of securities or any other transaction or event or other distribution affecting the ADSs or the deposited securities	US\$ 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Receiving or distributing dividends	Distribution of dividends	US\$ 0.02 or less per ADS
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	US\$ 5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	US\$ 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered

(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	US\$ 1.50 per ADS
(f) Expenses of the depositary	<p>Expenses incurred on behalf of ADR holders in connection with:</p> <p>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</p> <p>the depositary's or its custodian's compliance with applicable law, rule or regulation;</p> <p>stock transfer or other taxes and other governmental charges;</p> <p>cable, telex, facsimile transmission and delivery;</p> <p>expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); and</p> <p>any other charge payable by depositary or its agents.</p>	<p>Expenses payable at the sole discretion of the depositary by billing ADR holders or by deducting charges from one or more cash dividends or other cash distributions.</p>

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Deutsche Bank Trust Company Americas, or Deutsche Bank, has served as the depository bank of our ADR program since January 4, 2010. Deutsche Bank has agreed to reimburse certain reasonable company expenses related to our ADR program and incurred by us in connection with our ADR program. The table below sets forth the amounts reimbursed from January 1, 2018 to April 5, 2019.

<b>Category of Expenses</b>	<b>Amount Reimbursed from January 1, 2018 to April 5, 2019</b>	
NYSE listing fees	US\$	133,000.00
Legal fees	US\$	3,715.00
Investor relations <sup>(1)</sup>	US\$	592,947.70
Broker reimbursements <sup>(2)</sup>	US\$	86,484.06
<b>Total</b>	<b>US\$</b>	<b>816,146.76</b>

- (1) Includes expenses related to announcement of results, ADR training programs, non-deal roadshows and investor relations activities.
- (2) Broker reimbursements are fees payable to Broadridge and other service providers for the distribution of hard copy material to beneficial ADR holders holding in the Depository Trust Company. Corporate material includes information related to shareholders' meetings and related voting instruction cards. These fees are SEC approved.

**PART II****ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.****A. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS**

See Item 10. Additional Information - Articles of Association .

**B. USE OF PROCEEDS**

The following use of proceeds information relates to our registration statement on Form F-1 (File No. 333-110615), filed by us in connection with our initial public offering of H shares in the United States. In connection with the registration of the H shares, a registration statement on Form F-6 (File No. 333-110622) was also filed for ADSs representing such H shares. Each of these two registration statements was declared effective by the SEC on December 11, 2003. Our H shares commenced trading on the Hong Kong Stock Exchange on December 18, 2003 and the ADSs on the New York Stock Exchange on December 17, 2003.

The net proceeds from the initial public offering of our shares, after deduction of fees and expenses, amounted to RMB 24,707 million and were held in either H.K. dollars or U.S. dollars. As of the date of this annual report, a part of the cash proceeds from our global offering was held in bank deposit accounts denominated in foreign currencies in China, and part of the cash proceeds was invested in securities listed on overseas stock exchanges, multi-asset

portfolios and private equity funds. We invested approximately US\$ 433 million, in addition to 2,282 million in Renminbi, in Guangdong Development Bank in December 2006. We used approximately HK\$ 12 billion for investments in Sino-Ocean Group Holding Limited in 2009, 2010 and 2013. As of December 31, 2018, we had engaged 13 third party overseas investment managers to manage US\$ 1,404 million for investment in overseas public markets.

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**ITEM 15. CONTROLS AND PROCEDURES.**

**Disclosure Controls and Procedures**

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, we have carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2018, the end of the period covered by this annual report. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2018.

**Management's Report on Internal Control over Financial Reporting**

Management of China Life Insurance Company Limited (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets and liabilities of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 framework). Based on this assessment, management determined that the Company's internal control over financial reporting was effective as of December 31, 2018.

The Company's internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm, as stated in their report which is on pages F-3 and

F-4 of this annual report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

**Table of Contents****Changes in Internal Control over Financial Reporting**

There were no changes to the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.**

Our board of directors has determined that Mr. Chang Tso Tung Stephen qualifies as an audit committee financial expert as defined in Item 16A of Form 20-F. Mr. Chang Tso Tung Stephen is independent in accordance with the applicable requirements of Rule 10A-3 of the Securities Exchange Act of 1934. Mr. Chang was appointed as an independent non-executive director and a member of the audit committee of our Company in October 2014. For Mr. Chang's biographical information, see Item 6. Directors, Senior Management and Employees.

**ITEM 16B. CODE OF ETHICS.**

At the board of directors meeting held on June 29, 2004, we adopted a code of business conduct and ethics that applies to our chief executive officer, chief financial officer, controller and other senior officers of our company. We have filed the adopted code of business conduct and ethics as an exhibit to our annual report on Form 20-F for the fiscal year ended December 31, 2004, as filed on May 27, 2005.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and all other fees paid to our principal accountants for the fiscal years of 2018 and 2017.

	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit-Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees<sup>(2)</sup></b>
	<i>(RMB in millions)</i>			
2018	60			5
2017	59			1

(1) Audit fees include fees billed for professional services rendered for audits of the consolidated financial statements and review of interim financial statements of China Life and fees billed for performing agreed-upon procedures.

(2) All other fees include fees billed for advisory services which do not affect the independence of our principal accountants.

According to our current internal rules, before our principal accountants are engaged by us to render audit or non-audit services, the engagement must be approved by our audit committee.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

As of December 31, 2018, China Life and its subsidiaries had not purchased, sold or redeemed any of China Life's shares.



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**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

Not Applicable.

**ITEM 16G. CORPORATE GOVERNANCE.**

As a Chinese company with H shares, ADSs and A shares publicly traded on the HKSE, the NYSE and the SSE, respectively, we must comply with the corporate governance standards provided by PRC company law and other laws, as well as the securities laws and regulations in Hong Kong, United States and the listing requirements of the HKSE, the NYSE and the SSE that are applicable to us. The description set forth below includes, for purpose of Section 303A.11 of the NYSE Listed Company Manual, a summary of the significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under NYSE rules.

**Board Independence**

We identify our independent non-executive directors in accordance with the qualifications provided by relevant PRC and Hong Kong regulations, which prohibit independent directors from having, among other things, specified interests in our securities or business, relationships with the management and financial dependence on us. These tests vary in certain respects with those set forth under Section 303A.02 of the NYSE Listed Company Manual.

Section 303A.02 of the NYSE Listed Company Manual also requires the board of directors to affirmatively determine that the director has no material relationship with the company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Under the HKSE Listing Rules, each independent non-executive director must provide an annual confirmation of his independence to the listed company. Under the Tentative Guidelines on Corporate Governance of Insurance Companies issued by the CIRC in 2006 (the Chinese Insurance Company Corporate Governance Guidelines), each independent director must make a public announcement of the director's independence and commitment to duties.

Section 303A.01 of the NYSE Listed Company Manual provides that a U.S. domestic issuer must have a majority of independent directors, unless more than 50% of such issuer's voting power for the election of directors is controlled by an individual, a group or another company (a controlled company). Because more than 60% of our voting power is controlled by CLIC, we, as with controlled U.S. domestic companies, would not be required to comply with this independent board requirement. As of the date of this annual report, our board of directors comprised ten directors, including three executive directors, three non-executive directors and four independent non-executive directors.

Section 303A.03 of the NYSE Listed Company Manual requires a U.S. domestic company to have its non-management directors meet at regularly scheduled executive sessions without management and hold an executive session including only independent directors at least once a year, or hold regular executive sessions of independent directors. Under the HKSE corporate governance rules effective since April 1, 2012, the chairman of our board of directors is required to have a meeting with non-executive directors (including independent non-executive directors) only without the executive directors present at least once a year. In August 2018, the then chairman of our board convened a meeting of non-executive directors (including independent non-executive directors) to discuss the development strategy, corporate governance and operational management of the Company. Pursuant to further amendments to the HKSE corporate governance rules, from January 1, 2019, the chairman of our board of directors is required to have a meeting with independent non-executive directors only without the other directors present at least once a year.



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### **Nominating/Corporate Governance Committee and Compensation Committee**

Under Section 303A.04 of the NYSE Listed Company Manual, a U.S. domestic company must have a nominating/corporate governance committee composed entirely of independent directors with a written charter that addresses certain specified responsibilities, unless it is a controlled company. Section 303A.05 of the NYSE Listed Company Manual requires a U.S. domestic company to have a compensation committee composed entirely of independent directors with a written charter that addresses certain specified duties, unless it is a controlled company. We, as with controlled U.S. domestic companies, are not required under NYSE rules to have such a nominating/corporate governance committee or compensation committee. We have established a nominating and remuneration committee in accordance with the HKSE Listing Rules, comprised of a majority of independent non-executive directors as required under those rules. The primary duties of the nomination and remuneration committee are to review the structure and components of our board of directors, to formulate the appointment and successors to our board of directors and senior management, to review and recommend the nomination of our directors and senior officers, as well as to propose to our board of directors the remuneration policy for our directors, supervisors and senior management.

The Guiding Opinions on Regulating Governance Structure of Insurance Companies require that nominating and remuneration committees of Chinese insurance companies be comprised entirely of non-executive directors with the independent directors as the Chairmen. In 2018, our nominating and remuneration committee comprised two independent non-executive directors and one non-executive director with one of the independent non-executive directors serving as the chairman. We have complied with the composition requirements of the nomination and remuneration committee as prescribed under the Chinese Insurance Company Corporate Governance Guidelines.

### **Audit Committee**

The NYSE rules set forth two levels of audit committee standards for U.S. domestic companies and foreign private issuers. As a foreign private issuer, we are required to comply with the audit committee requirements under Section 303A.06 of the NYSE Listed Company Manual, such as audit committee independence and certain functions and powers, but are not subject to the additional qualifications, independence, function and other requirements for U.S. domestic companies provided under Section 303A.07 of the NYSE Listed Company Manual.

We have established an audit committee in accordance with the requirements of Section 303A.06 of the NYSE Listed Company Manual, the HKSE Listing Rules and the Chinese Insurance Company Corporate Governance Guidelines. In 2018, our audit committee comprised three independent non-executive directors with one of them serving as the chairman. The primary duties of the audit committee are to review and supervise the financial reporting process, to assess the effectiveness of our risk management and internal control system, to supervise our internal audit system and its implementation and to implement and recommend the engagement or replacement of external auditors. Our audit committee is also responsible for communications between our internal and external auditors and our internal reporting system.

### **Corporate Governance Guidelines**

Under Section 303A.09 of the NYSE Listed Company Manual, a U.S. domestic company must adopt and disclose corporate governance guidelines that address specified key subjects. We are not required by Chinese or Hong Kong laws or requirements to, and currently do not, have such corporate governance guidelines. However, we address several of the key subjects required by the NYSE Listed Company Manual to be included in the corporate governance guidelines in our articles of association, Rules of Procedures for Board of Directors, Rules of Internal Control and other internal corporate documents.



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In addition, under the HKSE Listing Rules, we are expected to comply with, but may choose to deviate from, the provisions of the Corporate Governance Code in the HKSE Listing Rules, which sets out the principles of good corporate governance for issuers. However, we are required to disclose the reasons for deviation, if any, in our interim and annual reports.

We are required by the CSRC to disclose in our annual report filed with the Shanghai Stock Exchange our actual corporate governance practice as compared with CSRC's rules on corporate governance of listed companies. Under such rules, we are required to disclose whether there is any material difference between our actual practices and the requirements under such rules, and explain the details and reasons for such differences, if any. Accordingly, we have disclosed in our annual report for the year of 2018 filed with the Shanghai Stock Exchange that we had established a corporate governance structure with well-defined duties and responsibilities strictly in accordance with the PRC Company Law and PRC Securities Law as well as relevant rules and regulations, and that our actual corporate governance practices are generally in compliance with the applicable regulatory rules and requirements of the jurisdictions where we are listed.

## **Code of Business Conduct and Ethics**

Section 303A.10 of the NYSE Listed Company Manual requires U.S. domestic companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We have adopted a Code of Business Conduct and Ethics for Directors and Senior Officers and Code of Conduct for Employees. We have disclosed the Code of Business Conduct and Ethics for Directors and Senior Officers in our annual report under Form 20-F for fiscal year ended December 31, 2004 and are required to disclose in the annual report under Form 20-F any waivers of the code for directors or executive officers. In addition, according to the HKSE Listing Rules, all of our directors must comply with the Model Code for Securities Transactions by Directors of Listed Companies that sets forth the required standards with which the directors of a listed company must comply in securities transactions of the listed company. Under the Listing Rules of the Shanghai Stock Exchange, any of the directors, supervisors or senior management of the listed company may not transfer any shares of such company held by him/her within one year of the listing of the company or six months after leaving the company. During his/her tenure at the company, the number of shares transferred each year must not exceed 25% of the total number of shares of the company held by him/her, provided, however, if the directors, supervisors or senior management leave the company before the expiration of his/her tenure, during the term of his/her original tenure determined at the time of his/her appointment, the number of shares transferred each year must not exceed 25% of the total number of shares of the company held by him/her and may not transfer any shares within half a year after the expiration of the term of his/her original tenure determined at the time of his/her appointment. During his/her tenure at the company, he/she must file with the Shanghai Stock Exchange for record in advance any proposed transaction in the shares of the company in accordance with the relevant rules and regulations. In case of changes in shareholdings in the company, he/she shall report the changes on a timely basis to the company, which must then make relevant announcements on the website of the Shanghai Stock Exchange.

## **Certification Requirements**

Under Section 303A.12(a) of the NYSE Listed Company Manual, each U.S. domestic company Chief Executive Officer must certify to the NYSE each year that he or she is not aware of any violation by the listed company of NYSE corporate governance listing standards. There are no similar requirements under PRC or Hong Kong laws or requirements.



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**ITEM 16H. MINE SAFETY DISCLOSURE.**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS.**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**ITEM 18. FINANCIAL STATEMENTS.**

See Index to Consolidated Financial Statements for a list of all financial statements filed as part of this annual report.

**ITEM 19. EXHIBITS.**

(a) See Item 18 for a list of the financial statements filed as part of this annual report.

(b) Exhibits to this annual report.

**Table of Contents****EXHIBIT INDEX**

<b>No.</b>	<b>Description of Exhibit</b>
1.1	<u>Amended and Restated Articles of Association of the Registrant<sup>(8)</sup></u>
2.1	<u>Form of H share certificate<sup>(1)</sup></u>
2.2	<u>Form of Deposit Agreement, including the Form of American Depositary Receipt<sup>(2)</sup></u>
2.3	<u>Amendment No. 1 to Deposit Agreement<sup>(3)</sup></u>
2.4	<u>Amendment No. 2 to Deposit Agreement<sup>(4)</sup></u>
4.1	<u>Restructuring Agreement<sup>(1)</sup></u>
4.2	<u>Trademark License Agreement<sup>(1)</sup></u>
4.3	<u>Policy Management Agreement<sup>(5)</sup></u>
4.4	<u>Non-Competition Agreement<sup>(1)</sup></u>
4.5	<u>Asset Management Agreement between China Life Insurance (Group) Company and China Life Asset Management Company Limited</u>
4.6	<u>Asset Management Agreement between China Life Insurance Company Limited and China Life Investment Holding Company Limited</u>
4.7	<u>Asset Management Agreement between China Life Insurance Company Limited and China Life Asset Management Company Limited</u>
4.8	<u>Property Leasing Agreement<sup>(5)</sup></u>
4.9	<u>Entrustment and Account Management Agreement for Corporate Annuity Fund<sup>(7)</sup></u>
4.10	<u>Insurance Sales Framework Agreement between China Life Insurance Company Limited and China Life Property and Casualty Insurance Company Limited (Agency Services to be Provided by China Life Insurance Company Limited)<sup>(5)</sup></u>
8.1	<u>List of subsidiaries of the Registrant</u>
11.1	<u>Code of Business Conduct and Ethics<sup>(6)</sup></u>
12.1	<u>Certification pursuant to Rule 13a-14(a)</u>
12.2	<u>Certification pursuant to Rule 13a-14(a)</u>
13.1	<u>Certification pursuant to Rule 13a-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-110615), filed with the Commission on December 9, 2003.

(2)



## Edgar Filing: CHINA LIFE INSURANCE CO LTD - Form 20-F

- Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-164005), filed with the Commission on January 4, 2010.
- (3) Incorporated by reference to the Post-Effective Amendment No. 1 to Form F-6 (File No. 333-164005), filed with the Commission on January 27, 2015.
  - (4) Incorporated by reference to the Post-Effective Amendment No. 2 to Form F-6 (File No. 333-164005), filed with the Commission on May 1, 2015.
  - (5) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed with the Commission on April 25, 2018.
  - (6) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2004, filed with the Commission on May 27, 2005.
  - (7) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed with the Commission on April 24, 2015.
  - (8) Incorporated by reference to the Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed with the Commission on April 21, 2017.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Life Insurance Company Limited

By: /s/ Su Hengxuan

Name: Su Hengxuan

Title: President and Executive Director

Date: April 24, 2019

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CHINA LIFE INSURANCE COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

Audited Consolidated Financial Statements

For the year ended 31 December 2018

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**China Life Insurance Company Limited**

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of China Life Insurance Company Limited

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of China Life Insurance Company Limited (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated April 24, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2013.

Beijing, People's Republic of China

April 24, 2019

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of China Life Insurance Company Limited

**Opinion on Internal Control over Financial Reporting**

We have audited China Life Insurance Company Limited's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, China Life Insurance Company Limited (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated April 24, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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**Report of Independent Registered Public Accounting Firm (continued)**

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Hua Ming LLP

Beijing, People's Republic of China

April 24, 2019

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Financial Position****As at 31 December 2018**

	<i>Notes</i>	<b>As at 31 December 2018 RMB million</b>	<b>As at 31 December 2017 RMB million</b>
<b>ASSETS</b>			
Property, plant and equipment	6	47,281	42,707
Investment properties	7	9,747	3,064
Investments in associates and joint ventures	8	201,661	161,472
Held-to-maturity securities	9.1	806,717	717,037
Loans	9.2	450,251	383,504
Term deposits	9.3	559,341	449,400
Statutory deposits - restricted	9.4	6,333	6,333
Available-for-sale securities	9.5	870,533	810,734
Securities at fair value through profit or loss	9.6	138,717	136,809
Securities purchased under agreements to resell	9.7	9,905	36,185
Accrued investment income	9.8	48,402	50,641
Premiums receivable	11	15,648	14,121
Reinsurance assets	12	4,364	3,046
Other assets	13	33,437	33,952
Deferred tax assets	28	1,257	
Cash and cash equivalents		50,809	48,586
<b>Total assets</b>		<b>3,254,403</b>	<b>2,897,591</b>

The notes on pages 13 to 102 form an integral part of these consolidated financial statements.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Financial Position (continued)**

As at 31 December 2018

	<i>Notes</i>	<b>As at 31 December 2018 RMB million</b>	<b>As at 31 December 2017 RMB million</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Insurance contracts	<i>14</i>	<b>2,216,031</b>	2,025,133
Investment contracts	<i>15</i>	<b>255,434</b>	232,500
Policyholder dividends payable		<b>85,071</b>	83,910
Interest-bearing loans and borrowings	<i>16</i>	<b>20,150</b>	18,794
Financial liabilities at fair value through profit or loss		<b>2,680</b>	2,529
Derivative financial liabilities	<i>17</i>	<b>1,877</b>	
Securities sold under agreements to repurchase	<i>18</i>	<b>192,141</b>	87,309
Annuity and other insurance balances payable		<b>49,465</b>	44,820
Premiums received in advance		<b>46,650</b>	18,505
Other liabilities	<i>19</i>	<b>58,426</b>	47,430
Deferred tax liabilities	<i>28</i>		4,871
Current income tax liabilities		<b>2,630</b>	6,198
Statutory insurance fund	<i>20</i>	<b>558</b>	282
<b>Total liabilities</b>		<b>2,931,113</b>	2,572,281
<b>Equity</b>			
Share capital	<i>34</i>	<b>28,265</b>	28,265
Other equity instruments	<i>35</i>	<b>7,791</b>	7,791
Reserves	<i>36</i>	<b>149,293</b>	145,675
Retained earnings		<b>133,022</b>	139,202
<b>Attributable to equity holders of the Company</b>		<b>318,371</b>	320,933
<b>Non-controlling interests</b>		<b>4,919</b>	4,377
<b>Total equity</b>		<b>323,290</b>	325,310
<b>Total liabilities and equity</b>		<b>3,254,403</b>	2,897,591

Approved and authorised for issue by the Board of Directors on 27 March 2019.

The notes on pages 13 to 102 form an integral part of these consolidated financial statements.



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Comprehensive Income****For the year ended 31 December 2018**

	<i>Notes</i>	<b>2018</b> RMB million	2017 RMB million	2016 RMB million
<b>REVENUES</b>				
Gross written premiums		<b>535,826</b>	511,966	430,498
Less: premiums ceded to reinsurers		<b>(4,503)</b>	(3,661)	(1,758)
Net written premiums		<b>531,323</b>	508,305	428,740
Net change in unearned premium reserves		<b>700</b>	(1,395)	(2,510)
<b>Net premiums earned</b>		<b>532,023</b>	506,910	426,230
Investment income	21	<b>125,167</b>	122,727	109,147
Net realised gains on financial assets	22	<b>(19,591)</b>	42	6,038
Net fair value gains through profit or loss	23	<b>(18,278)</b>	6,183	(7,094)
Other income		<b>8,098</b>	7,493	6,460
<b>Total revenues</b>		<b>627,419</b>	643,355	540,781
<b>BENEFITS, CLAIMS AND EXPENSES</b>				
Insurance benefits and claims expenses				
Life insurance death and other benefits	24	<b>(248,736)</b>	(259,708)	(253,157)
Accident and health claims and claim adjustment expenses	24	<b>(40,552)</b>	(33,818)	(27,269)
Increase in insurance contract liabilities	24	<b>(189,931)</b>	(172,517)	(126,619)
Investment contract benefits	25	<b>(9,332)</b>	(8,076)	(5,316)
Policyholder dividends resulting from participation in profits		<b>(19,646)</b>	(21,871)	(15,883)
Underwriting and policy acquisition costs		<b>(62,705)</b>	(64,789)	(52,022)
Finance costs	26	<b>(4,116)</b>	(4,601)	(4,767)
Administrative expenses		<b>(37,486)</b>	(35,953)	(31,854)
Other expenses		<b>(7,642)</b>	(6,426)	(4,859)
Statutory insurance fund contribution	20	<b>(1,097)</b>	(1,068)	(1,048)
<b>Total benefits, claims and expenses</b>		<b>(621,243)</b>	(608,827)	(522,794)
Share of profit of associates and joint ventures, net	8	<b>7,745</b>	7,143	5,855
<b>Profit before income tax</b>	27	<b>13,921</b>	41,671	23,842
Income tax	28	<b>(1,985)</b>	(8,919)	(4,257)
<b>Net profit</b>		<b>11,936</b>	32,752	19,585

Attributable to:				
- Equity holders of the Company		<b>11,395</b>	32,253	19,127
- Non-controlling interests		<b>541</b>	499	458
<b>Basic and diluted earnings per share</b>	29	<b>RMB0.39</b>	RMB1.13	RMB0.66

The notes on pages 13 to 102 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Comprehensive Income (continued)****For the year ended 31 December 2018**

	<i>Note</i>	<b>2018</b> RMB million	2017 RMB million	2016 RMB million
<b>Other comprehensive income</b>				
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>				
Fair value gains/(losses) on available-for-sale securities		<b>(24,591)</b>	(15,003)	(44,509)
Amount transferred to net profit from other comprehensive income		<b>19,549</b>	(42)	(6,038)
Portion of fair value changes on available-for-sale securities attributable to participating policyholders		<b>(32)</b>	5,605	17,372
Share of other comprehensive income of associates and joint ventures under the equity method		<b>735</b>	20	(864)
Exchange differences on translating foreign operations		<b>598</b>	(865)	21
Income tax relating to components of other comprehensive income	28	<b>1,716</b>	2,359	8,242
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>				
		<b>(2,025)</b>	(7,926)	(25,776)
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>				
<b>Other comprehensive income for the year, net of tax</b>				
		<b>(2,025)</b>	(7,926)	(25,776)
<b>Total comprehensive income for the year, net of tax</b>				
		<b>9,911</b>	24,826	(6,191)
Attributable to:				
- Equity holders of the Company		<b>9,325</b>	24,341	(6,647)
- Non-controlling interests		<b>586</b>	485	456

The notes on pages 13 to 102 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Changes in Equity****For the year ended 31 December 2018**

	Attributable to equity holders of the Company				Non- controlling interests	Total
	Share capital RMB million (Note 34)	Other equity instruments RMB million (Note 35)	Reserves RMB million (Note 36)	Retained earnings RMB million	RMB million	RMB million
<b>As at 1 January 2016</b>	28,265	7,791	163,381	123,055	3,722	326,214
Net profit				19,127	458	19,585
Other comprehensive income			(25,774)		(2)	(25,776)
<b>Total comprehensive income</b>			(25,774)	19,127	456	(6,191)
<b>Transactions with owners</b>						
Appropriation to reserves (Note 36)			7,367	(7,367)		
Dividends paid (Note 31)				(12,257)		(12,257)
Dividends to non-controlling interests					(151)	(151)
Others			33			33
<b>Total transactions with owners</b>			7,400	(19,624)	(151)	(12,375)
<b>As at 31 December 2016</b>	28,265	7,791	145,007	122,558	4,027	307,648
<b>As at 1 January 2017</b>	28,265	7,791	145,007	122,558	4,027	307,648
Net profit				32,253	499	32,752
Other comprehensive income			(7,912)		(14)	(7,926)
<b>Total comprehensive income</b>			(7,912)	32,253	485	24,826
<b>Transactions with owners</b>						
Appropriation to reserves (Note 36)			8,445	(8,445)		
Dividends paid (Note 31)				(7,164)		(7,164)
Dividends to non-controlling interests					(135)	(135)
Others			135			135
<b>Total transactions with owners</b>			8,580	(15,609)	(135)	(7,164)

<b>As at 31 December 2017</b>	28,265	7,791	145,675	139,202	4,377	325,310
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The notes on pages 13 to 102 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Changes in Equity (continued)****For the year ended 31 December 2018**

	Attributable to equity holders of the Company			Non- controlling interests	Total
	Share capital RMB million (Note 34)	Other equity instruments RMB million (Note 35)	Reserves RMB million (Note 36)	Retained earnings RMB million	RMB million
<b>As at 1 January 2018</b>	<b>28,265</b>	<b>7,791</b>	<b>145,675</b>	<b>4,377</b>	<b>325,310</b>
Net profit				11,395	11,936
Other comprehensive income			(2,070)	45	(2,025)
<b>Total comprehensive income</b>			<b>(2,070)</b>	<b>11,395</b>	<b>9,911</b>
<b>Transactions with owners</b>					
Capital paid in by non-controlling interests				105	105
Appropriation to reserves (Note 36)			5,885	(5,885)	
Dividends paid (Note 31)				(11,690)	(11,690)
Dividends to non-controlling interests				(149)	(149)
Others			(197)		(197)
<b>Total transactions with owners</b>			<b>5,688</b>	<b>(17,575)</b>	<b>(11,931)</b>
<b>As at 31 December 2018</b>	<b>28,265</b>	<b>7,791</b>	<b>149,293</b>	<b>4,919</b>	<b>323,290</b>

The notes on pages 13 to 102 form an integral part of these consolidated financial statements



**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Cash Flows****For the year ended 31 December 2018**

	2018 RMB million	2017 RMB million	2016 RMB million
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax	13,921	41,671	23,842
Adjustments for:			
Investment income	(125,167)	(122,727)	(109,147)
Net realised and unrealised losses/(gains) on financial assets	37,869	(6,225)	1,056
Insurance contracts	190,210	176,148	131,354
Depreciation and amortisation	2,638	2,240	2,083
Foreign exchange losses/(gains)	194	(52)	(582)
Share of profit of associates and joint ventures, net	(7,745)	(7,143)	(5,855)
Changes in operating assets and liabilities:			
Securities at fair value through profit or loss	(9,020)	76,378	(76,318)
Financial liabilities at fair value through profit or loss	1,114	931	1,539
Receivables and payables	48,838	38,967	124,466
Income tax paid	(9,991)	(4,473)	(9,331)
Interest received - securities at fair value through profit or loss	3,527	4,497	5,465
Dividends received - securities at fair value through profit or loss	1,164	778	526
<b>Net cash inflow/(outflow) from operating activities</b>	<b>147,552</b>	<b>200,990</b>	<b>89,098</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Disposals and maturities:			
Disposals of debt investments	48,942	30,540	10,447
Maturities of debt investments	110,425	142,845	50,101
Disposals of equity investments	278,003	506,306	508,476
Property, plant and equipment	274	103	114
Purchases:			
Debt investments	(294,238)	(516,051)	(173,628)
Equity investments	(335,301)	(500,737)	(537,012)
Property, plant and equipment	(19,546)	(9,619)	(5,310)
Investments in associates and joint ventures	(34,928)	(37,304)	(65,158)
Decrease/(increase) in term deposits, net	(109,590)	92,148	37,515
Decrease/(increase) in securities purchased under agreements to resell, net	26,258	6,981	(22,035)
Interest received	106,342	98,012	78,891
Dividends received	19,503	29,014	20,390
Decrease/(increase) in policy loans, net	(34,208)	(15,515)	(7,483)
Cash paid related to other investing activities	(309)	(399)	(11)

<b>Net cash inflow/(outflow) from investing activities</b>	<b>(238,373)</b>	(173,676)	(104,703)
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The notes on pages 13 to 102 form an integral part of these consolidated financial statements.

**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****Consolidated Statement of Cash Flows (continued)****For the year ended 31 December 2018**

	<b>2018</b>	2017	2016
	<b>RMB million</b>	RMB million	RMB million
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase/(decrease) in securities sold under agreements to repurchase, net	<b>104,832</b>	6,228	49,999
Interest paid	<b>(3,990)</b>	(5,671)	(4,891)
Dividends paid to equity holders of the Company	<b>(11,690)</b>	(7,164)	(12,257)
Dividends paid to non-controlling interests	<b>(149)</b>	(135)	(151)
Cash received from borrowings	<b>727</b>	3,121	13,831
Capital injected into subsidiaries by non-controlling interests	<b>3,560</b>	4,034	2,939
Cash repaid to lenders		(38,000)	(30,000)
Cash paid related to other financing activities	<b>(327)</b>	(8,008)	(13,200)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>92,963</b>	(45,595)	6,270
<b>Foreign exchange gains/(losses) on cash and cash equivalents</b>	<b>81</b>	(179)	285
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,223</b>	(18,460)	(9,050)
<b>Cash and cash equivalents</b>			
<b>Beginning of the year</b>	<b>48,586</b>	67,046	76,096
<b>End of the year</b>	<b>50,809</b>	48,586	67,046
<b>Analysis of balances of cash and cash equivalents</b>			
Cash at banks and in hand	<b>50,792</b>	47,444	64,364
Short-term bank deposits	<b>17</b>	1,142	2,682

The notes on pages 13 to 102 form an integral part of these consolidated financial statements.

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**CHINA LIFE INSURANCE COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**1 ORGANISATION AND PRINCIPAL ACTIVITIES**

China Life Insurance Company Limited (the Company) was established in the People's Republic of China (China or the PRC) on 30 June 2003 as a joint stock company with limited liability as part of a group restructuring of China Life Insurance (Group) Company (CLIC, formerly China Life Insurance Company) and its subsidiaries (the Restructuring). The Company and its subsidiaries are hereinafter collectively referred to as the Group. The Group's principal activities are the writing of life, health, accident and other types of personal insurance business; reinsurance business for personal insurance business; fund management business permitted by national laws and regulations or approved by the State Council of the People's Republic of China, etc.

The Company is a joint stock company incorporated in the PRC with limited liability. The address of its registered office is 16 Financial Street, Xicheng District, Beijing, the PRC. The Company is listed on the New York Stock Exchange, the Stock Exchange of Hong Kong Limited, and the Shanghai Stock Exchange.

These consolidated financial statements are presented in millions of Renminbi (RMB million) unless otherwise stated. These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 27 March 2019.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The Group has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), amendments to IFRSs and interpretations issued by the International Accounting Standards Board (IASB). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and the applicable disclosure requirements of the Hong Kong Companies Ordinance. The Group has prepared the consolidated financial statements under the historical cost convention, except for financial assets and liabilities at fair value through profit or loss, available-for-sale securities, insurance contract liabilities and certain property, plant and equipment at deemed cost as part of the Restructuring process. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

**2.1.1 New accounting standards and amendments adopted by the Group for the first time for the financial year beginning on 1 January 2018**

<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 2 Amendments	<i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
IFRS 4 Amendments	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	1 January 2018
IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 15 Amendments	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018

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**Table of Contents****CHINA LIFE INSURANCE COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****2.1.1 New accounting standards and amendments adopted by the Group for the first time for the financial year beginning on 1 January 2018 (continued)****IFRS 2 Amendments** *Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met.

The Group's accounting treatment for cash-settled share-based payments is consistent with the clarification in the amendments. In addition, the Group has no share-based payment transactions with net settlement features for withholding tax obligations and has not made any modifications to the terms and conditions of its share-based payment transactions. Therefore, these amendments have no impact on the Group's consolidated financial statements.

**IFRS 4 Amendments** *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

Amendments to IFRS 4 address issues arising from the different effective dates of IFRS 9 and IFRS 17. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4 upon the adoption of IFRS 9, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until the effective date of IFRS 17. The amendments clarify that an insurer may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated

as at fair value through profit or loss ( FVTPL ); and (ii) its activities are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows entities applying IFRS 9 from 2018 onwards to remove from profit or loss the effects arising from the adoption of IFRS 9 and reclassify the amounts to other comprehensive income ( OCI ) for designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018, or apply the overlay approach when it applies IFRS 9 for the first time.

During 2016, the Company performed an assessment of the amendments and reached the conclusion that its activities were predominantly connected with insurance as at 31 December 2015. There has been no significant change in the activities of the Group since then that requires reassessment, and the Group considers that it continues to meet the criteria of applying the temporary exemption. The Group decides to apply the temporary exemption from IFRS 9 and, therefore, continues to apply IAS 39 to its financial assets and financial liabilities in its reporting period starting on 1 January 2018. The disclosures about the Group's temporary exemption from IFRS 9 are disclosed in Note 32.

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IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard supersedes all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal-versus-agent consideration, licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. IFRS 15 and the amendments are effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard is on the accounting treatment of income from administrative and investment management services. Based on the standard's transitional provisions, the entity shall recognise the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings or other component of equity of the annual reporting period that includes the date of initial application, and does not require a restatement of prior periods. The Group adopted IFRS 15 using the modified retrospective approach from 1 January 2018. Adoption of the standard has no significant impact on relative items of the Group's consolidated financial statements.

**IAS 40 Amendments *Transfers of Investment Property***

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a



change in use. The amendments are to be applied prospectively, and shall be applied to the changes that occurred, during or after the financial year when it applies amendments for the first time. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The amendments do not have any significant impact on the Group's consolidated financial statements.

In addition, the *Annual Improvements 2014-2016 Cycle* issued in December 2016 set out amendments to IFRS 1 and IAS 28, which are effective for annual periods beginning on or after 1 January 2018. There is no significant impact on the accounting policies of the Group as a result of these amendments.

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<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 9	<i>Financial Instruments</i>	1 January 2018
<b>IFRS 9</b>	<b><i>Financial Instruments</i></b>	

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Based on the current assessment, the Group expects the adoption of IFRS 9 will have a significant impact on the Group's consolidated financial statements.

***Classification and measurement***

IFRS 9 requires that the Group classifies debt instruments based on the combined effect of application of business models (hold to collect contractual cash flows, hold to collect contractual cash flows and sell financial assets or other business models) and contractual cash flow characteristics (solely payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at fair value through profit or loss. Other debt instruments giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at amortised cost, fair value through other comprehensive income ( FVOCI ) or FVTPL, based on their respective business models. The Group analysed the contractual cash flow characteristics of financial assets as at 31 December 2018 and made relevant disclosures in Note 32 according to IFRS 4 Amendments.

Equity instruments would generally be measured at fair value through profit or loss unless the Group elects to measure at FVOCI for certain equity investments not held for trading. This will result in unrealised gains and losses on equity instruments currently classified as available-for-sale securities being recorded in income going forward. Currently, these unrealised gains and losses are recognised in OCI. If the Group elects to record equity investments at FVOCI, gains and losses would never be recognised in income except for the received dividends which do not represent a

recovery of part of the investment cost.

***Impairment***

IFRS 9 replaces the incurred loss model with the expected credit loss model which is designed to include forward-looking information. The Group is in the process of developing and testing the key models required under IFRS 9 and analysing the impact on the expected loss provision; the Group believed that the provision for debt instruments of the Group under the expected credit loss model would be larger than that under the previous incurred loss model.

***Hedge accounting***

The Group does not apply the hedge accounting currently, so the Group expects that the new hedge accounting model under IFRS 9 will have no impact on the Group's consolidated financial statements.

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<b>Standards/Amendments</b>	<b>Content</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 16	<i>Leases</i>	1 January 2019
IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	No mandatory effective date yet determined but available for adoption

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

**IFRS 16 *Leases***

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, related IFRS Interpretations Committee Interpretation and Standing Interpretations Committee Interpretation. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees-leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the

standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the modified retrospective approach according to transitional provisions in IFRS 16. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on leases whose lease terms end within 12 months as of the date of initial application and leases of low-value assets. The Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB2.6 billion and lease liabilities of RMB2.2 billion will be recognised at 1 January 2019, with no corresponding adjustment to the opening balance of retained earnings. Based on the current assessment, the Group expects the adoption of IFRS 16 will have no significant impact on the Group's consolidated statement of comprehensive income.

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In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations*. The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The Group expects to adopt the amendments from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

**IAS 1 and IAS 8 Amendments** *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The Group expects to adopt the amendments from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.



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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**2.1.3 New accounting standards and amendments that are not yet effective and have not been early adopted by the Group for the financial year beginning on 1 January 2018 (continued)**

**IFRS 17 *Insurance Contracts***

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are as follows:

The fulfilment cash flows including the expected present value of future cash flows and explicit risk adjustment, remeasured every reporting period;

A contractual service margin represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the coverage period;

Certain changes in the expected present value of future cash flows are adjusted against the contractual service margin and thereby recognised in profit or loss over the remaining coverage period;

The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;



The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;

Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components), are not presented in the statement of comprehensive income, but are recognised directly on the statement of financial position;

Insurance services results are presented separately from the insurance finance income or expense;

Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required, with comparative figures required. However, if full retrospective application for a group of insurance contracts is impracticable, the entity is required to choose either the modified retrospective approach or the fair value approach.

In November 2018, the IASB tentatively decided to defer the effective date for IFRS 17 by one year to reporting periods beginning on or after 1 January 2022. The IASB also tentatively decided to allow insurers qualifying for the deferral of IFRS 9 an additional year of deferral, meaning that they could apply both standards for the first time to reporting periods beginning on or after 1 January 2022. As at the approval date of the consolidated financial statements, the changes to the effective dates have not yet been finalised by the IASB.

The Group is currently assessing the impact of the standard upon adoption.

#### **IFRS 10 and IAS 28 Amendments** *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**2.1.3 New accounting standards and amendments that are not yet effective and have not been early adopted by the Group for the financial year beginning on 1 January 2018 (continued)**

The *Annual Improvements 2015-2017 Cycle* issued in December 2017 set out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23, which are effective for annual periods beginning on or after 1 January 2019. There is no significant impact on the accounting policies of the Group as a result of these amendments.

**2.2 Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. Subsidiaries are those entities which are controlled by the Group (including the structured entities controlled by the Group). 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. Specifically, the Group controls an investee if and only if the Group has:

power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

exposure, or rights, to variable returns from its involvement with the investee; and

the ability to use its power over the investee to affect its returns.

When the Group has 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:

the contractual arrangement with the other vote holders of the investee;

rights arising from other contractual arrangements; and

the Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

derecognises the assets (including goodwill) and liabilities of the subsidiary;

derecognises the carrying amount of any non-controlling interests;

derecognises the cumulative translation differences recorded in equity;

recognises the fair value of the consideration received;

recognises the fair value of any investment retained;

recognises any surplus or deficit in profit or loss; and

reclassifies the Group's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as if the Group had directly disposed of the related assets or liabilities.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Consolidation (continued)**

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree, and the fair value of any previous equity interest in the acquiree at the acquisition date over the fair value of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed in subsequent periods. Gains or losses on the disposal of an entity take into consideration the carrying amount of goodwill relating to the entity sold.

The investments in subsidiaries are accounted for only in the Company's statement of financial position at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests that do not result in loss of controls as equity transactions. For shares purchased from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal of shares to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in OCI is reclassified to profit or loss as appropriate.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.3 Associates and joint ventures**

Associates are entities over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights of the investee. 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.

Joint ventures are the type of joint arrangements 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.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profit or loss of its associates and joint ventures is recognised in net profit, and its share of post-acquisition movements in OCI is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses unless it has obligations to make payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates and joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of acquired associates or joint ventures at the date of acquisition. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures and is tested annually for impairment as part of the overall balance. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity take into consideration the carrying amount of goodwill relating to the entity sold.

The Group determines at each reporting date whether there is any objective evidence that the investments in associates and joint ventures are impaired. If this is the case, an impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment's fair value less costs of disposal and value in use. The impairment of investments in the associates and joint ventures is reviewed for possible reversal at each reporting date.

The investments in associates and joint ventures are stated at cost less impairment in the Company's statement of financial position. The results of associates and joint ventures are accounted for by the Company on the basis of dividends received and receivable.

## **2.4 Segment reporting**

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the operating decision maker - president office for deciding how to allocate resources and for assessing performance.

Operating segment refers to the segment within the Group that satisfies the following conditions: i) the segment generates income and incurs costs from daily operating activities; ii) management evaluates the operating results of the segment to make resource allocation decision and to evaluate the business performance; and iii) the Group can obtain relevant financial information of the segment, including financial condition, operating results, cash flows and other financial performance indicators.

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The Company's functional currency is RMB. 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. The reporting currency of the consolidated financial statements of the Group is RMB. Transactions in foreign currencies are translated at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the end of the reporting period. Exchange differences arising in these cases are recognised in net profit.

**2.6 Property, plant and equipment**

Property, plant and equipment, are stated at historical costs less accumulated depreciation and any accumulated impairment losses, except for those acquired prior to 30 June 2003, which are stated at deemed cost less accumulated depreciation and any accumulated impairment losses.

The historical costs of property, plant and equipment comprise its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after terms of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the assets as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

**Depreciation**

Depreciation is computed on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful lives as follows:

	Estimated useful lives
Buildings	15 to 35 years
Office equipment, furniture and fixtures	3 to 11 years
Motor vehicles	4 to 8 years
Leasehold improvements	Over the shorter of the remaining term of



the lease and the useful lives

The residual values, depreciation method and useful lives are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Assets under construction mainly represent buildings under construction, which are stated at cost less any impairment losses and are not depreciated, except for those acquired prior to 30 June 2003, which are stated at deemed cost less any accumulated impairment losses. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to the appropriate category of property, plant and equipment, investment properties or other assets when completed and ready for use.

### **Impairment and gains or losses on disposals**

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in net profit for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in net profit.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.7 Investment properties**

Investment properties are interests in land use rights and buildings that are held to earn rental income and/or for capital appreciation, rather than for the supply of services or for administrative purposes.

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

Depreciation is computed on the straight-line basis over the estimated useful lives. The estimated useful lives of investment properties are 15 to 35 years.

Overseas investment properties, that are held by the Group in the form of property ownership, equity investment, or other forms, have expected useful lives not longer than 50 years, determined based on the usage in their locations.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual 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 statement of comprehensive income 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.

**2.8 Financial assets**

**2.8.a Classification**

The Group classifies its financial assets into the following categories: securities at fair value through profit or loss, held-to-maturity securities, loans and receivables and available-for-sale securities. Management determines the classification of its financial assets at initial recognition which depends on the purpose for which the assets are acquired. The Group's investments in securities fall into the following four categories:

- (i) Securities at fair value through profit or loss

This category has two sub-categories: securities held for trading and those designated as at fair value through profit or loss at inception. Securities are classified as held for trading at inception if acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of taking short-term profit. The Group may classify other financial assets as at fair value through profit or loss if they meet the criteria in IAS 39 and designated as such at inception.

(ii) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity and do not meet the definition of loans and receivables nor designated as available-for-sale securities or securities at fair value through profit or loss.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short-term or held as available-for-sale. Loans and receivables mainly comprise term deposits, loans, securities purchased under agreements to resell, accrued investment income and premium receivables as presented separately in the statement of financial position.

(iv) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

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**FOR THE YEAR ENDED 31 DECEMBER 2018**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.8 Financial assets (continued)**

**2.8.b Recognition and measurement**

Purchase and sale of investments are recognised on the trade date, when the Group commits to purchase or sell assets. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or when they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Securities at fair value through profit or loss and available-for-sale securities are carried at fair value. Equity investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are carried at cost, net of allowance for impairments. Held-to-maturity securities are carried at amortised cost using the effective interest method. Investment gains and losses on sales of securities are determined principally by specific identification. Realised and unrealised gains and losses arising from changes in the fair value of the securities at fair value through profit or loss category, and the change of fair value of available-for-sale debt securities due to foreign exchange impact on the amortised cost are included in net profit in the period in which they arise. The remaining unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in OCI. When securities classified as available-for-sale securities are sold or impaired, the accumulated fair value adjustments are included in net profit as realised gains on financial assets.

Term deposits primarily represent traditional bank deposits which have fixed maturity dates and are stated at amortised cost.

Loans are carried at amortised cost, net of allowance for impairment.

The Group purchases securities under agreements to resell substantially identical securities. These agreements are classified as secured loans and are recorded at amortised cost, i.e., their costs plus accrued interests at the end of the reporting period, which approximates fair value. The amounts advanced under these agreements are reflected as assets in the consolidated statement of financial position. The Group does not take physical possession of securities purchased under agreements to resell. Sale or transfer of the securities is not permitted by the respective clearing house on which they are registered while the lent capital is outstanding. In the event of default by the counterparty, the Group has the right to the underlying securities held by the clearing house.

**2.8.c Impairment of financial assets other than securities at fair value through profit or loss**

Financial assets other than those accounted for as at fair value through profit or loss are adjusted for impairment, where there are declines in value that are considered to be impairment. In evaluating whether a decline in value is an impairment for these financial assets, the Group considers several factors including, but not limited to, the following:

significant financial difficulty of the issuer or debtor;

a breach of contract, such as a default or delinquency in payments;

it becomes probable that the issuer or debtor will enter into bankruptcy or other financial reorganisation; and

the disappearance of an active market for that financial asset because of financial difficulties.

In evaluating whether a decline in value is impairment for equity securities, the Group also considers the extent or the duration of the decline. The quantitative factors include the following:

the market price of the equity securities was more than 50% below their cost at the reporting date;

the market price of the equity securities was more than 20% below their cost for a period of at least six months at the reporting date; and

the market price of the equity securities was below their cost for a period of more than one year (including one year) at the reporting date.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.8 Financial assets (continued)**

**2.8.c Impairment of financial assets other than securities at fair value through profit or loss (continued)**

When the decline in value is considered impairment, held-to-maturity debt securities are written down to their present value of estimated future cash flows discounted at the securities' effective interest rates, available-for-sale debt securities and equity securities are written down to their fair value, and the change is recorded in net realised gains on financial assets in the period the impairment is recognised. The impairment loss is reversed through net profit if in a subsequent period the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised through net profit. The impairment losses recognised in net profit on equity instruments are not reversed through net profit.

**2.9 Fair value measurement**

The Group measures financial instruments, such as securities at fair value through profit or loss and available-for-sale securities, at fair value at each reporting date. 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 of assets and liabilities 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 by the Group at the measurement date.

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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described in Notes 4.4, 7 and 10 based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are measured at fair value on a recurring basis, the Group determines whether transfers have occurred between each level 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.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.10 Cash and cash equivalents**

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less, whose carrying value approximates fair value.

**2.11 Insurance contracts and investment contracts**

**2.11.1 Classification**

The Group issues contracts that transfer insurance risk or financial risk or both. The contracts issued by the Group are classified as insurance contracts and investment contracts. Insurance contracts are those contracts that transfer significant insurance risk. They may also transfer financial risk. Investment contracts are those contracts that transfer financial risk without significant insurance risk. A number of insurance and investment contracts contain a discretionary participating feature ( DPF ). This feature entitles the policyholders to receive additional benefits or bonuses that are, at least in part, at the discretion of the Group.

**2.11.2 Insurance contracts**

**2.11.2.a Recognition and measurement**

(i) Short-term insurance contracts

Premiums from the sale of short duration accident and health insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. Reserves for short duration insurance products consist of unearned premium reserve and expected claims and claim adjustment expenses reserve. Actual claims and claim adjustment expenses are charged to net profit as incurred.

The unearned premium reserve represents the portion of the premiums written net of certain acquisition costs relating to the unexpired terms of coverage.

Reserves for claims and claim adjustment expenses consist of the reserves for reported and unreported claims and reserves for claims expenses with respect to insured events. In developing these reserves, the Group considers the nature and distribution of the risks, claims cost development, and experiences in deriving the reasonable estimated



amount and the applicable margins. The methods used for reported and unreported claims include the case-by-case estimation method, average cost per claim method, chain ladder method, etc. The Group calculates the reserves for claims expenses based on the reasonable estimates of the future payments for claims expenses.

(ii) Long-term insurance contracts

Long-term insurance contracts include whole life insurance, term life insurance, endowment insurance and annuity policies with significant life contingency risk. Premiums are recognised as revenue when due from policyholders.

The Group uses the discounted cash flow method to estimate the reserve of long-term insurance contracts. The reserve of long-term insurance contracts consists of a reasonable estimate of liability, a risk margin and a residual margin. The long-term insurance contract liabilities are calculated using various assumptions, including assumptions on mortality rates, morbidity rates, lapse rates, discount rates, and expense assumptions, and based on the following principles:

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.11 Insurance contracts and investment contracts (continued)**

**2.11.2 Insurance contracts (continued)**

**2.11.2.a Recognition and measurement (continued)**

(ii) Long-term insurance contracts (continued)

- (a) The reasonable estimate of liability for long-term insurance contracts is the present value of reasonable estimates of future cash outflows less future cash inflows. The expected future cash inflows include cash inflows of future premiums arising from the undertaking of insurance obligations, with consideration of decrement mostly from death and surrenders. The expected future cash outflows are cash outflows incurred to fulfil contractual obligations, consisting of the following:

guaranteed benefits based on contractual terms, including payments for deaths, disabilities, diseases, survivals, maturities and surrenders;

additional non-guaranteed benefits, such as policyholder dividends; and

reasonable expenses incurred to manage insurance contracts or to process claims, including maintenance expenses and claim settlement expenses. Future administration expenses are included in the maintenance expenses. Expenses are determined based on expense analysis with consideration of future inflation and the Group's expense management control.

On each reporting date, the Group reviews the assumptions for reasonable estimates of liability and risk margins, with consideration of all available information, taking into account the Group's historical experience and expectation of future events. Changes in assumptions are recognised in net profit. Assumptions for the amortisation of residual margin are locked in at policy issuance and are not adjusted at each reporting date.

- (b) Margin has been taken into consideration while computing the reserve of insurance contracts, measured separately and recognised in net profit in each period over the life of the contracts. At the inception of the contracts, the Group does not recognise Day 1 gain, whereas on the other hand, Day 1 loss is recognised in net profit immediately.

Margin comprises risk margin and residual margin. Risk margin is the reserve accrued to compensate for the uncertain amount and timing of future cash flows. At the inception of the contract, the residual margin is calculated net of certain acquisition costs, mainly consist of underwriting and policy acquisition costs, by the Group representing Day 1 gain and will be amortised over the life of the contracts. For insurance contracts of which future returns are affected by investment yields of corresponding investment portfolios, their related residual margins are amortised based on estimated future participating dividends payable to policyholders. For insurance contracts of which future returns are not affected by investment yields of corresponding investment portfolios, their related residual margins are amortised based on sum assured of outstanding policies. The subsequent measurement of the residual margin is independent from the reasonable estimate of future discounted cash flows and risk margin. The assumption changes have no effect on the subsequent measurement of the residual margin.

- (c) The Group has considered the impact of time value on the reserve calculation for insurance contracts.

(iii) Universal life contracts and unit-linked contracts

Universal life contracts and unit-linked contracts are unbundled into the following components:

insurance components

non-insurance components

The insurance components are accounted for as insurance contracts; and the non-insurance components are accounted for as investment contracts (Note 2.11.3), which are stated in the investment contract liabilities.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.11 Insurance contracts and investment contracts (continued)**

**2.11.2 Insurance contracts (continued)**

**2.11.2.b Liability adequacy test**

The Group assesses the adequacy of insurance contract reserves using the current estimate of future cash flows with available information at the end of each reporting period. If that assessment shows that the carrying amount of its insurance liabilities (less related intangible assets, if applicable) is inadequate in light of the estimated future cash flows, the insurance contract reserves will be adjusted accordingly, and any changes of the insurance contract liabilities will be recognised in net profit.

**2.11.2.c Reinsurance contracts held**

Contracts with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts with reinsurers that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group assesses its reinsurance assets for impairment as at the end of reporting period. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in net profit.

**2.11.3 Investment contracts**

For investment contracts with or without DPF, the Company's policy fee income mainly consists of acquisition cost and various fees (handling fees and management fees, etc.) over the period of which the service is provided. Policy fee income net of certain acquisition cost is amortised over the expected life of the contracts by period and recognised in

revenue.

Except for unit-linked contracts, of which the liabilities are carried at fair value, the liabilities of investment contracts are carried at amortised cost.

#### **2.11.4 DPF in long-term insurance contracts and investment contracts**

DPF is contained in certain long-term insurance contracts and investment contracts. These contracts are collectively called participating contracts. The Group is obligated to pay to the policyholders of participating contracts as a group at the higher of 70% of accumulated surplus available and the rate specified in the contracts. The accumulated surplus available mainly arises from net investment income and gains and losses arising from the assets supporting these contracts. To the extent unrealised gains or losses from available-for-sale securities are attributable to policyholders, shadow adjustments are recognised in OCI. The surplus owed to policyholders is recognised as policyholder dividend payable whether it is declared or not. The amount and timing of distribution to individual policyholders of participating contracts are subject to future declarations by the Group.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.12 Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are the portions owned by the external investors in the consolidated structured entities (open-ended funds). Such financial liabilities are designated at fair value upon initial recognition, and all realised or unrealised gains or losses are recognised in net profit.

**2.13 Securities sold under agreements to repurchase**

The Group retains substantially all the risk and rewards of ownership of securities sold under agreements to repurchase which generally mature within 180 days from the transaction date. Therefore, securities sold under agreements to repurchase are classified as secured borrowings. The Group may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase are recorded at amortised cost, i.e., their cost plus accrued interest at the end of the reporting period. It is the Group's policy to maintain effective control over securities sold under agreements to repurchase which includes maintaining physical possession of the securities. Accordingly, such securities continue to be carried on the consolidated statement of financial position.

**2.14 Bonds payable**

Subordinated debts in bonds payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium at acquisition and transaction costs.

**2.15 Derivative instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss of derivative financial instruments is recognised in net profit. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separated and fair valued through profit or loss. The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded derivatives that are closely related to host insurance contracts including embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

## **2.16 Employee benefits**

### *Pension benefits*

Full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. These government agencies are responsible for the pension liability to these employees upon retirement. The Group contributes on a monthly basis to these pension plans. In addition to the government-sponsored pension plans, the Group established an employee annuity fund pursuant to the relevant laws and regulations in the PRC, whereby the Group is required to contribute to the schemes at fixed rates of the employees' salary costs. Contributions to these plans are expensed as incurred. Under these plans, the Group has no legal or constructive obligation for retirement benefit beyond the contributions made.

### *Housing benefits*

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes 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 year.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.16 Employee benefits (continued)**

*Stock appreciation rights*

Compensation under the stock appreciation rights is measured based on the fair value of the liabilities incurred and is expensed over the vesting period. Valuation techniques including option pricing models are used to estimate fair value of relevant liabilities. The liability is re-measured at the end of each reporting period to its fair value until settlement. Fair value changes in the vesting period are included in administrative expenses and changes after the vesting period are included in net fair value gains through profit or loss in net profit. The related liability is included in other liabilities.

**2.17 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

**2.18 Other equity instruments**

Other equity instruments are Core Tier 2 Capital Securities issued by the Group. These securities contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; or to be settled in the Group's own equity instruments. Therefore, the Group classifies these securities as other equity instruments. Fees, commissions and other transaction costs of these securities' issuance are deducted from equity. The distributions of the securities are recognised as profit distribution at the time of declaration.

**2.19 Revenue recognition**

Turnover of the Group represents the total revenues which include the following:

**Premiums**

Premiums from long-term insurance contracts are recognised as revenue when due from the policyholders.



Premiums from the sale of short duration accident and health insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage.

**Policy fee income**

The policy fee income for investment contracts mainly consists of acquisition costs and various fees (handling fees and management fees, etc.) over the period of which the service is provided. Policy fee income net of certain acquisition costs is amortised over the expected life of the contracts and recognised as other income.

**Investment income**

Investment income comprises interest income from term deposits, cash and cash equivalents, debt securities, securities purchased under agreements to resell, loans and dividend income from equity securities. Interest income is recorded on an accrual basis using the effective interest rate method. Dividend income is recognised when the right to receive dividend payment is established.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.20 Finance costs**

Interest expenses for bonds payable, securities sold under agreements to repurchase and interest-bearing loans and borrowings are recognised within finance costs in net profit using the effective interest rate method.

**2.21 Current and deferred income taxation**

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in net profit, except to the extent that it relates to items recognised directly in OCI where the income tax is recognised in OCI.

Current income tax assets and liabilities for the current period are calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the jurisdictions where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken with respect to situations in which applicable tax regulations are subject to interpretation.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Substantively enacted tax rates are used in the determination of deferred income tax.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed by the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities

simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## **2.22 Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor company are accounted for as operating leases.

Where the Group is the lessor, assets leased by the Group under operating leases are included in investment properties and rentals receivable under such operating leases are credited to the consolidated statement of comprehensive income on the straight-line basis over the lease terms.

Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated statement of comprehensive income on the straight-line basis over the lease terms. The aggregate benefit of incentives provided by the lessor is recognised as a reduction in rental expenses over the lease terms on the straight-line basis.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.23 Provisions and contingencies**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised in the consolidated statement of financial position but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that such outflow is probable and can be reliably measured, it will then be recognised as a provision.

**2.24 Dividend distribution**

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the Company's equity holders.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group exercises significant judgement in making appropriate assumptions.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be different from the estimates and judgements referred to below.

**3.1 Estimate of future benefit payments and premiums arising from long-term insurance contracts**

The determination of the liabilities under long-term insurance contracts is based on estimates of future benefit payments, premiums and relevant expenses made by the Group and the margins. Assumptions about mortality rates,

morbidity rates, lapse rates, discount rates, and expense assumptions are made based on the most recent historical analysis and current and future economic conditions. The liability uncertainty arising from uncertain future benefit payments, premiums and relevant expenses is reflected in the risk margin.

The residual margin relating to the long-term insurance contracts is amortised over the expected life of the contracts, based on the assumptions (mortality rates, morbidity rates, lapse rates, discount rates, and expenses assumption) that are determined at inception of the contracts and remain unchanged for the duration of the contracts.

The judgements exercised in the valuation of insurance contract liabilities (including contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities.

The impact of the various assumptions and their changes are described in Note 14.

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**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**3.2 Financial instruments**

The Group's principal investments are debt securities, equity securities, term deposits and loans. The critical estimates and judgements are those associated with the recognition of impairment and the measurement of fair value.

The Group considers a wide range of factors in the impairment assessment as described in Note 2.8.c.

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. When the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques which require a degree of judgements. The methods and assumptions used by the Group in measuring the fair value of financial instruments are as follows:

debt securities: fair values are generally based upon current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions, values obtained from current bid prices of comparable investments or valuation techniques when the market is not active.

equity securities: fair values are generally based upon current bid prices. Where current bid prices are not readily available, fair values are estimated using either prices observed in recent transactions or commonly used market pricing models. Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

securities purchased under agreements to resell, policy loans, term deposits, interest-bearing loans and borrowings, and securities sold under agreements to repurchase: the carrying amounts of these assets in the consolidated statement of financial position approximate fair value.

fair values of other loans are obtained from valuation techniques.

For the description of valuation techniques, please refer to Note 4.4. Using different valuation techniques and parameter assumptions may lead to some differences of fair value estimations.

### **3.3 Impairment of investments in associates and joint ventures**

The Group assesses whether there are any indicators of impairment for investments in associates and joint ventures at the end of each reporting period. Investments in associates and joint ventures are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investments in associates and joint ventures exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of investments in associates and joint ventures. When value in use calculations are undertaken, the Group must estimate the expected future cash flows from investments in associates and joint ventures and choose a suitable discount rate in order to calculate the present value of those cash flows.

### **3.4 Income tax**

The Group is subject to income tax in numerous jurisdictions. During the normal course of business, certain transactions and activities for which the ultimate tax determination is uncertain, the Group needs to exercise significant judgement when determining the income tax. If the final settlement results of the tax matters are different from the amounts recorded, these differences will impact the final income tax expense and deferred tax for the period.

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**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**3.5 Determination of control over investee**

The Group applies its judgement to determine whether the control indicators set out in Note 2.2 indicate that the Group controls structured entities such as funds and asset management products.

The Group issues certain structured entities (e.g. funds and asset management plans), and acts as a manager for such entities according to the contracts. In addition, the Group may be exposed to variability of returns as a result of holding shares of the structured entities. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entities (including any carried interests and expected management fees) and the decision-making rights on the entity. As at 31 December 2018, the Group has consolidated some funds issued and managed by the Company's subsidiary, China Life AMP Asset Management Company ( CL AMP ), some debt investment schemes and asset management products issued and managed by the Company's subsidiary, China Life Asset Management Company Limited ( AMC ) and some trust schemes and debt investment schemes issued and managed by third parties in the consolidated financial statements.

**4 RISK MANAGEMENT**

Risk management is carried out by the Company's Risk Management Committee under policies approved by the Company's Board of Directors.

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them.

**4.1 Insurance risk**

**4.1.1 Types of insurance risks**

The risk under any one insurance contract is the possibility that an insured event occurs and the uncertainty about the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to the pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are less favourable than the underlying assumptions used in establishing the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random, and the actual number of claims and the amount of benefits paid will vary each year from estimates established using statistical techniques.



Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the types of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome. The Group manages insurance risk through underwriting strategies, reinsurance arrangements and claims handling.

The Group manages insurance risks through two types of reinsurance agreements, ceding on a quota share basis or a surplus basis, to cover insurance liability risk. Reinsurance contracts cover almost all products, which contain risk liabilities. The products reinsured include: life insurance, accident and health insurance or death, disability, accident, illness and assistance in terms of product category or function, respectively. These reinsurance agreements spread insured risk to a certain extent and reduce the effect of potential losses to the Group. However, the Group's direct insurance liabilities to the policyholder are not eliminated because of the credit risk associated with the failure of reinsurance companies to fulfil their responsibilities.

#### **4.1.2 Concentration of insurance risks**

All insurance operations of the Group are located in the PRC. There are no significant differences among the regions where the Group underwrites insurance contracts.

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The table below presents the Group's major products of long-term insurance contracts:

Product name	For the year ended 31 December			
	2018 RMB million	%	2017 RMB million	%
<b>Premiums of long-term insurance contracts</b>				
Xin Fu Ying Jia Annuity (a)	38,397	7.99%	40,588	8.73%
Hong Fu Zhi Zun Annuity (b)	22,292	4.64%	24,877	5.35%
Xin Ru Yi Annuity (c)	21,960	4.57%	25,166	5.41%
Kang Ning Whole Life (d)	20,667	4.30%	21,435	4.61%
Hong Ying Participating Endowment (e)	1,448	0.30%	3,019	0.65%
Others (f)	375,732	78.20%	349,813	75.25%
<b>Total</b>	<b>480,496</b>	<b>100.00%</b>	<b>464,898</b>	<b>100.00%</b>
<b>Insurance benefits of long-term insurance contracts</b>				
Xin Fu Ying Jia Annuity (a)	1,847	1.37%	7,956	4.79%
Hong Fu Zhi Zun Annuity (b)	8,764	6.52%	2	0.00%
Xin Ru Yi Annuity (c)	3,526	2.62%	3,594	2.16%
Kang Ning Whole Life (d)	4,663	3.47%	4,197	2.52%
Hong Ying Participating Endowment (e)	28,741	21.38%	49,796	29.96%
Others (f)	86,857	64.64%	100,679	60.57%
<b>Total</b>	<b>134,398</b>	<b>100.00%</b>	<b>166,224</b>	<b>100.00%</b>
	<b>As at 31 December 2018</b>		<b>As at 31 December 2017</b>	
	%		%	

	RMB million		RMB million	
<b>Liabilities of long-term insurance contracts</b>				
Xin Fu Ying Jia Annuity (a)	52,440	2.39%	19,771	0.99%
Hong Fu Zhi Zun Annuity (b)	26,741	1.22%	15,236	0.76%
Xin Ru Yi Annuity (c)	71,571	3.27%	53,098	2.66%
Kang Ning Whole Life (d)	289,230	13.21%	268,708	13.44%
Hong Ying Participating Endowment (e)	42,969	1.96%	70,506	3.53%
Others (f)	1,706,843	77.95%	1,571,747	78.62%
<b>Total</b>	<b>2,189,794</b>	<b>100.00%</b>	1,999,066	100.00%

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- (a) Xin Fu Ying Jia Annuity is an annuity insurance contract with the options for regular premium of 3 years, 5 years or 10 years. Its insured period extends from the effective date of Xin Fu Ying Jia Annuity to the corresponding date when policyholders reach the age of 88. This product is applicable to healthy policyholders between 28-day-old and 70-year-old. From the effective date to the contractual date starting to claim of Xin Fu Ying Jia Annuity, the annuity payment of first policy year is paid at 20% of the first premium of the product, and the following annuity payments are paid at 20% of the basic sum insured by Xin Fu Ying Jia Annuity. From the first corresponding date after the contractual date starting to claim of annuity, to the corresponding date when the policyholders reach the age of 88-year-old, annuity is paid at 3% of the basic sum insured during the insured period if policyholders live to the annual corresponding effective date; annuity is paid at the premium received (without interest) during the insured period if policyholders live to the contractual date starting to claim of annuity; the contract terminates and death benefit is paid at the premium received (without interest) or the cash value of the contract, whichever greater when death incurred before the contractual date starting to claim of annuity; the contract terminates and death benefit is paid at the cash value of the contract when death incurred after contractual date starting to claim of annuity; the contract terminates and accidental death benefit is paid at the premium received (without interest) less any death benefit paid when accidents occurred and due to which death incurred within 180 days. Death benefit and accidental death benefit are paid only once.
- (b) Hong Fu Zhi Zun Annuity is an annuity insurance contract with the options for annual or monthly payment. The payment period is divided into 3 years, 5 years or 10 years. Its insured period is twenty years. This product is applicable to healthy policyholders between 28-day-old and 60-year-old. From the effective date after one policy year to the expiration date, if the policyholders live to the annual corresponding effective date, the annuity payment is paid at 3% of the annual premium if the payment period is three years; the annuity payment is paid at 6% of the annual premium if the payment period is five years; and the annuity payment is paid at 12% of the annual premium if the payment period is ten years. From the effective date to the effective date after one policy year, if the policyholders survive, the special survival payment shall be paid according to the basic sum insured by Hong Fu Zhi Zun Annuity. The maturity insurance premium is paid at the premium paid (without interest). The death benefit is paid at the insurance premium received (without interest) when accidents occurred.

- (c) Xin Ru Yi Annuity is an annuity insurance contract with the options for regular premium of 3 years, 5 years or 10 years. Its insured period extends from the effective date of Xin Ru Yi Annuity to the corresponding date when policyholders reach the age of 80. This product is applicable to healthy policyholders between 28-day-old and 70-year-old. From the effective date to the contractual date starting to claim of Xin Ru Yi Annuity, the annuity payment of first policy year is paid at 10% of the first premium of the product, and the following annuity payments are paid at the basic sum insured by Xin Ru Yi Annuity. From the first corresponding date after the contractual date starting to claim of annuity to the corresponding date when the policyholders reach the age of 80-year-old, the annuity payment of first policy year is paid at 110% of the basic sum insured during the insured period if policyholders live to the annual corresponding effective date; the following annuity payments increase by 10% of the basic sum on the basis of the previous payment. The maturity insurance premium is paid at the premium paid (without interest). The death benefit is paid at the larger value of the insurance premium (without interest) and the cash value of the contract at the time of the death of the insured.

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**4 RISK MANAGEMENT (CONTINUED)**

**4.1 Insurance risk (continued)**

**4.1.2 Concentration of insurance risks (continued)**

- (d) Kang Ning Whole Life is a whole life insurance contract with the options for single premium or regular premium of 10 years or 20 years. This product is applicable to healthy policyholders under 70-year-old. The critical illness benefit is paid at 200% of the basic sum insured. Both death and disability benefits are paid at 300% of the basic sum insured less any critical illness benefits paid.
  
- (e) Hong Ying Participating Endowment is a participating endowment insurance contract with the options for single premium or regular premium of 3 years, 5 years or 10 years. Its insured period can be 6 years, 10 years or 15 years. This product is applicable to healthy policyholders between 30-day-old and 70-year-old. Maturity benefit of a single premium policy is paid at the basic sum insured, while that of a regular premium policy is paid at the basic sum insured multiplied by the number of years of the premium payments. Disease death benefit incurred within the first policy year is paid at the premium received (without interest). Disease death benefit incurred after the first policy year is paid at the basic sum insured for a single premium policy or the basic sum insured multiplied by the number of years of premium payments for a regular premium policy. When accidents occurred during taking a train, a ship or a flight period, death benefit is paid at the basic sum multiplied by 3 insured for a single premium policy or the basic sum multiplied by 3 and times the number of years of premium payments insured for a regular premium policy. When accidents occurred out of the period of taking a train, a ship or a flight, death benefit is paid at the basic sum multiplied by 2 insured for a single premium policy or the basic sum multiplied by 2 and times the number of years of premium payments insured for a regular premium policy.
  
- (f) Others consist of various long-term insurance contracts with no significant concentration.

**4.1.3 Sensitivity analysis**

**Sensitivity analysis of long-term insurance contracts**

Liabilities for long-term insurance contracts and liabilities unbundled from universal life insurance contracts and unit-linked insurance contracts with insurance risk are calculated based on the assumptions on mortality rates,

morbidity rates, lapse rates and discount rates. Changes in insurance contract reserve assumptions reflect the Company's actual operating results and changes in its expectation of future events. The Company considers the potential impact of future risk factors on its operating results and incorporates such potential impact in the determination of assumptions.

Holding all other variables constant, if mortality rates and morbidity rates were to increase or decrease from the current best estimate by 10%, pre-tax profit for the year would have been RMB23,322 million or RMB24,177 million (as at 31 December 2017: RMB19,731 million or RMB20,559 million) lower or higher, respectively.

Holding all other variables constant, if lapse rates were to increase or decrease from the current best estimate by 10%, pre-tax profit for the year would have been RMB1,672 million or RMB1,535 million (as at 31 December 2017: RMB1,940 million or RMB1,989 million) lower or higher, respectively.

Holding all other variables constant, if the discount rates were 50 basis points higher or lower than the current best estimate, pre-tax profit for the year would have been RMB83,634 million or RMB95,212 million (as at 31 December 2017: RMB70,732 million or RMB80,152 million) higher or lower, respectively.

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The assumptions of reserves for claims and claim adjustment expenses may be affected by other variables such as claims payment of short-term insurance contracts, which may result in the synchronous changes to reserves for claims and claim adjustment expenses.

Holding all other variables constant, if claim ratios are 100 basis points higher or lower than the current assumption, pre-tax profit is expected to be RMB551 million (as at 31 December 2017: RMB445 million) lower or higher, respectively.

The following table indicates the claim development for short-term insurance contracts without taking into account the impacts of ceded business:

<b>Estimated claims expenses</b>	<b>Short-term insurance contracts (accident year)</b>					<b>Total</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	
Year end	16,499	20,497	27,120	33,926	<b>40,601</b>	
1 year later	17,265	21,427	27,303	34,845		
2 years later	16,726	21,422	26,851			
3 years later	16,726	21,422				
4 years later	16,726					
Estimated accumulated claims expenses	16,726	21,422	26,851	34,845	<b>40,601</b>	<b>140,445</b>
Accumulated claims expenses paid	(16,726)	(21,422)	(26,851)	(33,476)	<b>(27,165)</b>	<b>(125,640)</b>
Unpaid claims expenses				1,369	<b>13,436</b>	<b>14,805</b>



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The following table indicates the claim development for short-term insurance contracts taking into account the impacts of ceded business:

<b>Estimated claims expenses</b>	<b>Short-term insurance contracts (accident year)</b>					<b>Total</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	
Year end	16,379	20,359	26,897	33,700	<b>40,157</b>	
1 year later	17,127	21,262	27,107	34,560		
2 years later	16,589	21,259	26,655			
3 years later	16,589	21,259				
4 years later	16,589					
Estimated accumulated claims expenses	16,589	21,259	26,655	34,560	<b>40,157</b>	<b>139,220</b>
Accumulated claims expenses paid	(16,589)	(21,259)	(26,655)	(33,204)	<b>(26,848)</b>	<b>(124,555)</b>
Unpaid claims expenses				1,356	<b>13,309</b>	<b>14,665</b>

**4.2 Financial risk**

The Group's activities are exposed to a variety of financial risks. The key financial risk is that proceeds from the sale of financial assets will not be sufficient to fund the obligations arising from the Group's insurance and investment contracts. The most important components of financial risk are market risk, credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by a designated department under policies approved by management. The responsible department identifies, evaluates and manages financial risks in close cooperation with the Group's operating units. The Group provides written principles for overall risk management, as well as written policies covering specific areas, such as managing market risk, credit risk, and liquidity risk.

The Group manages financial risk by holding an appropriately diversified investment portfolio as permitted by laws and regulations designed to reduce the risk of concentration in any one specific industry or issuer. The structure of the investment portfolio held by the Group is disclosed in Note 9.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated, such as change in interest rate and change in market price.

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**4 RISK MANAGEMENT (CONTINUED)**

**4.2 Financial risk (continued)**

**4.2.1 Market risk**

**(i) Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's financial assets are principally composed of term deposits, debt securities and loans which are exposed to interest rate risk. Changes in the level of interest rates could have a significant impact on the Group's overall investment return. Many of the Group's insurance policies offer guaranteed returns to policyholders. These guarantees expose the Group to interest rate risk.

The Group manages interest rate risk through adjustments to portfolio structure and duration, and, to the extent possible, by monitoring the mean duration of its assets and liabilities.

The sensitivity analysis for interest rate risk illustrates how changes in interest income and the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the end of the reporting period.

As at 31 December 2018, if market interest rates were 50 basis points higher or lower with all other variables held constant, pre-tax profit for the year would have been RMB145 million (as at 31 December 2017: RMB35 million) lower or higher, respectively, mainly as a result of higher or lower interest income on floating rate cash and cash equivalents, term deposits, statutory deposits - restricted, debt securities and loans and the fair value losses or gains on debt securities assets at fair value through profit or loss. Pre-tax available-for-sale reserve in equity would have been RMB13,749 million or RMB10,045 million (as at 31 December 2017: RMB11,463 million or RMB8,306 million) lower or higher, as a result of a decrease or increase in the fair value of available-for-sale securities.

**(ii) Price risk**

Price risk arises mainly from the volatility of prices of equity securities held by the Group. Prices of equity securities are determined by market forces. The Group is subject to increased price risk largely because China's capital markets are relatively volatile.

The Group manages price risk by holding an appropriately diversified investment portfolio as permitted by laws and regulations designed to reduce the risk of concentration in any one specific industry or issuer.

As at 31 December 2018, if the prices of all the Group's equity securities had increased or decreased by 10% with all other variables held constant, pre-tax profit for the year would have been RMB5,073 million (as at 31 December 2017: RMB3,341 million or RMB5,393 million) higher or lower, respectively, mainly as a result of an increase or decrease in fair value of equity securities excluding available-for-sale securities. Pre-tax available-for-sale reserve in equity would have been RMB24,898 million or RMB34,474 million (as at 31 December 2017: RMB23,423 million or RMB32,651 million) higher or lower, respectively, as a result of an increase or decrease in fair value of available-for-sale equity securities. If prices decreased to the extent that the impairment criteria were met, a portion of such decrease of the available-for-sale equity securities would reduce pre-tax profit through impairment.

**(iii) Currency risk**

Currency risk is the volatility of fair value or future cash flows of financial instruments resulted from changes in foreign currency exchange rates. The Group's currency risk exposure mainly arises from cash and cash equivalents, term deposits, debt investments, equity investments, interest-bearing loans and borrowings denominated in currencies other than the functional currency, such as US dollar, HK dollar, GB pound and EUR, etc.

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The following table summarises primary financial assets and financial liabilities denominated in currencies other than RMB as at 31 December 2018 and 2017, expressed in RMB equivalent:

<b>As at 31 December 2018</b>	<b>US dollar</b>	<b>HK dollar</b>	<b>GB pound</b>	<b>EUR</b>	<b>Others</b>	<b>Total</b>
<b>Financial assets</b>						
Equity securities						
- Available-for-sale securities	9,994	41,379				51,373
- Securities at fair value through profit or loss	4,511	163	951	2,315	1,076	9,016
Debt securities						
- Held-to-maturity securities	150					150
- Loans	1,766					1,766
- Available-for-sale securities	2,240					2,240
- Securities at fair value through profit or loss	627		19	7	4	657
Term deposits	7,502					7,502
Cash and cash equivalents	1,768	261	287	42		2,358
<b>Total</b>	<b>28,558</b>	<b>41,803</b>	<b>1,257</b>	<b>2,364</b>	<b>1,080</b>	<b>75,062</b>
<b>Financial liabilities</b>						
Interest-bearing loans and other borrowings	13,108		2,385	4,657		20,150
<b>Total</b>	<b>13,108</b>		<b>2,385</b>	<b>4,657</b>		<b>20,150</b>

<b>As at 31 December 2017</b>	<b>US dollar</b>	<b>HK dollar</b>	<b>GB pound</b>	<b>EUR</b>	<b>Others</b>	<b>Total</b>
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<b>Financial assets</b>						
Equity securities						
- Available-for-sale securities	8,697	28,859				37,556
- Securities at fair value through profit or loss	4,707	146	1,088	2,690	1,198	9,829
Debt securities						
- Held-to-maturity securities	155					155
- Loans	952					952
- Available-for-sale securities	1,229					1,229
- Securities at fair value through profit or loss	435		18	5	5	463
Term deposits	7,744					7,744
Cash and cash equivalents	1,246	185	282	128	3	1,844
<b>Total</b>	<b>25,165</b>	<b>29,190</b>	<b>1,388</b>	<b>2,823</b>	<b>1,206</b>	<b>59,772</b>
<b>Financial liabilities</b>						
Interest-bearing loans and other borrowings	12,480		2,413	3,901		18,794
<b>Total</b>	<b>12,480</b>		<b>2,413</b>	<b>3,901</b>		<b>18,794</b>

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As at 31 December 2018, if RMB had strengthened or weakened by 10% against US dollar, HK dollar, GB pound, EUR and other foreign currencies, with all other variables held constant, pre-tax profit for the year would have been RMB353 million (as at 31 December 2017: RMB308 million) lower or higher, respectively, mainly as a result of foreign exchange losses or gains on translation of US dollar, HK dollar, GB pound, EUR and other foreign currencies denominated financial assets and financial liabilities other than the available-for-sale equity securities included in the table above. Pre-tax available-for-sale reserve in equity would have been RMB4,909 million (as at 31 December 2017: RMB3,541 million) lower or higher, respectively, as a result of foreign exchange losses or gains on translation of the available-for-sale equity securities at fair value. The actual exchange losses in 2018 were RMB194 million (2017: exchange gains of RMB52 million).

**4.2.2 Credit risk**

Credit risk is the risk that one party of a financial transaction or the issuer of a financial instrument will fail to discharge its obligation and cause another party to incur a financial loss. Because the Group's investment portfolio is restricted to the types of investments as permitted by the China Banking and Insurance Regulatory Commission (CBIRC) and a significant portion of the portfolio is in government bonds, government agency bonds, corporate bonds with higher credit rating and term deposits with the state-owned commercial banks, the Group's overall exposure to credit risk is relatively low.

Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. The Group manages credit risk through in-house research and analysis of the Chinese economy and the underlying obligors and transaction structures. Where appropriate, the Group obtains collateral in the form of rights to cash, securities, property and equipment to lower the credit risk.

*Credit risk exposure*

The carrying amount of financial assets included on the consolidated statement of financial position represents the maximum credit risk exposure at the reporting date without taking account of any collateral held or other credit enhancements attached. The Group has no credit risk exposure relating to off-balance sheet items as at 31 December 2018 and 2017.

*Collateral and other credit enhancements*

Securities purchased under agreements to resell are pledged by counterparties' debt securities or term deposits of which the Group could take the ownership if the owner of the collateral defaults. Policy loans and most of premium receivables are collateralised by their policies' cash value according to the terms and conditions of policy loan contracts and policy contracts, respectively.

*Credit quality*

The Group's debt securities investment mainly includes government bonds, government agency bonds, corporate bonds and subordinated bonds or debts, and most of the debt securities are guaranteed by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2018, 99.9% (as at 31 December 2017: 99.9%) of the corporate bonds held by the Group or the issuers of these corporate bonds had credit ratings of AA/A-2 or above. As at 31 December 2018, 99.9% (as at 31 December 2017: 99.9%) of the subordinated bonds or debts held by the Group either had credit ratings of AA/A-2 or above, or were issued by national commercial banks. The bonds, debts or their issuers' credit ratings are assigned by a qualified appraisal institution in the PRC and updated at each reporting date.

As at 31 December 2018, 99.9% (as at 31 December 2017: 99.8%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited (CSDCC) in the PRC. The Group believes these commercial banks, and CSDCC have a high credit quality. The Group's most other loans excluding policyholder loans, are guaranteed by third parties or with pledge, or have the fiscal annual budget income as the source of repayment, or have higher credit rating borrowers. As a result, the Group concludes that the credit risk associated with term deposits and accrued investment income thereof, statutory deposits - restricted, other loans, and cash and cash equivalents has not caused a material impact on the Group's consolidated financial statements as at 31 December 2018 and 2017.



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The credit risk associated with securities purchased under agreements to resell, policy loans and most of premium receivables has not caused a material impact on the Group's consolidated financial statements taking into consideration their sufficient collateral held and maturity terms of no more than one year as at 31 December 2018 and 2017.

**4.2.3 Liquidity risk**

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable funding cost when required to meet a repayment obligation and fund its asset portfolio within a certain time.

In the normal course of business, the Group attempts to match the maturity of financial assets to the maturity of insurance and financial liabilities.

The following tables set forth the contractual and expected undiscounted cash flows for financial assets and liabilities and insurance liabilities:

	Carrying value	Without maturity	Contractual and expected cash flows (undiscounted)			
			Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	Later than 5 years
<b>As at 31 December 2018</b>						
<b>Financial assets</b>						
<b>Contractual cash inflows</b>						
Equity securities	422,780	422,780				
Debt securities	1,391,310		80,801	290,449	298,644	1,417,910

Loans	450,251		182,978	101,149	88,718	172,050
Term deposits	559,341		172,525	145,634	237,508	77,961
Statutory deposits - restricted	6,333		782	739	6,005	
Securities purchased under agreements to resell	9,905		9,905			
Accrued investment income	48,402		47,834	540	28	
Premiums receivable	15,648		15,648			
Cash and cash equivalents	50,809		50,809			
<b>Subtotal</b>	<b>2,954,779</b>	<b>422,780</b>	<b>561,282</b>	<b>538,511</b>	<b>630,903</b>	<b>1,667,921</b>
<b>Financial and insurance liabilities</b>						
<b>Expected cash outflows</b>						
Insurance contracts	2,216,031		197,289	222,170	(13,489)	(4,391,739)
Investment contracts	255,434		(13,098)	(10,293)	(11,422)	(629,318)
<b>Contractual cash outflows</b>						
Securities sold under agreements to repurchase	192,141		(192,141)			
Financial liabilities at fair value through profit or loss	2,680	(2,680)				
Annuity and other insurance balances payable	49,465		(49,465)			
Interest-bearing loans and other borrowings	20,150		(16,977)	(3,798)		
<b>Subtotal</b>	<b>2,735,901</b>	<b>(2,680)</b>	<b>(74,392)</b>	<b>208,079</b>	<b>(24,911)</b>	<b>(5,021,057)</b>
<b>Net cash inflow/(outflow)</b>	<b>218,878</b>	<b>420,100</b>	<b>486,890</b>	<b>746,590</b>	<b>605,992</b>	<b>(3,353,136)</b>

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	Carrying value	Without maturity	Contractual and expected cash flows (undiscounted)			
			Not later than 1 year	Later than 1 year but not later than 3 years	Later than 3 years but not later than 5 years	Later than 5 years
As at 31 December 2017						
<b>Financial assets</b>						
<b>Contractual cash inflows</b>						
Equity securities	409,528	409,528				
Debt securities	1,255,052		127,830	240,582	271,538	1,240,465
Loans	383,504		141,679	105,063	64,386	128,753
Term deposits	449,400		104,976	252,571	133,013	2,823
Statutory deposits - restricted	6,333		4,084	734	2,106	
Securities purchased under agreements to resell	36,185		36,185			
Accrued investment income	50,641		44,789	5,602	250	
Premiums receivable	14,121		14,121			
Cash and cash equivalents	48,586		48,586			
<b>Subtotal</b>	<b>2,653,350</b>	<b>409,528</b>	<b>522,250</b>	<b>604,552</b>	<b>471,293</b>	<b>1,372,041</b>
<b>Financial and insurance liabilities</b>						
<b>Expected cash outflows</b>						
Insurance contracts	2,025,133		16,319	221,905	47,109	(3,807,542)
Investment contracts	232,500		(15,308)	(29,981)	(26,892)	(388,320)

<b>Contractual cash outflows</b>						
Securities sold under agreements to repurchase	87,309		(87,309)			
Financial liabilities at fair value through profit or loss	2,529	(2,529)				
Annuity and other insurance balances payable	44,820		(44,820)			
Interest-bearing loans and other borrowings	18,794		(1,240)	(18,557)		
<b>Subtotal</b>	2,411,085	(2,529)	(132,358)	173,367	20,217	(4,195,862)
<b>Net cash inflow/(outflow)</b>	242,265	406,999	389,892	777,919	491,510	(2,823,821)

The amounts set forth in the tables above for insurance and investment contracts in each column are the cash flows representing expected future benefit payments taking into consideration of future premiums payments or deposits from policyholders. The excess cash inflows from matured financial assets will be reinvested to cover any future liquidity exposures. The estimate is subject to assumptions related to mortality, morbidity, the lapse rate, the loss ratio of short-term insurance contracts, expense and other assumptions. Actual experience may differ from estimates.

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**FOR THE YEAR ENDED 31 DECEMBER 2018**

**4 RISK MANAGEMENT (CONTINUED)**

**4.2 Financial risk (continued)**

**4.2.3 Liquidity risk (continued)**

The liquidity analysis above does not include policyholder dividends payable amounting to RMB85,071 million as at 31 December 2018 (as at 31 December 2017: RMB83,910 million). As at 31 December 2018, declared dividends of RMB74,932 million (as at 31 December 2017: RMB68,731 million) included in policyholder dividends payable have a maturity not later than one year. For the remaining policyholder dividends payable, the amount and timing of the undiscounted cash flows are indeterminate due to the uncertainty of future experiences including investment returns and are subject to future declarations by the Group.

Although all investment contracts with DPF and investment contracts without DPF contain contractual options to surrender that can be exercised immediately by all policyholders at any time, the Group's expected cash flows as shown in the above tables are based on past experience and future expectations. Should these contracts be surrendered immediately, it would cause a cash outflow of RMB58,669 million and RMB194,290 million, respectively for the year ended 31 December 2018 (2017: RMB56,709 million and RMB173,557 million, respectively), payable within one year.

**4.2.4 Capital management**

The Group's objectives for managing capital are to comply with the insurance capital requirements based on the minimum capital and actual capital required by the CBIRC, prevent risk in operation and safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders. The Group replenishes capital to improve the solvency ratio by issuing subordinated bonds and Core Tier 2 Capital Securities according to the relevant laws and the approval of the relevant authorities.

The Group is also subject to other local capital requirements, such as statutory deposits - restricted requirement, statutory insurance fund requirement, statutory reserve fund requirement and general reserve requirement discussed in detail in Note 9.4, Note 20 and Note 36, respectively.

The Group manages capital to ensure its continuous and full compliance with the regulations mainly through monitoring its quarterly solvency ratios, as well as the solvency ratio based on annual stress testing.

The table below summarises the core and comprehensive solvency ratio, core capital, actual capital and minimum capital of the Company under *Insurance Institution Solvency Regulations (No.1 - No.17)*:

	<b>As at 31 December 2018</b>	As at 31 December 2017
	<b>RMB million</b>	RMB million
Core capital	<b>761,353</b>	706,516
Actual capital	<b>761,367</b>	706,623
Minimum capital	<b>303,872</b>	254,503
Core solvency ratio	<b>251%</b>	278%
Comprehensive solvency ratio	<b>251%</b>	278%

According to the solvency ratios results mentioned above, and the unquantifiable evaluation results of operational risk, strategic risk, reputational risk and liquidity risk of insurance companies, the CBIRC evaluates the comprehensive solvency of insurance companies and supervises insurance companies by classifying them into four categories:

- (i) Category A: solvency ratios meet the requirements, and the operational risk, strategic risk, reputational risk and liquidity risk are very low;
- (ii) Category B: solvency ratios meet the requirements, and the operational risk, strategic risk, reputational risk and liquidity risk are low;
- (iii) Category C: solvency ratios do not meet the requirements or solvency ratios meet the requirements but one or several risks in operation, strategy, reputation and liquidity are high;

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4 RISK MANAGEMENT (CONTINUED)**

**4.2 Financial risk (continued)**

**4.2.4 Capital management (continued)**

- (iv) Category D: solvency ratios do not meet the requirements or solvency ratios meet the requirements but one or several risks in operation, strategy, reputation and liquidity are severe.

According to the Supervision Information System of the China Risk Oriented Solvency System, the latest Integrated Risk Rating result of the Company was Category A.

**4.3 Disclosures about interest in unconsolidated structured entities**

The Group's interest in unconsolidated structured entities are recorded as securities at fair value through profit or loss, available-for-sale securities and loans. These structured entities typically raise funds by issuing securities or other beneficiary certificates. The purpose of these structured entities is primarily to generate management service fees, or provide finance to public and private infrastructure construction. Refer to Note 3.5 for the Group's consolidation judgments related to structured entities.

These structured entities that the Group has interest in are guaranteed by third parties with higher credit ratings, or by pledging, or by having the fiscal budget income as the source of repayment, or by borrowers with higher credit ratings.

The Group did not guarantee or provide any financing support for the structured entities that the Group had interest in or sponsored.

**(i) The unconsolidated structured entities that the Group has interest in**

The Group believes that the maximum exposure approximates the carrying amount of interest in these unconsolidated structured entities. The size of unconsolidated structured entities as well as the Group's carrying amount of the assets recognised in the financial statement relating to its interest in unconsolidated structured entities and the Group's maximum exposure are shown below:

As at 31 December 2018

Unconsolidated structured entities  
Carrying

	amount	Maximum		
	Size	of assets	exposure	
	RMB Million	RMB Million	RMB Million	
			Interest held by the Group	
Funds managed by affiliated entities	120,797	629	629	Investment income and service fee
Funds managed by third parties	Note 1	104,678	104,678	Investment income
Trust schemes managed by affiliated entities	3,800	2,680	2,680	Investment income and service fee
Trust schemes managed by third parties	Note 1	89,769	89,769	Investment income
Debt investment schemes managed by affiliated entities	59,456	32,029	32,029	Investment income and service fee
Debt investment schemes managed by third parties	Note 1	33,330	33,330	Investment income
Others managed by affiliated entities Note 2	422,006	9,502	9,502	Investment income and service fee
Others managed by third parties Note 2	Note 1	110,035	110,035	Investment income

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The Group believes that the maximum exposure approximates the carrying amount of interest in these unconsolidated structured entities. The size of unconsolidated structured entities as well as the Group's carrying amount of the assets recognised in the financial statement relating to its interest in unconsolidated structured entities and the Group's maximum exposure are shown below (continued):

As at 31 December 2017	Unconsolidated structured entities Carrying			Interest held by the Group
	Size RMB Million	of assets RMB Million	Maximum exposure RMB Million	
Funds managed by affiliated entities	127,706	3,239	3,239	Investment income and service fee
Funds managed by third parties	Note 1	97,772	97,772	Investment income Investment income
Trust schemes managed by affiliated entities	500	400	400	and service fee
Trust schemes managed by third parties	Note 1	75,263	75,263	Investment income Investment income
Debt investment schemes managed by affiliated entities	52,014	36,359	36,359	and service fee
Debt investment schemes managed by third parties	Note 1	32,209	32,209	Investment income Investment income
Others managed by affiliated entities Note 2	303,976	8,676	8,676	and service fee
Others managed by third parties <sup>Note 2</sup>	Note 1	107,859	107,859	Investment income

- Note 1: Funds, trust schemes, debt investment schemes and others managed by third parties were sponsored by third party financial institutions and the information related to size of these structured entities were not publicly available.
- Note 2: Others included wealth management products, special asset management schemes, and asset-backed plans, etc.

**(ii) The unconsolidated structured entities that the Group has sponsored but does not have interest in**

As at 31 December 2018, the size of the unconsolidated structured entities that the Group sponsored but had no interest was RMB400,419 million (as at 31 December 2017: RMB252,017 million), which were mainly funds, special asset management schemes, pension security products and pension products, etc., sponsored by the Group to generate management service fee income. In 2018, the management service fee from these structured entities was RMB1,338 million (2017: RMB736 million), which was recorded as other income. The Group did not transfer assets to these structured entities.

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**4 RISK MANAGEMENT (CONTINUED)**

**4.4 Fair value hierarchy**

Level 1 fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can obtain at the measurement date.

Other than Level 1 quoted prices, Level 2 fair value is based on valuation techniques using significant inputs, that are observable for the asset being measured, either directly or indirectly, for substantially the full term of the asset through corroboration with observable market data. Observable inputs generally used to measure the fair value of securities classified as Level 2 include quoted market prices for similar assets in active markets; quoted market prices in markets that are not active for identical or similar assets and other market observable inputs. This level includes the debt securities for which quotations are available from pricing services providers. Fair values provided by pricing services providers are subject to a number of validation procedures by management. These procedures include a review of the valuation models utilised and the results of these models, as well as the recalculation of prices obtained from pricing services at the end of each reporting period.

Under certain conditions, the Group may not receive a price quote from independent third-party pricing services. In this instance, the Group's valuation team may choose to apply an 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. The assets or liabilities valued by this method are generally classified as Level 3.

As at 31 December 2018, assets classified as Level 1 accounted for approximately 33.30% of assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include certain debt securities, equity securities that are traded in an active exchange market or interbank market and open-ended funds with public market price quotation. The Group considers a combination of certain factors to determine whether a market for a financial instrument is active, including the occurrence of trades within the specific period, the respective trading volume, and the degree which the implied yields for a debt security for observed transactions differs from the Group's understanding of the current relevant market rates and information. Trading prices from the Chinese interbank market are determined by both trading counterparties and can be observed publicly. The Company adopted this price of the debt securities traded on the Chinese interbank market at the reporting date as their fair market value and classified the investments as Level 1. Open-ended funds also have active markets. Fund management companies publish the net asset value of these funds on their websites on each trade date. Investors subscribe for and redeem units of these funds in accordance with the funds' net asset value published by the fund management companies on each trade date. The Company adopted the unadjusted net asset value of the funds at the reporting date as their fair market value and classified the investments as Level 1.

As at 31 December 2018, assets classified as Level 2 accounted for approximately 48.57% of assets measured at fair value on a recurring basis. They primarily include certain debt securities and equity securities. 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 are classified as Level 2 when they are valued at recent quoted prices from the Chinese interbank market or from valuation service providers.

At 31 December 2018, assets classified as Level 3 accounted for approximately 18.13% of assets measured at fair value on a recurring basis. They primarily include unlisted equity securities and unlisted debt securities. Fair values are determined using valuation techniques, including discounted cash flow valuations, the comparable companies approach, etc. The determination of Level 3 is primarily based on the significance of certain unobservable inputs.

For the accounting policies regarding the determination of fair values of financial assets and liabilities, see Note 3.2.

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The following table presents the Group's quantitative disclosures of fair value measurement hierarchy for assets and liabilities measured at fair value as at 31 December 2018:

	Fair value measurement using			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
			RMB	
	RMB million	RMB million	million	RMB million
<b>Assets measured at fair value</b>				
Available-for-sale securities				
- Equity securities				
Funds	92,260	44		92,304
Common stocks	113,750	15,871	13,848	143,469
Preferred stocks			32,707	32,707
Wealth management products		31,348		31,348
Others	34		53,445	53,479
- Debt securities				
Government bonds	2,587	25,853		28,440
Government agency bonds	53,433	126,840		180,273
Corporate bonds	10,206	175,514		185,720
Subordinated bonds/debts		21,314	200	21,514
Others		1,595	79,048	80,643
Securities at fair value through profit or loss				
- Equity securities				
Funds	13,891	76		13,967
Common stocks	34,392	849		35,241
Wealth management products		1,506		1,506
- Debt securities				

Government bonds	<b>82</b>	<b>36</b>	<b>118</b>
Government agency bonds	<b>1,556</b>	<b>5,204</b>	<b>6,760</b>
Corporate bonds	<b>7,052</b>	<b>72,722</b>	<b>79,774</b>
Others		<b>1,351</b>	<b>1,351</b>