China Pacific Insurance (Group) Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Audited Financial Statements

31 December 2013

CONTENTS

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2013

I. Principal Businesses

We are a leading comprehensive insurance group in the PRC, providing, through our subsidiaries, a broad range of life and property and casualty insurance and pension products and services to individual and institutional customers throughout the country. We also manage and deploy our insurance funds through our subsidiaries.

II. Major Customers

Our top five major customers accounted for approximately 0.4% of the gross written premiums during the reporting period.

III. Results and Distributions

The net profits for the year 2013 included in the audited financial statements of the parent company, prepared in accordance with the PRC GAAP and HKFRS, were both RMB3.917 billion. According to the Articles of Association and other applicable regulations, the Company is required to set aside 10% of the net profit in the financial statements under the PRC GAAP as the statutory surplus reserves. Taking into account the retained profits brought forward from the previous year, the retained profits of the Company at the end of 2013 included in the financial statements, prepared in accordance with the PRC GAAP and HKFRS, were both RMB8.897 billion.

Therefore, the profit distribution for 2013 is made based on the audited financial statements of the parent company. The Company intends to declare a cash dividend of RMB0.4 per share (including tax) for the year. Based on the total share capital of 9,062,000,000 shares, the amount of dividend in aggregate will be RMB3.625 billion. The remaining retained profits will be carried forward to 2014. No capital reserve was transferred to the share capital during the year.

No capital reserve was transferred to the share capital during any of the last three years.

The above profit distribution proposal is subject to shareholders' approval at the general meeting.

Dividend distributions for the past three years are as follows:

Unit: RMB million

Year of dividend distribution	Cash Dividend (including tax)(1)	Net profit attributable to the dividend distribution year[note](2)	Payout ratio (%) (3) = (1)/(2)
2013	3,625	9,261	39.1
2012	3,172	5,077	62.5
2011	3,010	8,313	36.2

Note: Attributable to equity holders of the parent.

III. Results and Distributions (continued)

According to the Articles of Association, the Company may adjust its profit distribution policies, which shall be resolved by the Board after thorough consideration and submitted to the shareholders' general meeting together with the opinions of the Independent Directors for approval by way of special resolution. The Board and shareholders' general meeting shall properly consider the opinions from the Independent Directors and public investors and communicate with public investors through various channels. The implementation of the profit distribution policies shall be supervised by the Independent Directors and public investors.

The profit distribution policies of the Company are in compliance with the Articles of Association. The policies provide sufficient protection for the interests of minor shareholders with specified distribution standards and ratio of dividends, and regulated and transparent conditions and procedures for the adjustment and amendments to the profit distribution policies.

IV. Reserves

Details for reserves (including distributable reserves) are shown in note 37 to the financial statements.

V. Property and Equipment and Investment Properties

Details for property and equipment and investment properties are shown in notes 17 and 18 to the financial statements.

VI. Financial Summary

Summary of financial information is shown in the Section "Highlight of Accounting and Operation Data" of this annual report.

VII. Use of Proceeds Raised from Listing

The use of proceeds raised by the Company is consistent with the usages as set out in the resolutions approved in the shareholders' general meeting and the meeting of the Board of Directors and have been fully used to strengthen our capital base for the purpose of continuing business expansion.

VIII. Share Capital and Sufficient Public Float

The changes in our share capital are shown in the Section "Changes in the Share Capital and Shareholders' Profile" of this annual report.

Based on the information that is publicly available and within the knowledge of the directors as at the latest practicable date prior to the printing of this annual report, since 12 January 2011, not less than 25% of the total issued share capital of the Company was held in public hands and not less than 15% of the H share capital of the Company was held in public hands, which is consistent with the requirements under the Hong Kong Listing Rules to maintain a minimum public float.

IX. Post Balance Sheet Event

Post balance sheet event is shown in note 52 to the financial statements.

X. Connected Transactions

During the reporting period, the Company did not enter into any connected transactions or continuing connected transactions which require the compliance with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A 'Connected Transactions' of the Hong Kong Listing Rules.

XI. Bank Borrowings

Apart from the subordinated bonds issued by CPIC Life and securities sold under agreement to repurchase, our subsidiaries had bank borrowings. For their details please refer to note 38 to the financial report. Details of the subordinated bonds issued by CPIC Life are set out in note 41 to the financial report.

XII. Charitable and Other Donations

During the reporting period, the Company made charitable and other donations totaling approximately RMB15.9658 million.

XIII. Management Contract

The Company did not enter into any management contract in relation to all the Company's business or its principal business.

XIV. Directors, Supervisors and Senior Management

Biographies of the Company's current directors, supervisors and senior management are shown in the Section "Directors, Supervisors, Senior Management and Employees" of this annual report.

XV. Directors' and Supervisors' Interests in Competing Businesses

None of our directors or supervisors has any interests in businesses which, directly or indirectly, compete with the Company's businesses.

XVI. Directors' and Supervisors' Service Contracts and Remunerations

None of our directors or supervisors has entered into any service contract with the Company or its subsidiaries which is not terminable within one year, or terminable only when receiving compensation other than the statutory compensation.

Details for our directors' and supervisors' remunerations are shown in the Section "Directors, Supervisors, Senior Management and Employees" of this annual report.

XVII. Special Committees of the Board of Directors

The Board of Directors of the Company established four special committees, namely the Strategic and Investment Decision-Making Committee, the Audit Committee, the Nomination and Remuneration Committee and the Risk Management Committee. See the Section "Corporate Governance Report" of this annual report for details of the special committees of the Board of Directors.

XVIII. Directors' and Supervisors' Interests in Material Contracts

During the reporting period, none of our directors or supervisors had any personal interests in any of the material contracts involving the Company or any of its subsidiaries as a party.

XIX. Directors' and Supervisors' Rights to Subscribe for Shares

The Company did not grant to any directors, supervisors or their respective spouses or children under 18 years of age any rights to subscribe for or to acquire shares or bonds of the Company or its subsidiaries.

XX. Directors' and Supervisors' Interest and Short Positions in Shares

As at 31 December 2013, none of the directors, supervisors or senior management of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions.

The directors' and the supervisors' shareholdings in A Shares are set out in the Section "Directors, Supervisors, Senior Management and Employees".

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares

So far as the directors of the Company are aware, as at 31 December 2013, the following persons (excluding the directors, supervisors or senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which, pursuant to Section 336 of the SFO, shall be entered in the register maintained by the Company:

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

Names of substantial shareholders	Capacity	Types of shares	Number of shares	Percentage of shareholdings in the class of shares issued (%)	Percentage of the total shares issued (%)
JPMorgan Chase & Co.[note 1]	Beneficial owner, investment manager and custodian – corporation/approved lending agent	H shares	360,708,138(L) 1,615,869(S) 342,313,882 (P)	12.99(L) 0.06(S) 12.33(P)	3.98 (L) 0.02 (S) 3.78 (P)
Government of Singapore Investment Corporation Pte Ltd.	Investment manager	H shares	293,830,400(L)	10.59(L)	3.24 (L)
Allianz SE[note 2]	Interest of corporation controlled by Allianz SE	H shares	243,223,600(L)	8.76(L)	2.68 (L)
Norges Bank (Central Bank of Norway)	Beneficial owner	H shares	231,734,200(L)	8.35(L)	2.56 (L)
Blackrock, Inc.[note 3]	Interest of corporation controlled by Blackrock, Inc.	H shares	196,965,929(L) 1,179,600 (S)	7.09(L) 0.04(S)	2.17 (L) 0.01 (S)
Schroders Plc[note 4]	Investment manager	H shares	193,404,018 (L)	6.96 (L)	2.13 (L)
The Capital Group Companies, Inc.[note 5]	Interest of corporation controlled by The Capital Group Companies, Inc.	H shares	167,373,800(L)	6.03(L)	1.85 (L)
Temasek Holdings (Private) Limited[note 6]	Interest of corporation controlled by Temasek Holdings (Private) Limited	H shares	139,129,600(L)	5.01(L)	1.54 (L)

(L) denotes a long position; (S) denotes a short position; (P) denotes interest in a lending pool

Notes:

1. Pursuant to Part XV of the SFO, JPMorgan Chase & Co. is deemed or taken to be interested in a total of 360,708,138 H shares (long position) and 1,615,869 H shares (short position) of the Company. Included in the 360,708,138 H shares are 342,313,882 H shares 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.

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

The details of the shareholding interests of the subsidiaries directly or indirectly controlled by JPMorgan Chase & Co. are set out below:

Name of controlled subsidiary	Number of shares
JPMorgan Chase Bank, N.A.	342,313,882 (L)
J.P. Morgan Whitefriars Inc.	7,153,933 (L) 1,195,421 (S)
J.P. Morgan Overseas Capital Corporation	7,153,933 (L) 1,582,869 (S)
J.P. Morgan International Finance Limited	8,140,644 (L) 1,615,869 (S)
Bank One International Holdings Corporation	8,140,644 (L) 1,615,869 (S)
J.P. Morgan International Inc.	8,140,644 (L) 1,615,869 (S)
JPMorgan Chase Bank, N.A.	8,140,644 (L) 1,615,869 (S)
JF Asset Management Limited	9,382,400 (L)
JPMorgan Asset Management (Asia) Inc.	10,253,600 (L)
JPMorgan Asset Management Holdings Inc.	10,253,600 (L)
J.P. Morgan Securities plc	986,711 (L) 33,000 (S)
J.P. Morgan Chase International Holdings +	986,711 (L) 33,000 (S)
J.P. Morgan Chase (UK) Holdings Limited	986,711 (L) 33,000 (S)
J.P. Morgan Capital Holdings Limited	986,711 (L) 33,000 (S)
JPMorgan Asset Management (Taiwan) Limited	713,000 (L)
JF International Management Inc.	158,200 (L)
J.P. Morgan Clearing Corp	12 (L)
J.P. Morgan Securities LLC	12 (L)
J.P. Morgan Broker-Dealer Holdings Inc	12 (L)
J.P. Morgan Whitefriars (UK)	387,448 (S)
J.P. Morgan Whitefriars Inc.	387,448 (S)

(L) denotes a long position; (S) denotes a short position

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

2. Pursuant to Part XV of the SFO, Allianz SE is deemed or taken to be interested in a total of 243,223,600 H shares of the Company.

The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Allianz SE are set out below:

Name of controlled subsidiary	Number of shares
Allianz Deutschland AG	233,458,103 (L)
Allianz Lebensversicherungs-AG	233,458,103 (L)
AZ Euro Investments S.a.r.l.	191,940,303 (L)
Allianz Finance II Luxembourg S.A.	41,517,800 (L)
YAO Investment S.a.r.l.	6,541,897 (L)
Allianz Asset Management AG	3,058,800 (L)
Allianz Global Investors Holding GmbH	3,058,800 (L)
Allianz Global Investors Taiwan Ltd.	220,000 (L)
RCM Asia Pacific Ltd.	2,821,600 (L)
Allianz Global Investors Europe GmbH	17,200 (L)
Allianz Holding eins GmbH	6,706,697 (L)
Allianz Elementar Versicherungs-AG	6,706,697 (L)
Allianz Investmentbank AG	164,800 (L)
Allianz Invest Kapitalanlagegesellschaft mbH	164,800 (L)

(L) denotes a long position

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

3. Pursuant to Part XV of the SFO, Blackrock, Inc. is deemed or taken to be interested in a total of 196,965,929 H shares (long position) and 1,179,600 H shares (short position) of the Company.
The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Blackrock, Inc. are set out below:

Name of controlled subsidiary	Number of shares
Trident Merger, LLC	1,704,361 (L)
BlackRock Investment Management, LLC.	1,704,361 (L)
BlackRock Holdco 2 Inc.	195,261,568 (L) 1,179,600 (S)
BlackRock Financial Management, Inc.	195,261,568 (L) 1,179,600 (S)
BlackRock Holdco 4 LLC	131,395,200 (L) 1,179,600 (S)
BlackRock Holdco 6 LLC	131,395,200 (L) 1,179,600 (S)
BlackRock Delaware Holdings, Inc.	131,395,200 (L) 1,179,600 (S)
BlackRock Institutional Trust Company, N.A.	37,164,600 (L) 1,179,600 (S)
BlackRock Fund Advisors	94,230,600 (L)
BlackRock Advisors Holdings Inc.	63,465,853 (L)
BlackRock Capital Holdings, Inc.	55,000 (L)
BlackRock Advisors, LLC	55,000 (L)
BlackRock International Holdings Inc.	63,410,853 (L)
BR Jersey International LP	63,410,853 (L)
BlackRock Cayco Ltd.	47,200 (L)
BlackRock Trident Holding Company Limited	47,200 (L)
BlackRock Japan Holdings GK	47,200 (L)
BlackRock Japan Co Ltd	47,200 (L)
BlackRock (Institutional) Canada Ltd	346,600 (L)
BlackRock Holdings Canada Limited	346,600 (L)
BlackRock Asset Management Canada Limited	346,600 (L)
BlackRock Australia Holdco Pty Ltd	195,000 (L)
BlackRock Investment Management (Australia) Limited	195,000 (L)
BlackRock HK Holdco Limited	4,018,066 (L)
BlackRock Asset Management North Asia Limited	4,018,066 (L)
BlackRock Group Limited	58,803,987 (L)

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

Name of controlled subsidiary	Number of shares
BlackRock (Netherlands) B.V.	344,400 (L)
Blackrock Advisors (UK) Limited	23,706,907 (L)
BlackRock International Limited	1,981,300 (L)
BlackRock Luxembourg Holdco S.a.r.l.	27,925,980 (L)
BlackRock Investment Management Ireland Holdings Ltd	22,319,180 (L)
BlackRock Asset Management Ireland Limited	22,245,400 (L)
BlackRock Fund Management Ireland Limited	73,780 (L)
BlackRock (Luxembourg) S.A.	5,606,800 (L)
BlackRock Investment Management (UK) Ltd	4,845,400 (L)
BlackRock Holdings Deutschland GmbH	271,200 (L)
BlackRock Asset Management Deutschland AG	271,200 (L)
BlackRock Fund Managers Ltd	975,600 (L)
BlackRock Life Limited	15,800 (L)

(L) denotes a long position; (S) denotes a short position

4. Pursuant to Part XV of the SFO, Schroders Plc is deemed or taken to be interested in a total of 193,404,018 H shares (long position) of the Company as of 31 December 2013.

The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Schroders Plc are set out below:

Name of controlled subsidiary	Number of shares
Schroder Administration Limited	193,404,018 (L)
Schroder International Holdings Limited	76,213,018 (L)
Schroder Holdings (Bermuda) Limited	76,213,018 (L)
Schroder International Holdings (Bermuda) Limited	76,213,018 (L)
Schroder Investment Management Limited	95,155,400 (L)
Schroder Investment Management Limited	22,035,600 (L)
Schroder Investment Management North America Limited	22,035,600 (L)
Schroder Investment Management (Singapore) Limited	3,384,400 (L)
Schroder Investment Management (Hong Kong) Limited	72,828,618 (L)

(L) denotes a long position

XXI. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares (continued)

5. Pursuant to Part XV of the SFO, The Capital Group Companies, Inc. is deemed or taken to be interested in a total of 167,373,800 H shares (long position) of the Company as of 31 December 2013.
The details of the shareholding interests of the subsidiaries directly or indirectly controlled by The Capital Group Companies, Inc. are set out below:

Name of controlled subsidiary	Number of shares
Capital Group International, Inc.	82,543,000 (L)
Capital Guardian Trust Company	29,952,400 (L)
Capital International, Inc.	38,368,400 (L)
Capital International Limited	679,800 (L)
Capital International Sarl	13,542,400 (L)
Capital Research and Management Company	84,830,800 (L)

(L) denotes a long position

6. Pursuant to Part XV of the SFO, Temasek Holdings (Private) Limited is deemed or taken to be interested in a total of 139,129,600 H shares (long position) of the Company.
The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Temasek Holdings (Private) Limited are set out below:

Name of controlled subsidiary	Number of shares
Fullerton (Private) Limited	15,028,800 (L)
Temasek Fullerton Alpha Pte. Ltd.	11,000,800 (L)
FFMC Holdings Pte. Ltd.	14,768,800 (L)
Fullerton Fund Management Company Ltd, as investment manager	14,768,800 (L)
Temasek Capital (Private) Limited	124,100,800 (L)
Seletar Investments Pte Ltd	124,100,800 (L)
Dunearn Investments (Mauritius) Pte Ltd.	124,100,800 (L)
Baytree Investments (Mauritius) Pte Ltd.	124,100,800 (L)
Singapore Technologies Capital Services Pte Ltd	260,000 (L)
ST Asset Management Ltd as Investment Manager	260,000 (L)

(L) denotes a long position

Save as disclosed above, as at 31 December 2013, the Company was not aware that there was any other person (other than the directors, supervisors or senior management of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

Specifics on the shareholdings by the Company's top ten shareholders are set out in the Section "Changes in the Share Capital and Shareholders' Profile" of this annual report.

XXII. Purchase, Redemption or Sale of the Company's Listed Securities

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

XXIII. Pre-emptive Rights

According to the relevant PRC laws and under the Articles of Association, none of our shareholders have any pre-emptive rights, and the Company does not have any arrangement in respect of share options.

XXIV. Appointment of the Auditors

During the reporting period, the Company re-appointed Ernst & Young Hua Ming LLP as the auditors of the Company for financial statements prepared in accordance with PRC GAAP and Ernst & Young as the auditors of the Company for financial statements prepared in accordance with HKFRSs (hereinafter collectively referred to as "Ernst & Young"), and re-appointed Ernst & Young Hua Ming LLP as the auditors of the Company for internal control. As of the end of the reporting period, Ernst & Young has been providing audit services to the Company for eight consecutive years.

The signing Certified Public Accountants for the Company's financial statements prepared in accordance with PRC GAAP were Mr. GUO Hangxiang and Mr. ZHU Baoqin. By the end of the reporting period, Mr. GUO and Mr. ZHU have served as the signing accountants for the Company for 2 and 4 years, respectively.

In 2013, the remuneration paid/payable to the auditors for provision of annual financial statements audit service and internal control audit service is RMB 14.6790 million and RMB 1.6410 million, respectively.

Pursuant to the relevant requirements of the "the notice on Administrative Measures for Financial Enterprises to Appoint Accounting Firms by Way of Public Tender (for Trial Implementation) " issued by the Ministry of Finance of the PRC in relation to the service term of auditors continuously engaged by a financial institution, the service term of Ernst & Young will exceed the prescribed time limit soon. In this connection, the Company conducted a bidding process for the selection of auditors for the year 2014 in accordance with the above-mentioned regulation. Pursuant to the resolution of the 3rd meeting of the Company's 7th term of board of directors held on 30 October 2013, the board of directors announced that PricewaterhouseCoopers Zhong Tian LLP was proposed to be appointed as the auditor of financial statements under PRC GAAP and internal control and PricewaterhouseCoopers was proposed to be appointed as the auditor of financial statements under HKFRSs of the Company for the year 2014. The solution is subject to the approval of the shareholders' meeting.

XXV. Change in Accounting Estimates

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

As at 31 December 2013, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2013 by approximately RMB3.761 billion and a decrease in profit before tax for 2013 by approximately RMB3.761 billion.

XXVI. Performance of Duties by the Board of Directors

Details of the performance of duties by the Board of Directors and its special committees are set out in the Section “Corporate Governance Report” in this annual report.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2013

ON BEHALF OF THE BOARD

.....
Chairman

Shanghai, PRC
28 March 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 109, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong
28 March 2014

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2013

(All amounts expressed in Renminbi ("RMB") million unless otherwise specified)

Group	**Notes**	**2013**	**2012**
Gross written premiums	6(a)	176,923	163,228
Less: Premiums ceded to reinsurers	6(b)	(15,295)	(11,795)
Net written premiums	6	161,628	151,433
Net change in unearned premium reserves		(2,003)	(3,594)
Net premiums earned		159,625	147,839
Investment income	7	30,972	18,060
Other operating income		1,620	1,258
Other income		32,592	19,318
Total income		192,217	167,157
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(28,420)	(20,596)
Claims incurred	8	(45,657)	(35,815)
Changes in long-term life insurance contract liabilities	8	(55,056)	(58,501)
Policyholder dividends	8	(4,126)	(3,905)
Finance costs	9	(2,755)	(2,288)
Interest credited to investment contracts		(1,924)	(1,715)
Other operating and administrative expenses		(42,365)	(38,224)
Total benefits, claims and expenses		(180,303)	(161,044)
Profit before tax	10	11,914	6,113
Income tax	14	(2,519)	(983)
Net profit for the year		9,395	5,130
Attributable to:			
Equity holders of the parent		9,261	5,077
Minority interests		134	53
		9,395	5,130
Basic earnings per share	15	RMB1.02	RMB0.59
Diluted earnings per share	15	RMB1.02	RMB0.59

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2013**	**2012**
Net profit for the year		9,395	5,130
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(9)	-
Available-for-sale financial assets		(4,444)	12,202
Income tax relating to available-for-sale financial assets		1,105	(3,034)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(3,348)	9,168
Other comprehensive (loss)/income for the year	16	(3,348)	9,168
Total comprehensive income for the year		6,047	14,298
Attributable to:			
Equity holders of the parent		5,963	14,094
Minority interests		84	204
		6,047	14,298

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2013**	**31 December 2012**
ASSETS			
Property and equipment	17	10,542	9,364
Investment properties	18	6,795	6,349
Goodwill		962	962
Other intangible assets	19	907	738
Prepaid land lease payments	20	59	60
Investment in a joint venture	22	11	-
Financial assets at fair value through profit or loss	23	4,926	1,714
Held-to-maturity financial assets	24	262,942	248,766
Available-for-sale financial assets	25	175,489	135,815
Investments classified as loans and receivables	26	41,320	36,097
Securities purchased under agreements to resell	27	2,394	1,115
Term deposits	28	144,317	164,297
Restricted statutory deposits	29	3,600	3,600
Policy loans		8,444	5,700
Interest receivables	30	12,003	13,659
Reinsurance assets	31	17,388	14,121
Deferred income tax assets	32	3,178	2,067
Insurance receivables	33	7,763	8,177
Other assets	34	3,932	5,026
Cash and short-term time deposits	35	16,561	23,875
Total assets		723,533	681,502

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET (continued)
31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2013	31 December 2012
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	9,062	9,062
Reserves	37	64,612	67,519
Retained profits	37	25,294	19,596
Equity attributable to equity holders of the parent		98,968	96,177
Minority interests		1,418	1,392
Total equity		100,386	97,569
Liabilities			
Long-term borrowings	38	188	-
Insurance contract liabilities	39	502,536	438,887
Investment contract liabilities	40	34,443	41,754
Policyholders' deposits		77	79
Subordinated debt	41	15,500	15,500
Securities sold under agreements to repurchase	42	25,199	50,143
Deferred income tax liabilities	32	1,021	958
Income tax payable		867	487
Premium received in advance		4,886	4,376
Policyholder dividend payable		13,875	11,711
Payables to reinsurers		4,703	3,514
Other liabilities	43	19,852	16,524
Total liabilities		623,147	583,933
Total equity and liabilities		723,533	681,502

Director

Director

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	2013								
	Attributable to equity holders of the parent								
		Reserves							
	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2013	9,062	66,742	2,698	(55)	(1,866)	19,596	96,177	1,392	97,569
Total comprehensive income	-	-	-	(9)	(3,289)	9,261	5,963	84	6,047
Dividend declared [1]	-	-	-	-	-	(3,172)	(3,172)	-	(3,172)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(58)	(58)
Appropriations to surplus reserves	-	-	391	-	-	(391)	-	-	-
At 31 December 2013	9,062	66,742	3,089	(64)	(5,155)	25,294	98,968	1,418	100,386

[1] Dividend declared represents the final dividend on ordinary shares declared for 2012, amounting to RMB3,172 million (RMB0.35 per share).

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
Year ended 31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	2012								
	Attributable to equity holders of the parent								
		Reserves							
	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2012	8,600	58,907	2,234	(55)	(10,883)	17,993	76,796	1,259	78,055
Total comprehensive income	-	-	-	-	9,017	5,077	14,094	204	14,298
Dividend declared [1]	-	-	-	-	-	(3,010)	(3,010)	-	(3,010)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(71)	(71)
Issue of shares	462	7,835	-	-	-	-	8,297	-	8,297
Appropriations to surplus reserves	-	-	464	-	-	(464)	-	-	-
At 31 December 2012	9,062	66,742	2,698	(55)	(1,866)	19,596	96,177	1,392	97,569

[1] Dividend declared represents the final dividend on ordinary shares declared for 2011, amounting to RMB3,010 million (RMB0.35 per share).

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2013**	**2012**
OPERATING ACTIVITIES			
Cash generated from operating activities	48	47,237	53,368
Income tax paid		(2,123)	(1,244)
Net cash inflow from operating activities		45,114	52,124
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(3,676)	(3,057)
Proceeds from sale of items of property and equipment, intangible assets and other assets		70	56
Purchases of investments, net		(48,108)	(91,693)
Acquisition of a subsidiary and interest in a joint venture		(389)	-
Interest received		29,540	21,848
Dividends received from investments		2,553	1,854
Net cash outflow from investing activities		(20,010)	(70,992)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		(24,908)	17,943
Proceeds from issuance of shares		-	8,314
Repayment of borrowings		(2)	-
Proceeds from issuance of subordinated debt		-	7,500
Interest paid		(2,440)	(1,768)
Dividends paid		(3,231)	(3,081)
Others		-	(12)
Net cash (outflow)/inflow from financing activities		(30,581)	28,896
Effects of exchange rate changes on cash and cash equivalents		(178)	(4)
Net (decrease)/increase in cash and cash equivalents		(5,655)	10,024
Cash and cash equivalents at beginning of year		24,990	14,966
Cash and cash equivalents at end of year		19,335	24,990
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		8,432	6,817
Time deposits with original maturity of no more than three months		7,697	16,794
Other monetary assets		432	264
Investments with original maturity of no more than three months		2,774	1,115
Cash and cash equivalents at end of year		19,335	24,990

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
BALANCE SHEET
31 December 2013

(All amounts expressed in RMB million unless otherwise specified)

Company	Notes	31 December 2013	31 December 2012
ASSETS			
Property and equipment	17	1,035	576
Investment properties	18	2,345	2,377
Intangible assets		34	30
Prepaid land lease payments	20	36	37
Investments in subsidiaries	21	54,813	54,663
Financial assets at fair value through profit or loss	23	41	37
Held-to-maturity financial assets	24	1,945	2,275
Available-for-sale financial assets	25	16,527	7,617
Investments classified as loans and receivables	26	-	1,200
Securities purchased under agreements to resell	27	100	-
Term deposits	28	6,407	7,672
Interest receivables		493	333
Deferred income tax assets		284	150
Other assets	34	339	186
Cash and short-term time deposits	35	2,762	9,550
Total assets		87,161	86,703
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	9,062	9,062
Reserves	37	68,404	68,423
Retained profits	37	8,897	8,543
Total equity		86,363	86,028
Liabilities			
Income tax payable		39	27
Due to subsidiaries		353	183
Other liabilities	43	406	465
Total liabilities		798	675
Total equity and liabilities		87,161	86,703

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

(All amounts expressed in Renminbi ("RMB") million unless otherwise specified)

1. CORPORATE INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

HKAS 19 Amendments	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 Amendments	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 Amendments	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 Amendments	Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRS 9	Financial Instruments[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[3]
HK(IFRIC)-Int 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Effective for annual periods beginning on or after 1 January 2016
[4] No mandatory effective date yet determined but is available for adoption

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

Amendments to HKAS 32 were issued in December 2011. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 9 was issued in November 2009. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Additions only affect the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group has not decided to early adopt HKFRS 9. The Group is in the process of making an assessment of the impact of the new standard.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. Currently, the Group expects that these amendments will not have significant impact on the Group's financial statements.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Changes in accounting policy and disclosures

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

HKAS 1 Amendments	Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 1 Amendments	Government Loans
HKFRS 7 Amendments	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Transition Guidance
HKFRS 13	Fair Value Measurement
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies

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

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries for the purpose of preparing the consolidated financial statements are prepared for the same reporting period, using consistent accounting policies. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Losses within a subsidiary are attributed to the minority interests even if this results in a deficit balance.

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(2) Foreign currency translation

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

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

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

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

(3) Subsidiaries

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(4) Investments in associates and joint ventures

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

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

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

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill (continued)

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

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

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

(6) Related parties

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

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

or

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(7) Property and equipment and depreciation

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(8) Investment properties

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

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

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

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

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

(9) Intangible assets (other than goodwill)

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

(10) Operating leases

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(11) Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity financial assets

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Available-for-sale financial assets

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

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

(12) Derivative financial instruments

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

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

(13) Fair value measurement

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(13) Fair value measurement (continued)

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

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

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

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

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability, less impairment losses. All transaction costs directly attributable to the acquisition are also included in the cost.

(14) Impairment of financial assets

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

Assets carried at amortized cost

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Assets carried at amortized cost (continued)

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

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

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

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

(15) Derecognition of financial assets

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(16) Securities purchased under agreements to resell

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(18) Reinsurance

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

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

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

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

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

(19) Cash and cash equivalents

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(20) Insurance contracts

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

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

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

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

(21) Testing the significance of insurance risk

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(21) Testing the significance of insurance risk (continued)

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

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

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

(22) Insurance contract liabilities

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(22) Insurance contract liabilities (continued)

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

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

- Expected future cash inflows represent cash inflows from assuming insurance contractual obligations, including premiums and other charges.

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

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

Margins for long-term life insurance contract reserves include a risk adjustment and a residual margin. The risk adjustment represents provision for the uncertainty associated with the future cash flows. The residual margin is provided to eliminate any gain at inception of the contract and is amortized over the life of the contract in a systematic manner. Upon initial recognition, the residual margin is separately measured from expected future cash outflows and the risk adjustment, and will not be adjusted for future changes in assumptions.

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(22) Insurance contract liabilities (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(22) Insurance contract liabilities (continued)

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

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

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

(23) Investment contract liabilities

Investment contract liabilities mainly represent liabilities with regard to the non-insurance portion of related contracts, and those contracts which do not pass the testing of significant insurance risk.

(24) Financial liabilities

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

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

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

Financial liabilities at fair value through profit or loss

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(25) Derecognition of financial liabilities

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

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

(26) Securities sold under agreements to repurchase

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

(27) Provisions

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

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

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

(28) Income tax

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(28) Income tax (continued)

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

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(29) Revenue recognition

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

(a) Gross premiums

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

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

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

(b) Income from investment contracts

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

Income from investment contracts is included in other operating income.

(c) Investment income

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(30) Employee benefits

(a) Pension schemes

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

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

(b) Housing benefits

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

(c) Medical benefits

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

(d) Long-term incentive plans

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

(31) Borrowing costs

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.3 Summary of principal accounting policies (continued)

(32) Dividends

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Significant judgements

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

(1) Classification of financial assets

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

(2) Unbundling and classification of hybrid contracts

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Significant judgements (continued)

(3) Measurement unit for insurance contracts

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

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

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

3.2 Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

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

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

Unearned premium and related reserves

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and related reserves (continued)

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by reference to the 750-day moving average bond yield curve, published on the "China Bond" website. A premium is added by considering the liquidity, taxation impacts and other relevant factors. The ranges of discount rates used as at 31 December 2012 and 2013 were from 3.12% to 6.29% and from 3.57% to 6.42%, respectively.

For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates. The ranges of discount rates used as at 31 December 2012 and 2013 were from 4.97% to 5.20% and from 4.90% to 5.20%, respectively.

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

(b) Mortality and morbidity

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and related reserves (continued)

(c) Loss ratios

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

(d) Surrender rates

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

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

(e) Expenses

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

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

(f) Policy dividend

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Claim reserves

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

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

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

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

(3) Deferred income tax assets

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.3 Change in accounting estimates

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

As at 31 December 2013, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2013 by approximately RMB3,761 million and a decrease in profit before tax for 2013 by approximately RMB3,761 million.

The above change in accounting estimates has been approved by the board of directors of the Company on 28 March 2014.

4. SEGMENT INFORMATION

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

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

The Group's operating segments are listed as follows:

- The life insurance segment offers a wide range of RMB life insurance;
- The property and casualty insurance segment provides a wide range of RMB and foreign-currency property and casualty insurance;
- Other businesses segment provides management services and usage of fund services.

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

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

In 2013, gross written premiums from transactions with the top five external customers amounted to 0.4% (2012: 2%) of the Group's total gross written premiums.

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2013

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Gross written premiums	95,101	81,744	413	(335)	81,822	-	-	176,923
Less: Premiums ceded to reinsurers	(1,605)	(13,984)	(41)	335	(13,690)	-	-	(15,295)
Net written premiums	93,496	67,760	372	-	68,132	-	-	161,628
Net change in unearned premium reserves	(228)	(1,759)	(16)	-	(1,775)	-	-	(2,003)
Net premiums earned	93,268	66,001	356	-	66,357	-	-	159,625
Investment income	26,588	3,342	27	-	3,369	1,026	(11)	30,972
Other operating income	768	320	-	-	320	2,095	(1,563)	1,620
Other income	27,356	3,662	27	-	3,689	3,121	(1,574)	32,592
Segment income	120,624	69,663	383	-	70,046	3,121	(1,574)	192,217
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(28,420)	-	-	-	-	-	-	(28,420)
Claims incurred	(1,849)	(43,584)	(224)	-	(43,808)	-	-	(45,657)
Changes in long-term life insurance contract liabilities	(55,056)	-	-	-	-	-	-	(55,056)
Policyholder dividends	(4,126)	-	-	-	-	-	-	(4,126)
Finance costs	(2,626)	(109)	-	-	(109)	(20)	-	(2,755)
Interest credited to investment contracts	(1,924)	-	-	-	-	-	-	(1,924)
Other operating and administrative expenses	(19,046)	(22,382)	(132)	-	(22,514)	(2,382)	1,577	(42,365)
Segment benefits, claims and expenses	(113,047)	(66,075)	(356)	-	(66,431)	(2,402)	1,577	(180,303)
Segment results	7,577	3,588	27	-	3,615	719	3	11,914
Share of losses of associates	(12)	(1)	-	-	(1)	-	13	-
Profit before tax	7,565	3,587	27	-	3,614	719	16	11,914
Income tax	(1,346)	(965)	(5)	-	(970)	(177)	(26)	(2,519)
Net profit for the year	6,219	2,622	22	-	2,644	542	(10)	9,395

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2013

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Investment in a joint venture	-	11	-	-	11	-	-	11
Financial assets *	413,007	51,186	399	-	51,585	20,088	(3)	484,677
Term deposits	119,696	18,045	-	-	18,045	6,576	-	144,317
Others	52,181	30,725	313	(323)	30,715	14,089	(2,457)	94,528
Segment assets	584,884	99,967	712	(323)	100,356	40,753	(2,460)	723,533
Insurance contract liabilities	444,761	57,703	276	(204)	57,775	-	-	502,536
Investment contract liabilities	34,443	-	-	-	-	-	-	34,443
Policyholders' deposits	11	66	-	-	66	-	-	77
Subordinated debt	15,500	-	-	-	-	-	-	15,500
Securities sold under agreements to repurchase	21,278	3,866	-	-	3,866	55	-	25,199
Others	29,954	13,530	183	(119)	13,594	4,219	(2,375)	45,392
Segment liabilities	545,947	75,165	459	(323)	75,301	4,274	(2,375)	623,147

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

Other segment information for the year ended 31 December 2013

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Depreciation and amortization	572	615	-	-	615	373	-	1,560
Capital expenditure	1,101	972	3	-	975	677	-	2,753
Impairment loss charges	1,227	(31)	1	-	(30)	66	-	1,263
Interest income	24,298	3,133	24	-	3,157	1,049	(12)	28,492
Unrealized gains from financial assets at fair value through profit or loss	20	3	-	-	3	(7)	-	16

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2012

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Gross written premiums	93,461	69,697	375	(305)	69,767	-	-	163,228
Less: Premiums ceded to reinsurers	(1,688)	(10,372)	(40)	305	(10,107)	-	-	(11,795)
Net written premiums	91,773	59,325	335	-	59,660	-	-	151,433
Net change in unearned premium reserves	(260)	(3,315)	(19)	-	(3,334)	-	-	(3,594)
Net premiums earned	91,513	56,010	316	-	56,326	-	-	147,839
Investment income	16,216	1,426	(3)	-	1,423	484	(63)	18,060
Other operating income	714	260	1	-	261	1,426	(1,143)	1,258
Other income	16,930	1,686	(2)	-	1,684	1,910	(1,206)	19,318
Segment income	108,443	57,696	314	-	58,010	1,910	(1,206)	167,157
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(20,596)	-	-	-	-	-	-	(20,596)
Claims incurred	(1,370)	(34,276)	(169)	-	(34,445)	-	-	(35,815)
Changes in long-term life insurance contract liabilities	(58,501)	-	-	-	-	-	-	(58,501)
Policyholder dividends	(3,905)	-	-	-	-	-	-	(3,905)
Finance costs	(2,088)	(185)	-	-	(185)	(15)	-	(2,288)
Interest credited to investment contracts	(1,715)	-	-	-	-	-	-	(1,715)
Other operating and administrative expenses	(17,830)	(19,566)	(124)	-	(19,690)	(1,847)	1,143	(38,224)
Segment benefits, claims and expenses	(106,005)	(54,027)	(293)	-	(54,320)	(1,862)	1,143	(161,044)
Segment results	2,438	3,669	21	-	3,690	48	(63)	6,113
Share of losses of associates	(26)	(1)	-	-	(1)	-	27	-
Profit before tax	2,412	3,668	21	-	3,689	48	(36)	6,113
Income tax	83	(1,009)	(4)	-	(1,013)	(63)	10	(983)
Net profit/(loss) for the year	2,495	2,659	17	-	2,676	(15)	(26)	5,130

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2012

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Financial assets *	364,743	44,778	446	-	45,224	12,428	(3)	422,392
Term deposits	139,335	17,105	-	-	17,105	7,857	-	164,297
Others	50,904	27,009	265	(275)	26,999	19,106	(2,196)	94,813
Segment assets	554,982	88,892	711	(275)	89,328	39,391	(2,199)	681,502
Insurance contract liabilities	387,674	51,125	259	(171)	51,213	-	-	438,887
Investment contract liabilities	41,754	-	-	-	-	-	-	41,754
Policyholders' deposits	11	68	-	-	68	-	-	79
Subordinated debt	15,500	-	-	-	-	-	-	15,500
Securities sold under agreements to repurchase	48,517	1,530	-	-	1,530	96	-	50,143
Others	23,800	12,096	195	(104)	12,187	3,726	(2,143)	37,570
Segment liabilities	517,256	64,819	454	(275)	64,998	3,822	(2,143)	583,933

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

Other segment information for the year ended 31 December 2012

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Depreciation and amortization	505	481	1	-	482	359	-	1,346
Capital expenditure	1,130	1,589	1	-	1,590	176	-	2,896
Impairment loss charges	3,227	966	25	-	991	260	-	4,478
Interest income	20,818	3,004	21	-	3,025	939	(16)	24,766
Unrealized losses from financial assets at fair value through profit or loss	68	31	-	-	31	-	-	99

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION

Particulars of the Company's incorporated subsidiaries as at 31 December 2013 are as follows:

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Property and casualty insurance	Shanghai	The PRC	73337320-X	18,000,000	18,000,000	98.50	-	98.50	
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Life insurance	Shanghai	The PRC	73337090-6	7,600,000	7,600,000	98.29	-	98.29	
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Investment management	Shanghai	Shanghai	78954956-9	500,000	500,000	80.00	19.67	100.00	
China Pacific Insurance Co., (H.K.) Ltd.	Property and casualty insurance	Hong Kong	Hong Kong	Not applicable	HK$250,000 thousand	HK$250,000 thousand	100.00	-	100.00	
Shanghai Pacific Real Estate Co., Ltd.	Management of properties	Shanghai	Shanghai	13370078-0	115,000	115,000	100.00	-	100.00	
Fenghua Xikou Garden Hotel	Hotel operations	Zhejiang	Zhejiang	72639899-4	8,000	8,000	-	98.39	100.00	
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Pension fund management business	Shanghai	Shanghai	66246731-2	787,610	787,610	-	51.00	51.75	
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Investment management	Hong Kong	Hong Kong	Not applicable	HK$50,000 thousand	HK$50,000 thousand	49.00	50.83	100.00	(1)

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
City Island Developments Limited ("City Island")	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$1,000	-	98.29	100.00	
Great Winwick Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	-	98.29	100.00	
Great Winwick (Hong Kong) Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	-	98.29	100.00	
Newscott Investments Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	-	98.29	100.00	
Newscott (Hong Kong) Investments Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	-	98.29	100.00	
Shanghai Xinhui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60720379-5	US$15,600 thousand	US$15,600 thousand	-	98.29	100.00	
Shanghai Hehui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60732576-8	US$46,330 thousand	US$46,330 thousand	-	98.29	100.00	
Pacific Insurance Online Services Technology Co., Ltd.	Consulting services, etc	Shandong	The PRC	58877325-7	200,000	200,000	100.00	-	100.00	
Tianjin Trophy Real Estate Co., Ltd. ("Tianjin Trophy")	Real estate	Tianjin	Tianjin	66306432-0	353,690	353,690	-	98.29	100.00	(2)

* Subsidiaries of City Island

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(1) On 28 August 2013, CPIC Investment (H.K.) submitted to the Securities and Futures Commission (the "SFC") a request for cessation of business. As at the date of approval of these financial statements, the request was being processed by the SFC.

(2) Acquisition of Tianjin Trophy

In May 2013, CPIC Life acquired the entire 100% equity interest of Tianjin Trophy with a total consideration of approximately RMB414 million in cash. The Group gained control of Tianjin Trophy on 31 May 2013, which was regarded as the acquisition date.

The fair value of the identifiable assets and liabilities acquired as at the acquisition date is set out below:

Assets:	
Investment properties	623
Cash and cash equivalents	27
Other assets	20
	670
Liabilities:	
Long-term borrowings	(188)
Deferred income tax liabilities	(42)
Other liabilities	(16)
	(246)
Total identifiable net assets at fair value	424
Gain on bargain purchase recognised in other operating income in the consolidated income statement	(10)
Total consideration in cash	414

An analysis of the net cash flows in respect of the acquisition is as follows:

Cash and bank balances acquired	10
Cash equivalents acquired	17
Consideration to be paid	9
Total consideration in cash	(414)
Net cash outflow	(378)

From the date of acquisition, Tianjin Trophy has contributed approximately total income of RMB21 million, net profit of RMB2 million and net cash outflow of RMB14 million to the Group's consolidated financial statement for the year ended 31 December 2013.

From the date of acquisition to 31 December 2013, the Group did not dispose of nor has it any intention to dispose of any significant assets or liabilities of Tianjin Trophy.

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2013	2012
Long-term life insurance premiums	89,454	88,511
Short-term life insurance premiums	5,647	4,950
Property and casualty insurance premiums	81,822	69,767
	176,923	163,228

(b) Premiums ceded to reinsurers

	2013	2012
Long-term life insurance premiums ceded to reinsurers	(1,418)	(1,446)
Short-term life insurance premiums ceded to reinsurers	(187)	(242)
Property and casualty insurance premiums ceded to reinsurers	(13,690)	(10,107)
	(15,295)	(11,795)

(c) Net written premiums

	2013	2012
Net written premiums	161,628	151,433

7. INVESTMENT INCOME

	2013	2012
Interest and dividend income (a)	31,046	26,618
Realized gains/(losses) (b)	1,231	(4,244)
Unrealized gains (c)	16	99
Charge of impairment losses on financial assets	(1,321)	(4,413)
	30,972	18,060

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2013	2012
Financial assets at fair value through profit or loss		
- Fixed maturity investments	16	17
- Investment funds	19	7
- Equity securities	23	1
	58	25
Held-to-maturity financial assets		
- Fixed maturity investments	12,542	10,298
Loans and receivables		
- Fixed maturity investments	11,231	11,197
Available-for-sale financial assets		
- Fixed maturity investments	4,703	3,254
- Investment funds	1,171	915
- Equity securities	1,180	885
- Other equity investments	161	44
	7,215	5,098
	31,046	26,618

(b) Realized gains/(losses)

	2013	2012
Financial assets at fair value through profit or loss		
- Fixed maturity investments	51	(30)
- Investment funds	1	28
- Equity securities	50	7
	102	5
Available-for-sale financial assets		
- Fixed maturity investments	(101)	(138)
- Investment funds	556	(1,528)
- Equity securities	674	(2,583)
	1,129	(4,249)
	1,231	(4,244)

(c) Unrealized gains

	2013	2012
Financial assets at fair value through profit or loss		
- Fixed maturity investments	37	100
- Investment funds	(12)	(13)
- Equity securities	(9)	12
	16	99

(All amounts expressed in RMB million unless otherwise specified)

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2013		
	Gross	Ceded	Net
Life insurance death and other benefits paid	28,917	(497)	28,420
Claims incurred			
- Short-term life insurance	1,852	(3)	1,849
- Property and casualty insurance	50,796	(6,988)	43,808
Changes in long-term life insurance contract liabilities	55,697	(641)	55,056
Policyholder dividends	4,126	-	4,126
	141,388	(8,129)	133,259

	2012		
	Gross	Ceded	Net
Life insurance death and other benefits paid	21,154	(558)	20,596
Claims incurred			
- Short-term life insurance	1,562	(192)	1,370
- Property and casualty insurance	40,377	(5,932)	34,445
Changes in long-term life insurance contract liabilities	59,027	(526)	58,501
Policyholder dividends	3,905	-	3,905
	126,025	(7,208)	118,817

9. FINANCE COSTS

	2013	2012
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	1,539	1,391
- Interest expense on policyholder dividends	420	328
- Others	4	4
	1,963	1,723
Non-current liabilities		
- Interest expense on subordinated debt	784	565
- Long-term borrowings	8	-
	792	565
	2,755	2,288

(All amounts expressed in RMB million unless otherwise specified)

10. PROFIT BEFORE TAX

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

	2013	2012
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	10,792	10,707
Auditors' remuneration	17	17
Operating lease payments in respect of land and buildings	808	752
Depreciation of property and equipment (note 17)	1,046	903
Depreciation of investment properties (note 18)	215	203
Amortization of other intangible assets (note 19)	273	212
Amortization of prepaid land lease payments (note 20)	1	2
Amortization of other assets	25	26
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(3)	(22)
(Reversal)/charge of impairment loss on insurance receivables	(49)	49
Charge of impairment loss on financial assets (note 7)	1,321	4,413
Foreign exchange loss, net	280	11

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

	2013	2012
Salaries, allowances and other short-term benefits	8,707	8,890
Contributions to defined contribution plans (1)	1,943	1,681
Early retirement benefit obligation	58	33
Long-term incentive (2)	84	103
	10,792	10,707

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

(2) In order to motivate senior management and certain key employees, the Group operates long-term incentive plans.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

(in RMB thousand)	2013	2012
Fees	1,379	1,400
Other remuneration		
- Salaries, allowances and other short-term benefits	10,853	8,584
- Contributions to defined contribution plans	1,090	951
- Long-term incentive paid (1)	2,891	2,384
	14,834	11,919
	16,213	13,319

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(1) This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

(a) Independent non-executive directors

Included in the fees is an amount of RMB1,379 thousand paid to independent non-executive directors for the year ended 31 December 2013 (2012: RMB1,400 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2013.

(in RMB thousand)	**2013**				
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan[1]	150	-	-	-	150
XIAO Wei[1]	125	-	-	-	125
YUEN Tin Fan[1]	150	-	-	-	150
CHANG Tso Tung, Stephen[1]	150	-	-	-	150
XU Shanda[1]	125	-	-	-	125
LIN Zhiquan[2]	150	-	-	-	150
ZHOU Zhonghui[2]	150	-	-	-	150
BAI Wei[2]	125	-	-	-	125
HUO Guangwen[2]	150	-	-	-	150
ZHANG Yansheng[2,3]	104	-	-	-	104
	1,379	-	-	-	1,379

[1.] Retired with effect from June 2013
[2.] Independent non-executive director since July 2013
[3.] Resigned with effect from November 2013

(in RMB thousand)	**2012**				
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	300	-	-	-	300
XIAO Wei	250	-	-	-	250
YUEN Tin Fan	300	-	-	-	300
CHANG Tso Tung, Stephen	300	-	-	-	300
XU Shanda	250	-	-	-	250
	1,400	-	-	-	1,400

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

(in RMB thousand)	**2013**			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu [1]	664	1,915	291	2,870
HUO Lianhong [1]	686	1,735	278	2,699
Non-executive directors:				
YANG Xianghai	-	250	-	250
WANG Chengran	-	250	-	250
Cheng Feng[2,4]	-	104	-	104
Sun Xiaoning[2]	-	-	-	-
ZHENG Anguo	-	250	-	250
WU Jumin	-	250	-	250
WU Junhao	-	250	-	250
XU Fei[3]	-	125	-	125
YANG Xiangdong[3]	-	125	-	125
FENG Junyuan, Janine[3]	-	125	-	125
	1,350	5,379	569	7,298

[1] According to the policies of the relevant authorities in China, the final amounts of remuneration for the executive directors are currently subject to review and approval. The remaining portion of the remuneration will be disclosed when it is confirmed.
[2.] Non-executive director since July 2013
[3.] Retired with effect from June 2013
[4.] Resigned with effect from November 2013

(in RMB thousand)	**2012**			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu *	289	1,608	293	2,190
HUO Lianhong *	314	1,458	277	2,049
Non-executive directors:				
YANG Xianghai	-	250	-	250
ZHOU Ciming	-	104	-	104
WANG Chengran	-	250	-	250
ZHENG Anguo	-	250	-	250
WU Jumin	-	250	-	250
XU Fei	-	250	-	250
YANG Xiangdong	-	250	-	250
FENG Junyuan, Janine	-	250	-	250
WU Junhao	-	104	-	104
	603	5,024	570	6,197

* As at 31 December 2012, part of the two executive directors' remuneration was subject to review and approval and thus not included in the above amount. With the relevant approval obtained in 2013, the total remuneration for Mr. Gao Guofu and Mr. Huo Lianhong for 2012 amounted to RMB2,871 thousand and RMB2,700 thousand, respectively.

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB250,000 (before tax) per year. In May 2011, the 2010 annual general meeting resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. Except for SUN Xiaoning, the non-executive director, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2013.

(c) Supervisors

(in RMB thousand)	**2013**			
	Long-term Incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
ZHOU Zhuping[1]	-	125	-	125
Dai Zhihao[2]	-	125	-	125
ZHANG Jianwei	-	250	-	250
LIN Lichun	-	250	-	250
SONG Junxiang	1,262	3,197	250	4,709
HE Jihai[1]	202	642	132	976
Yuan Songwen[2]	77	885	139	1,101
	1,541	5,474	521	7,536

[1.] Retired with effect from June 2013
[2.] Supervisor since July 2013

(in RMB thousand)	**2012**			
	Long-term Incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
ZHOU Zhuping	-	250	-	250
ZHANG Jianwei	-	250	-	250
LIN Lichun	-	250	-	250
SONG Junxiang	1,575	2,152	248	3,975
HE Jihai	206	658	133	997
	1,781	3,560	381	5,722

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing supervisors (excluding employees' representative supervisors) is RMB250,000 (before tax) per year. There was no arrangement under which a supervisor waived or agreed to waive any remuneration during 2013.

(All amounts expressed in RMB million unless otherwise specified)

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose remuneration was the highest in the Group include no director for the years ended 31 December 2013 and 2012.

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

	2013	2012
Nil to RMB1,000,000	-	-
RMB1,000,001 to RMB2,000,000	-	-
RMB2,000,001 to RMB3,000,000	-	-
RMB3,000,001 to RMB4,000,000	-	-
RMB4,000,001 to RMB5,000,000	2	4
RMB5,000,001 to RMB6,000,000	2	1
RMB6,000,001 to RMB7,000,000	1	-
RMB7,000,001 to RMB8,000,000	-	-
Total	5	5

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

(in RMB thousand)	**2013**	**2012**
Salaries, allowances and other short-term benefits	20,180	15,143
Contributions to defined contribution plans	1,280	1,262
Long-term incentive paid (1)	5,187	6,297
	26,647	22,702
The number of non-director individuals for the above remuneration	5	5

(1) This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

In 2013 and 2012, no emoluments were paid by the Group to any of these non-director individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2013	2012
Current income tax	2,504	1,106
Deferred income tax (note 32)	15	(123)
	2,519	983

(b) Tax recorded in other comprehensive income

	2013	2012
Deferred income tax (note 32)	(1,105)	3,034

(c) Reconciliation of tax expense

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

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

	2013	2012
Profit before tax	11,914	6,113
Tax computed at the statutory tax rate	2,979	1,528
Adjustments to income tax in respect of previous periods	(60)	(27)
Income not subject to tax	(1,082)	(877)
Expenses not deductible for tax	637	421
Others	45	(62)
Tax expense at the Group's effective rate	2,519	983

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	2013	2012
Consolidated net profit for the year attributable to equity holders of the parent	9,261	5,077
Weighted average number of ordinary shares in issue (million)	9,062	8,639
Basic earnings per share	RMB1.02	RMB0.59
Diluted earnings per share	RMB1.02	RMB0.59

The Company had no dilutive potential ordinary shares as at 31 December 2013 and 2012.

16. OTHER COMPREHENSIVE (LOSS)/INCOME

	2013	2012
Exchange differences on translation of foreign operations	(9)	-
Available-for-sale financial assets		
(Losses)/gains arising during the year	(4,702)	3,554
Reclassification adjustments for (gains)/ losses included in profit or loss	(1,129)	4,249
Fair value change on available-for-sale financial assets attributable to policyholders	66	(14)
Impairment charges reclassified to the income statement	1,321	4,413
	(4,444)	12,202
Income tax relating to available-for-sale financial assets	1,105	(3,034)
	(3,339)	9,168
Other comprehensive (loss)/income	(3,348)	9,168

(All amounts expressed in RMB million unless otherwise specified)

17. PROPERTY AND EQUIPMENT

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2012	5,588	1,573	772	3,386	1,101	12,420
Additions	118	1,479	135	505	181	2,418
Transfer	944	(944)	-	-	-	-
Transfer from investment properties, net (note 18)	20	-	-	-	-	20
Disposals	-	-	(59)	(122)	-	(181)
At 31 December 2012	6,670	2,108	848	3,769	1,282	14,677
Additions	145	1,453	106	407	166	2,277
Transfer	1,616	(1,616)	-	-	-	-
Transfer to investment properties, net (note 18)	(40)	-	-	-	-	(40)
Acquisition of a subsidiary	1	-	-	4	-	5
Disposals	(17)	-	(66)	(159)	-	(242)
At 31 December 2013	8,375	1,945	888	4,021	1,448	16,677
Accumulated depreciation and impairment						
At 1 January 2012	(1,358)	-	(382)	(2,252)	(595)	(4,587)
Depreciation charge	(196)	-	(99)	(427)	(181)	(903)
Transfer to investment properties, net (note 18)	1	-	-	-	-	1
Disposals	-	-	56	120	-	176
At 31 December 2012	(1,553)	-	(425)	(2,559)	(776)	(5,313)
Depreciation charge	(243)	-	(109)	(499)	(195)	(1,046)
Transfer to investment properties, net (note 18)	2	-	-	-	-	2
Acquisition of a subsidiary	-	-	-	(3)	-	(3)
Disposals	6	-	65	154	-	225
At 31 December 2013	(1,788)	-	(469)	(2,907)	(971)	(6,135)
Net book value						
At 31 December 2012	5,117	2,108	423	1,210	506	9,364
At 31 December 2013	6,587	1,945	419	1,114	477	10,542

(All amounts expressed in RMB million unless otherwise specified)

17. PROPERTY AND EQUIPMENT (continued)

Company	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold Improvements	Total
Cost						
At 1 January 2012	396	1	11	440	237	1,085
Additions	-	75	-	62	(49)	88
Disposals	-	-	(1)	(9)	-	(10)
Transfer from investment properties, net (note 18)	26	-	-	-	-	26
At 31 December 2012	422	76	10	493	188	1,189
Additions	-	597	1	30	(8)	620
Disposals	-	-	-	(13)	-	(13)
Transfer to investment properties, net (note 18)	(57)	-	-	-	-	(57)
At 31 December 2013	365	673	11	510	180	1,739
Accumulated depreciation and impairment						
At 1 January 2012	(97)	-	(6)	(329)	(85)	(517)
Depreciation charge	(13)	-	(2)	(58)	(31)	(104)
Disposals	-	-	1	8	-	9
Transfer from investment properties, net (note 18)	(1)	-	-	-	-	(1)
At 31 December 2012	(111)	-	(7)	(379)	(116)	(613)
Depreciation charge	(11)	-	(1)	(63)	(27)	(102)
Disposals	-	-	-	9	-	9
Transfer to investment properties, net(note 18)	2	-	-	-	-	2
At 31 December 2013	(120)	-	(8)	(433)	(143)	(704)
Net book value						
At 31 December 2012	311	76	3	114	72	576
At 31 December 2013	245	673	3	77	37	1,035

(All amounts expressed in RMB million unless otherwise specified)

18. INVESTMENT PROPERTIES

	Group	Company
Cost		
At 1 January 2012	6,745	2,649
Transfer to property and equipment, net	(20)	(26)
At 31 December 2012	6,725	2,623
Acquisition of subsidiaries	623	-
Transfer from property and equipment, net	40	57
At 31 December 2013	7,388	2,680
Accumulated depreciation		
At 1 January 2012	(172)	(163)
Depreciation charge	(203)	(84)
Transfer (from)/to property and equipment, net	(1)	1
At 31 December 2012	(376)	(246)
Depreciation charge	(215)	(87)
Transfer from property and equipment, net	(2)	(2)
At 31 December 2013	(593)	(335)
Carrying amount		
At 31 December 2012	6,349	2,377
At 31 December 2013	6,795	2,345

The fair values of investment properties of the Group and the Company as at 31 December 2013 amounted to RMB8,356 million and RMB3,721 million (31 December 2012: RMB7,567 million and RMB3,645 million), respectively, which were estimated by the Company having regard to valuations performed by independent valuers. The Company leases part of its investment properties to CPIC Property, CPIC Life, CPIC Asset Management, CPIC Online and Changjiang Pension charges rentals based on the areas occupied by the respective entities. These properties are categorized as property and equipment of the Group in the consolidated balance sheet.

As at 31 December 2013, the investment property of the Group amounted to RMB614 million was pledged as security for the Group's long-term borrowings with carrying value of RMB188 million.

(All amounts expressed in RMB million unless otherwise specified)

19. OTHER INTANGIBLE ASSETS

Group	Software
Cost	
At 1 January 2012	1,255
Additions	418
Disposal	(4)
At 31 December 2012	1,669
Additions	442
At 31 December 2013	2,111
Accumulated amortization	
At 1 January 2012	(722)
Amortization	(212)
Disposal	3
At 31 December 2012	(931)
Amortization	(273)
At 31 December 2013	(1,204)
Carrying amount	
At 31 December 2012	738
At 31 December 2013	907

20. PREPAID LAND LEASE PAYMENTS

	Group	**Company**
Cost		
At 1 January 2012	27	-
Additions	38	38
At 31 December 2012 and 31 December 2013	65	38
Accumulated amortization		
At 1 January 2012	(3)	-
Amortization	(2)	(1)
At 31 December 2012	(5)	(1)
Amortization	(1)	(1)
At 31 December 2013	(6)	(2)
Carrying amount		
At 31 December 2012	60	37
At 31 December 2013	59	36

Land use rights are acquired under the PRC laws for fixed periods, and the related costs are amortized on the straight-line basis. All of the Group's land use rights are related to pieces of land located in the PRC. The costs of the land use rights are amortized over the lease terms ranging from 30 to 50 years.

(All amounts expressed in RMB million unless otherwise specified)

21. INVESTMENTS IN SUBSIDIARIES

Company	**31 December 2013**	**31 December 2012**
Unlisted shares, at cost	54,813	54,663

Particulars of the Company's subsidiaries as at 31 December 2013 are set out in note 5.

The amounts due from and to subsidiaries are disclosed in note 34 or on the face of the Company's balance sheet. The amounts are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of the amounts due from and to subsidiaries approximate their fair values.

22. INVESTMENT IN A JOINT VENTURE

Group	**31 December 2013**	**31 December 2012**
Share of net assets	11	-

In 2013, CPIC Property and a third party set up a project company named Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd ("Binjiang-Xiangrui") to develop a parcel of land located in Huangpu District, Shanghai as the owner of the land use right to this parcel of land.

Particulars of the joint venture as at 31 December 2013 are as follow:

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Binjiang-Xiangrui	Shanghai	-	35.16%	35.70%	150,000	30,000	Real estate

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

	2013 (RMB thousand)	2012 (RMB thousand)
Share of the joint venture's net loss:	(7)	-
Share of the joint venture's other comprehensive income:	-	-

As at 31 December 2013, the Group's investment in a joint venture .had no impairment. The Group received no cash dividend from Binjiang-Xiangrui.

(All amounts expressed in RMB million unless otherwise specified)

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Group	**31 December 2013**	**31 December 2012**
Listed		
Equity investments		
- Equity securities	1,071	194
- Investment funds	148	97
Debt investments		
- Government bonds	7	32
- Finance bonds	3,171	1,098
- Corporate bonds	29	44
	4,426	1,465
Unlisted		
Equity investments		
- Investment funds	500	249
	4,926	1,714

Company	**31 December 2013**	**31 December 2012**
Listed		
Equity investments		
- Investment funds	6	5
Debt investments		
- Government bonds	7	32
- Finance bonds	22	-
- Corporate bonds	6	-
	41	37

(All amounts expressed in RMB million unless otherwise specified)

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

Group	**31 December 2013**	**31 December 2012**
Listed		
Debt investments		
- Government bonds	1,354	2,187
- Finance bonds	5,575	60
- Corporate bonds	9,665	9,234
	16,594	11,481
Unlisted		
Debt investments		
- Government bonds	50,222	50,220
- Finance bonds	110,275	112,053
- Corporate bonds	85,851	75,012
	246,348	237,285
	262,942	248,766

Company	**31 December 2013**	**31 December 2012**
Listed		
Debt investments		
- Corporate bonds	1,012	1,021
Unlisted		
Debt investments		
- Finance bonds	833	1,053
- Corporate bonds	100	201
	933	1,254
	1,945	2,275

(All amounts expressed in RMB million unless otherwise specified)

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Group	**31 December 2013**	**31 December 2012**
Listed		
Equity investments		
- Equity securities	30,130	26,864
- Investment funds	8,508	9,073
Debt investments		
- Government bonds	10	46
- Finance bonds	1,063	992
- Corporate bonds	18,892	20,804
- Wealth management products	540	-
	59,143	57,779
Unlisted		
Equity investments		
- Investment funds	24,370	19,097
- Wealth management products	1,815	-
- Other equity investments	8,576	7,141
Debt investments		
- Government bonds	108	2
- Finance bonds	12,423	19,160
- Corporate bonds	68,970	32,636
- Wealth management products	84	-
	116,346	78,036
	175,489	135,815

Company	**31 December 2013**	**31 December 2012**
Listed		
Equity investments		
- Equity securities	637	934
- Investment funds	853	670
Debt investments		
- Finance bonds	826	748
- Corporate bonds	1,270	1,250
	3,586	3,602
Unlisted		
Equity investments		
- Investment funds	1,787	-
Debt investments		
- Finance bonds	484	500
- Corporate bonds	10,670	3,515
	12,941	4,015
	16,527	7,617

(All amounts expressed in RMB million unless otherwise specified)

26. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

Group	**31 December 2013**	**31 December 2012**
Debt investments		
- Finance bonds	5,639	7,426
- Debt investment scheme	34,545	28,341
- Wealth management products	1,136	330
	41,320	36,097

Company	**31 December 2013**	**31 December 2012**
Debt investments		
- Finance bonds	-	1,200

As at 31 December 2013, CPIC Asset Management, a subsidiary of the Group, issued 28 debt investment schemes with a total value of RMB637 billion. The carrying amounts recognized in the Group's consolidated financial statements is approximately RMB30,866 million. Meanwhile, the Group also had investments in debt schemes launched by other insurance asset management companies with a value of approximately RMB3,679 million. The majority of the debt schemes invested by the Group were guaranteed by third parties or pledge. For debt schemes launched by CPIC Asset Management and invested by the Group, the Group did not provide any guarantees or financial support. The Group's maximum exposure to loss in the debt schemes is limited to its carrying amounts.

27. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Group	**31 December 2013**	**31 December 2012**
Securities - bonds		
Inter-bank market	1,494	1,109
Stock exchange	900	6
	2,394	1,115

Company	**31 December 2013**	**31 December 2012**
Securities - bonds		
Inter-bank market	100	-

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

(All amounts expressed in RMB million unless otherwise specified)

28. TERM DEPOSITS

Group	31 December 2013	31 December 2012
1 month to 3 months (including 3 months)	1,330	1,564
3 months to 1 year (including 1 year)	3,007	41,923
1 to 2 years (including 2 years)	25,910	1,030
2 to 3 years (including 3 years)	47,980	25,910
3 to 4 years (including 4 years)	45,000	47,980
4 to 5 years (including 5 years)	20,950	45,000
More than 5 years	140	890
	144,317	164,297

Company	31 December 2013	31 December 2012
1 month to 3 months (including 3 months)	9	508
3 months to 1 year (including 1 year)	2,898	3,664
1 to 2 years (including 2 years)	2,000	-
2 to 3 years (including 3 years)	1,500	2,000
3 to 4 years (including 4 years)	-	1,500
	6,407	7,672

29. RESTRICTED STATUTORY DEPOSITS

	31 December 2013	31 December 2012
At 31 December 2012	3,600	3,580
Movement	-	20
At 31 December 2013	3,600	3,600

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

(All amounts expressed in RMB million unless otherwise specified)

29. RESTRICTED STATUTORY DEPOSITS (continued)

	As at 31 December 2013		
	Amount	Storage	Period
CPIC Property			
Bank of Communications	818	Term deposit	5 years
Commercial Bank of China	100	Term deposit	5 years
China Construction Bank	100	Term deposit	5 years
China Minsheng Bank	240	Term deposit	5 years
China Merchants Bank	642	Term deposit	5 years
Subtotal	1,900		
CPIC Life			
Bank of Communications	680	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
Bank of China	500	Term deposit	5 years and 6 months
Subtotal	1,520		
Changjiang Pension			
Bank of Communications	30	Term deposit	5 years
China Minsheng Bank	150	Term deposit	5 years and 1 month
Subtotal	180		
Total	3,600		

	As at 31 December 2012		
	Amount	Storage	Period
CPIC Property			
Bank of Communications	288	Term Deposit	3 years
Bank of Communications	530	Term Deposit	5 years
Commercial Bank of China	100	Term Deposit	5 years
China Construction Bank	100	Term Deposit	5 years
China Minsheng Bank	240	Term Deposit	5 years
China Merchants Bank	368	Term Deposit	5 years
China Merchants Bank	274	Term Deposit	3 years
Subtotal	1,900		
CPIC Life			
Bank of Communications	680	Term Deposit	5 years
China Minsheng Bank	340	Term Deposit	5 years
Bank of China	500	Term Deposit	5 years and 6 months
Subtotal	1,520		
Changjiang Pension			
Bank of Communications	30	Term Deposit	5 years
China Minsheng Bank	150	Term Deposit	5 years and 1 month
Subtotal	180		
Total	3,600		

(All amounts expressed in RMB million unless otherwise specified)

30. INTEREST RECEIVABLES

Group	31 December 2013	31 December 2012
Interest receivables from deposits	5,067	7,990
Interest receivables from debt investments	6,680	5,495
Interest receivables from loans	255	175
Interest receivables from securities purchased under agreements to resell	2	-
	12,004	13,660
Less: Bad debt provision	(1)	(1)
	12,003	13,659

31. REINSURANCE ASSETS

Group	31 December 2013	31 December 2012
Reinsurers' share of insurance contracts (note 39)	17,388	14,121

32. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

Group	2013	2012
Net deferred income tax assets, at beginning of year	1,109	4,020
Acquisition of a subsidiary	(42)	-
Recognized in profit or loss (note 14(a))	(15)	123
Recognized in other comprehensive income (note 14(b))	1,105	(3,034)
Net deferred income tax assets, at end of year	2,157	1,109

(All amounts expressed in RMB million unless otherwise specified)

32. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Group	31 December 2013	31 December 2012
Insurance contract liabilities	133	84
Impairment of assets	494	610
Commissions and handling fees	209	194
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	1,733	628
Fair value adjustments arising from acquisition of a subsidiary	(877)	(862)
Tax losses carried forward	-	32
Others	465	423
Net deferred income tax assets	2,157	1,109
Represented by:		
Deferred tax assets	3,178	2,067
Deferred tax liabilities	(1,021)	(958)

33. INSURANCE RECEIVABLES

Group	31 December 2013	31 December 2012
Insurance receivables	7,982	8,449
Provision for impairment of insurance receivables	(219)	(272)
	7,763	8,177

An aged analysis of the insurance receivables is as follows:

Group	31 December 2013	31 December 2012
Within 3 months (including 3 months)	6,027	6,509
Over 3 months and within 1 year (including 1 year)	1,155	1,162
Over 1 year	581	506
	7,763	8,177

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

33. INSURANCE RECEIVABLES (continued)

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

Group	**31 December 2013**	**31 December 2012**
Insurance receivables that are individually determined to be impaired	193	190
Related provision for impairment	(193)	(190)
	-	-

34. OTHER ASSETS

Group	**31 December 2013**	**31 December 2012**
Due from a related-party (1)	1,034	-
Tax receivable other than income tax	1,008	2,830
Receivable from securities clearance	205	767
Due from agents	166	136
Co-insurance receivable	107	69
Others	1,412	1,224
	3,932	5,026

Company	**31 December 2013**	**31 December 2012**
Due from subsidiaries	204	149
Construction pre-payments	61	-
Others	74	37
	339	186

(1) As at 31 December 2013, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses amounted to approximately RMB1,034 million.

(All amounts expressed in RMB million unless otherwise specified)

35. CASH AND SHORT-TERM TIME DEPOSITS

Group	**31 December 2013**	**31 December 2012**
Cash at banks and on hand	8,432	6,817
Time deposits with original maturity of no more than three months	7,697	16,794
Other monetary assets	432	264
	16,561	23,875

Company	**31 December 2013**	**31 December 2012**
Cash at banks and on hand	367	262
Time deposits with original maturity of no more than three months	2,091	9,119
Other monetary assets	304	169
	2,762	9,550

The Group's bank balances denominated in RMB amounted to RMB12,523 million as at 31 December 2013 (31 December 2012: RMB16,349 million). Under PRC's foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business after obtaining approval from foreign exchange regulatory authorities.

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

36. ISSUED CAPITAL

Group and Company	**31 December 2013**	**31 December 2012**
Number of shares issued and fully paid at RMB1 each (million)	9,062	9,062

(All amounts expressed in RMB million unless otherwise specified)

37. RESERVES AND RETAINED PROFITS

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

(a) Capital reserve

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

(b) Surplus reserves

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

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

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

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

Of the Group's retained profits, RMB4,605 million as at 31 December 2013 (31 December 2012: RMB3,707 million) represents the Company's share of its subsidiaries' surplus reserve fund.

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

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

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

(c) General reserve

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

Of the Group's retained profits, RMB4,544 million as at 31 December 2013 (31 December 2012: RMB3,675 million) represents the Company's share of its subsidiaries' general reserve.

(All amounts expressed in RMB million unless otherwise specified)

37. RESERVES AND RETAINED PROFITS (continued)

(d) Other reserves

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

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. Pursuant to the resolution of the 4th meeting of the Company's 7th term of board of directors held on 28 March 2014, a final dividend of approximately RMB3,625 million (equivalent to RMB0.4 per share (including tax)) was proposed after the appropriation of statutory surplus reserve and is subject to the approval of the forthcoming annual general meeting.

(f) The movements in reserves and retained profits of the Company are set out below:

Company	Capital reserve	Surplus Reserves	Available-for-sale investment revaluation reserve	Total	Retained Profits
At 1 January 2012	58,329	1,930	(563)	59,696	7,380
Total comprehensive income for the year	-	-	428	428	4,637
Issue of shares	7,835	-	-	7,835	-
Dividend declared	-	-	-	-	(3,010)
Appropriations to surplus reserves	-	464	-	464	(464)
At 31 December 2012	66,164	2,394	(135)	68,423	8,543
At 1 January 2013	66,164	2,394	(135)	68,423	8,543
Total comprehensive income for the year	-	-	(410)	(410)	3,917
Dividend declared	-	-	-	-	(3,172)
Appropriations to surplus reserves	-	391	-	391	(391)
At 31 December 2013	66,164	2,785	(545)	68,404	8,897

Dividends from subsidiaries amounting to RMB3,533 million were included in the Company's net profit for 2013 (2012: RMB4,693 million).

(All amounts expressed in RMB million unless otherwise specified)

38. LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Bank loans - secured	188	-

The particulars of long-term borrowings are listed as below:

Lending Bank	Starting date	Maturity	Currency	Interest rate model	Interest rate(%)	31 December 2013
DBS Bank (China) Co., Ltd.	2012	2015	RMB	Fixed	6.77%	188

Details of the security of the afore-mentioned long-term borrowing are included in note 18.

39. INSURANCE CONTRACT LIABILITIES

Group	**31 December 2013**		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	441,924	(6,347)	435,577
Short-term life insurance contracts			
- Unearned premiums	1,879	(55)	1,824
- Claim reserves	958	(32)	926
	2,837	(87)	2,750
Property and casualty insurance contracts			
- Unearned premiums	33,418	(5,673)	27,745
- Claim reserves	24,357	(5,281)	19,076
	57,775	(10,954)	46,821
	502,536	(17,388)	485,148
Incurred but not reported claim reserves	4,020	(771)	3,249

(All amounts expressed in RMB million unless otherwise specified)

39. INSURANCE CONTRACT LIABILITIES (continued)

Group	**31 December 2012**		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	385,283	(5,706)	379,577
Short-term life insurance contracts			
- Unearned premiums	1,654	(57)	1,597
- Claim reserves	737	(96)	641
	2,391	(153)	2,238
Property and casualty insurance contracts			
- Unearned premiums	29,610	(3,637)	25,973
- Claim reserves	21,603	(4,625)	16,978
	51,213	(8,262)	42,951
	438,887	(14,121)	424,766
Incurred but not reported claim reserves	3,479	(736)	2,743

(a) Long-term life insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2012	325,558	(5,180)	320,378
Valuation premiums	88,511	(1,446)	87,065
Liabilities released for payments on benefits and claims	(21,154)	558	(20,596)
Other movements	(7,632)	362	(7,270)
At 31 December 2012	385,283	(5,706)	379,577
Valuation premiums	89,454	(1,418)	88,036
Liabilities released for payments on benefits and claims	(28,917)	497	(28,420)
Other movements	(3,896)	280	(3,616)
At 31 December 2013	441,924	(6,347)	435,577

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2012	1,621	(285)	1,336
Premiums written	4,950	(242)	4,708
Premiums earned	(4,917)	470	(4,447)
At 31 December 2012	1,654	(57)	1,597
Premiums written	5,647	(187)	5,460
Premiums earned	(5,422)	189	(5,233)
At 31 December 2013	1,879	(55)	1,824

(All amounts expressed in RMB million unless otherwise specified)

39. INSURANCE CONTRACT LIABILITIES (continued)

(b) Short-term life insurance contract liabilities (continued)

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2012	631	(144)	487
Claims incurred	1,562	(192)	1,370
Claims paid	(1,456)	240	(1,216)
At 31 December 2012	737	(96)	641
Claims incurred	1,852	(3)	1,849
Claims paid	(1,631)	67	(1,564)
At 31 December 2013	958	(32)	926

(c) Property and casualty insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2012	26,556	(3,916)	22,640
Premiums written	69,767	(10,107)	59,660
Premiums earned	(66,713)	10,386	(56,327)
At 31 December 2012	29,610	(3,637)	25,973
Premiums written	81,822	(13,690)	68,132
Premiums earned	(78,014)	11,654	(66,360)
At 31 December 2013	33,418	(5,673)	27,745

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2012	20,565	(4,593)	15,972
Claims incurred	40,377	(5,932)	34,445
Claims paid	(39,339)	5,900	(33,439)
At 31 December 2012	21,603	(4,625)	16,978
Claims incurred	50,796	(6,988)	43,808
Claims paid	(48,042)	6,332	(41,710)
At 31 December 2013	24,357	(5,281)	19,076

(All amounts expressed in RMB million unless otherwise specified)

40. INVESTMENT CONTRACT LIABILITIES

Group

At 1 January 2012	47,182
Deposits received	3,259
Deposits withdrawn	(10,288)
Fees deducted	(186)
Interest credited	1,715
Others	72
At 31 December 2012	41,754
Deposits received	3,355
Deposits withdrawn	(12,595)
Fees deducted	(187)
Interest credited	1,924
Others	192
At 31 December 2013	34,443

41. SUBORDINATED DEBT

On 21 December 2011, CPIC Life issued a 10-year subordinated debt with a total face value of RMB8,000 million. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 5.5% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.5% and would remain unchanged for the remaining term.

On 20 August 2012, CPIC Life issued a 10-year subordinated debt with a total face value of RMB7,500 million. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 4.58% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 6.58% and would remain unchanged for the remaining term.

42. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Group	**31 December 2013**	**31 December 2012**
Bonds		
Stock exchange	1,138	1,763
Inter-bank market	24,061	48,380
	25,199	50,143

As at 31 December 2013, bond investments of approximately RMB27,743 million (31 December 2012: RMB52,563 million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

(All amounts expressed in RMB million unless otherwise specified)

43. OTHER LIABILITIES

Group	31 December 2013	31 December 2012
Annuity and other insurance payables	10,883	7,821
Salary and staff welfare payable	1,962	1,777
Commission and brokerage payable	1,857	1,596
Tax payable other than income tax	1,009	1,672
Co-insurance payable	625	197
Accrued expenses	490	417
Insurance guarantee fund	284	233
Payables for construction and purchase of office buildings	213	345
Others	2,529	2,466
	19,852	16,524

Company	31 December 2013	31 December 2012
Salary and staff welfare payable	152	145
Payables for purchase of office buildings	55	61
Others	199	259
	406	465

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

(a) Long-term life insurance contracts

Key assumptions

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

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

Sensitivities

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

	As at 31 December 2013		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(6,568)	-1.49%
	-25 basis points	7,102	1.61%
Mortality rates	+10%	168	0.04%
	-10%	(121)	-0.03%
Morbidity rates	+10%	1,461	0.33%
	-10%	(1,486)	-0.34%
Surrender rates	+10%	84	0.02%
	-10%	(25)	-0.01%
Expenses	+10%	2,362	0.53%
	-10%	(2,362)	-0.53%
Policy dividend	+5%	6,074	1.37%

	As at 31 December 2012		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(6,231)	-1.62%
	-25 basis points	6,755	1.75%
Mortality rates	+10%	56	0.01%
	-10%	9	0.00%
Morbidity rates	+10%	1,175	0.30%
	-10%	(1,193)	-0.31%
Surrender rates	+10%	397	0.10%
	-10%	(346)	-0.09%
Expenses	+10%	2,083	0.54%
	-10%	(2,083)	-0.54%
Policy dividend	+5%	4,854	1.26%

(All amounts expressed in RMB million unless otherwise specified)

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

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

Sensitivities (continued)

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

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

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

Key assumptions

The principal assumption underlying the estimates is the Group's past claim development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

Sensitivities

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

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2013 by RMB954 million and RMB46 million (31 December 2012: RMB849 million and RMB32 million), respectively.

(All amounts expressed in RMB million unless otherwise specified)

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

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

Claim development tables

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

Gross property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
End of current year	19,144	24,635	33,232	39,674	49,007	
One year later	19,317	24,251	32,574	41,169		
Two years later	19,591	24,222	31,753			
Three years later	19,526	23,846				
Four years later	19,435					
Current estimate of cumulative claims	19,435	23,846	31,753	41,169	49,007	165,210
Cumulative payments to date	(19,396)	(23,632)	(30,957)	(37,131)	(30,294)	(141,410)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						557
Total gross claim reserves included in the consolidated balance sheet						24,357

Net property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
End of current year	15,280	19,768	27,311	33,427	41,726	
One year later	15,440	19,565	26,960	34,653		
Two years later	15,596	19,632	26,400			
Three years later	15,566	19,406				
Four years later	15,511					
Current estimate of cumulative claims	15,511	19,406	26,400	34,653	41,726	137,696
Cumulative payments to date	(15,492)	(19,281)	(25,950)	(31,978)	(26,478)	(119,179)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						560
Total net claim reserves included in the consolidated balance sheet						19,077

(All amounts expressed in RMB million unless otherwise specified)

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

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

Claim development tables (continued)

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
End of current year	1,002	1,197	1,423	1,500	1,612	
One year later	985	1,177	1,419	1,549		
Two years later	965	1,175	1,413			
Three years later	963	1,174				
Four years later	963					
Current estimate of cumulative claims	963	1,174	1,413	1,549	1,612	6,711
Cumulative payments to date	(963)	(1,161)	(1,373)	(1,444)	(980)	(5,921)
Liability in respect of prior years and risk adjustment margin						168
Total gross claim reserves included in the consolidated balance sheet						958

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
End of current year	725	901	1,091	1,288	1,553	
One year later	717	885	1,073	1,348		
Two years later	701	859	1,087			
Three years later	674	880				
Four years later	698					
Current estimate of cumulative claims	698	880	1,087	1,348	1,553	5,566
Cumulative payments to date	(698)	(871)	(1,050)	(1,250)	(939)	(4,808)
Liability in respect of prior years and risk adjustment margin						167
Total net claim reserves included in the consolidated balance sheet						925

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT

(a) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

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

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

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

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

The businesses of the Group mainly comprise long-term life insurance contracts, short-term life insurance contracts and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(a) Insurance risk (continued)

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

(b) Financial risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, which arise from foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

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

- A group market risk policy setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure, which ensures that assets back specific policyholder liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Strict control over hedging activities.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain foreign currency insurance policies, bank deposits and securities denominated in United States dollar ("USD") or Hong Kong dollar ("HKD").

The following tables summarize the Group's exposure to foreign currency exchange rate risk at the balance sheet date by categorizing financial assets, financial liabilities, reinsurance assets and insurance contract liabilities by major currency.

	As at 31 December 2013			
	RMB	**USD**	**HKD**	**Total**
Financial assets at fair value through profit or loss	4,926	-	-	4,926
Held-to-maturity financial assets	262,767	167	8	262,942
Available-for-sale financial assets	174,333	216	940	175,489
Investments classified as loans and receivables	41,320	-	-	41,320
Term deposits	141,494	-	2,823	144,317
Reinsurance assets	17,347	-	41	17,388
Cash and short-term time deposits	12,523	790	3,248	16,561
Others	36,669	1,080	40	37,789
	691,379	2,253	7,100	700,732
Long-term borrowings	188	-	-	188
Insurance contract liabilities	502,464	-	72	502,536
Investment contract liabilities	34,443	-	-	34,443
Policyholders' deposits	77	-	-	77
Subordinated debt	15,500	-	-	15,500
Securities sold under agreements to repurchase	25,199	-	-	25,199
Others	35,820	638	36	36,494
	613,691	638	108	614,437

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December 2012			
	RMB	**USD**	**HKD**	**Total**
Financial assets at fair value through profit or loss	1,714	-	-	1,714
Held-to-maturity financial assets	248,576	181	9	248,766
Available-for-sale financial assets	133,828	239	1,748	135,815
Investments classified as loans and receivables	36,097	-	-	36,097
Term deposits	162,649	-	1,648	164,297
Reinsurance assets	14,068	-	53	14,121
Cash and short-term time deposits	16,349	382	7,144	23,875
Others	36,285	661	28	36,974
	649,566	1,463	10,630	661,659
Insurance contract liabilities	438,799	-	88	438,887
Investment contract liabilities	41,754	-	-	41,754
Policyholders' deposits	79	-	-	79
Subordinated debt	15,500	-	-	15,500
Securities sold under agreements to repurchase	50,143	-	-	50,143
Others	29,025	222	44	29,291
	575,300	222	132	575,654

The Group has no significant concentration of currency risk.

Sensitivities

The analysis below is performed to show the reasonably possible movements in foreign currency exchange rates with all other assumptions held constant, showing the pre-tax impact on profit before tax of the Group (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity of the Group when the foreign exchange rates of USD and HKD vary. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Currency	**Changes in exchange rate**	**31 December 2013**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	399	399
USD and HKD	- 5%	(399)	(399)

Currency	**Changes in exchange rate**	**31 December 2012**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	501	501
USD and HKD	- 5%	(501)	(501)

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is repriced when benchmark interest rates change. Interest on other instruments is either fixed during its term or repriced at intervals of less than one year if the benchmark interest rates change.

The Group has no significant concentration of interest rate risk.

The tables below summarize the contractual or estimated repricing/maturity date of the Group's financial instruments. Other financial instruments not included in the following tables are interest-free and not exposed to interest rate risk.

	As at 31 December 2013					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Financial assets at fair value through profit or loss	1	2,022	14	1,170	-	3,207
Held-to-maturity financial assets	4,697	8,153	24,671	225,421	-	262,942
Available-for-sale financial assets	29,509	15,551	29,623	27,407	-	102,090
Investments classified as loans and receivables	16,524	5,870	2,348	8,440	8,138	41,320
Securities purchased under agreements to resell	2,394	-	-	-	-	2,394
Term deposits	4,337	70,810	65,450	-	3,720	144,317
Restricted statutory deposits	-	1,358	2,112	-	130	3,600
Policy loans	8,444	-	-	-	-	8,444
Deposits with original maturity of no more than three months	7,697	-	-	-	8,864	16,561
Financial liabilities:						
Long-term borrowings	1	187	-	-	-	188
Investment contract liabilities	34,443	-	-	-	-	34,443
Policyholders' deposits	77	-	-	-	-	77
Subordinated debt	-	8,000	7,500	-	-	15,500
Securities sold under agreements to repurchase	25,199	-	-	-	-	25,199

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

	As at 31 December 2012					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Financial assets at fair value through profit or loss	43	5	1,124	2	-	1,174
Held-to-maturity financial assets	12,048	6,962	21,980	207,776	-	248,766
Available-for-sale financial assets	15,136	18,479	15,105	24,920	-	73,640
Investments classified as loans and receivables	16,780	3,220	2,979	4,650	8,468	36,097
Securities purchased under agreements to resell	1,115	-	-	-	-	1,115
Term deposits	16,747	22,860	80,730	200	43,760	164,297
Restricted statutory deposits	1,122	50	2,298	-	130	3,600
Policy loans	5,700	-	-	-	-	5,700
Deposits with original maturity of no more than three months	16,794	-	-	-	7,080	23,874
Financial liabilities:						
Investment contract liabilities	41,754	-	-	-	-	41,754
Policyholders' deposits	79	-	-	-	-	79
Subordinated debt	-	-	15,500	-	-	15,500
Securities sold under agreements to repurchase	50,143	-	-	-	-	50,143

Interest rates on floating rate bonds/liabilities are re-priced when the benchmark interest rates are adjusted.

Sensitivities

The analysis below is performed for reasonably possible movements in interest rate with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit and equity. Since almost all financial instruments of the Group that bear interest rate risks are financial instruments denominated in RMB, the sensitivity analysis below only shows the pre-tax impact of RMB financial instruments on the Group's profit before tax and equity when RMB interest rate changes.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivities (continued)

Sensitivities on fixed-rate financial instruments

As at the balance sheet dates, the Group's fixed-rate financial instruments exposed to interest rate risk mainly include financial assets at fair value through profit or loss and available-for-sale financial assets. The following tables show the pre-tax impact on profit (fair value change on held-for-trading bonds) and equity (fair value change on held-for-trading bonds combined with fair value change on available-for-sale bonds).

	31 December 2013	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(37)	(930)
-50 basis points	38	960

	31 December 2012	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	-	(758)
-50 basis points	-	783

The above impact on equity represents adjustments to profit before tax and changes in fair value of available-for-sale financial assets.

Sensitivities on floating-rate financial instruments

The following tables show the pre-tax impact of change in interest rate on profit and equity due to change in interest income or expense arising from floating-rate financial instruments as at the balance sheet dates.

	31 December 2013	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	100	100
-50 basis points	(100)	(100)

	31 December 2012	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	295	295
-50 basis points	(295)	(295)

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

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

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

As at 31 December 2013, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market was RMB1,853 million (31 December 2012: RMB1,545 million).

Credit risk

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

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

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds have high domestic credit rating and the corporate bonds are guaranteed mainly by financial institutions with high domestic credit rating. Hence, the related credit risk should be regarded as relatively low.

For securities purchased under agreements to resell and policy loans, there is a security pledge and the maturity period is less than one year. Hence, the related credit risk should not have significant impact on the Group's financial statements.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

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

The table below shows the maximum exposure to credit risk for the assets subject to credit risk. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

	31 December 2013	**31 December 2012**
Financial assets at fair value through profit or loss	3,207	1,174
Held-to-maturity financial assets	262,942	248,766
Available-for-sale financial assets	102,090	73,640
Investments classified as loans and receivables	41,320	36,097
Term deposits	144,317	164,297
Reinsurance assets	17,388	14,121
Insurance receivables	7,763	8,177
Cash and short-term time deposits	16,561	23,874
Others	30,026	28,797
Total credit risk exposure	625,614	598,943

The above asset account balances did not include cash on hand and equity investment balances.

Liquidity risk

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

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

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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

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

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

	As at 31 December 2013					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	-	39	2,249	1,125	1,719	5,132
Held-to-maturity financial assets	-	17,492	82,899	379,228	-	479,619
Available-for-sale financial assets	-	35,093	64,796	33,296	69,534	202,719
Investments classified as loans and receivables	-	3,971	26,863	22,017	-	52,851
Securities purchased under agreements to resell	-	2,408	-	-	-	2,408
Term deposits	-	12,604	158,942	163	-	171,709
Restricted statutory deposits	-	43	4,381	-	-	4,424
Insurance receivables	1,136	6,343	474	29	-	7,982
Cash and short-term time deposits	8,864	7,697	-	-	-	16,561
Others	668	10,773	1,055	2	-	12,498
Total	10,668	96,463	341,659	435,860	71,253	955,903
Liabilities:						
Insurance contract liabilities	-	53,778	80,208	368,550	-	502,536
Investment contract liabilities	-	2,381	2,489	29,573	-	34,443
Policyholders' deposits	66	11	-	-	-	77
Subordinated debt	-	784	17,410	-	-	18,194
Securities sold under agreements to repurchase	-	25,237	-	-	-	25,237
Long-term borrowings	-	14	200	-	-	214
Others	25,010	10,741	550	33	-	36,334
Total	25,076	92,946	100,857	398,156	-	617,035

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2012					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	-	58	1,230	2	540	1,830
Held-to-maturity financial assets	-	23,150	74,816	354,141	-	452,107
Available-for-sale financial assets	-	17,110	44,399	30,095	62,175	153,779
Investments classified as loans and receivables	-	4,655	18,465	24,009	-	47,129
Securities purchased under agreements to resell	-	1,115	-	-	-	1,115
Term deposits	-	55,269	141,134	947	-	197,350
Restricted statutory deposits	-	1,263	3,068	-	-	4,331
Insurance receivables	853	7,107	470	19	-	8,449
Cash and short-term time deposits	7,081	16,794	-	-	-	23,875
Others	641	10,165	21	-	-	10,827
Total	8,575	136,686	283,603	409,213	62,715	900,792
Liabilities:						
Insurance contract liabilities	-	45,404	57,133	336,350	-	438,887
Investment contract liabilities	-	2,372	2,910	36,472	-	41,754
Policyholders' deposits	69	10	-	-	-	79
Subordinated debt	-	784	18,194	-	-	18,978
Securities sold under agreements to repurchase	-	50,400	-	-	-	50,400
Others	19,742	8,660	597	26	-	29,025
Total	19,811	107,630	78,834	372,848	-	579,123

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

The table below summarizes the expected utilisation or settlement of assets and liabilities.

	As at 31 December 2013		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	4,926	-	4,926
Held-to-maturity financial assets	4,597	258,345	262,942
Available-for-sale financial assets	92,917	82,572	175,489
Investments classified as loans and receivables	1,736	39,584	41,320
Term deposits	4,338	139,979	144,317
Cash and short-term time deposits	16,561	-	16,561
Others	47,842	30,136	77,978
Total assets	172,917	550,616	723,533
Liabilities:			
Long-term borrowings	1	187	188
Insurance contract liabilities	53,778	448,758	502,536
Investment contract liabilities	2,381	32,062	34,443
Policyholders' deposits	77	-	77
Subordinated debt	-	15,500	15,500
Securities sold under agreements to repurchase	25,199	-	25,199
Others	43,721	1,483	45,204
Total liabilities	125,157	497,990	623,147

	As at 31 December 2012		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	1,714	-	1,714
Held-to-maturity financial assets	11,208	237,558	248,766
Available-for-sale financial assets	68,779	67,036	135,815
Investments classified as loans and receivables	2,717	33,380	36,097
Term deposits	41,487	122,810	164,297
Cash and short-term time deposits	23,875	-	23,875
Others	44,462	26,476	70,938
Total assets	194,242	487,260	681,502
Liabilities:			
Insurance contract liabilities	45,404	393,483	438,887
Investment contract liabilities	2,372	39,382	41,754
Policyholders' deposits	79	-	79
Subordinated debt	-	15,500	15,500
Securities sold under agreements to repurchase	50,143	-	50,143
Others	36,093	1,477	37,570
Total liabilities	134,091	449,842	583,933

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequacy or failure on business processes, human error, information system failure, etc. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group is exposed to many types of operational risks in the conduct of its business, from inadequate or failure to obtain proper authorizations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of compliance check and internal audit.

(d) Mismatching risk of assets and liabilities

Assets and liabilities mismatching risk is the risk due to the Group's inability to match its assets with its liabilities on the basis of duration, cash flow and investment return. Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its medium and long term life insurance liabilities. When the current regulatory and market environment permits, the Group will lengthen the duration of its assets and increase the profile of securities with fixed investment returns to narrow the gap of duration and investment returns of the existing liabilities.

In order to further enhance the management of matching of assets and liabilities, the Group has the Asset-Liability Management Committee to make significant decisions on asset-liability management. The committee has an asset-liability working group which analyzes the extent of assets and liabilities matching.

(e) Capital management risks

The CIRC monitors capital management risks mainly through a set of solvency regulatory rules to ensure insurance companies can maintain sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy solvency margin capital ratios in order to support its business objectives and maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Group has stepped up efforts to maintain a platform for sustained financing in order to meet solvency margin needs arising from future expansion in business activities. The Group continuously and proactively adjusts the business mix, optimizes the asset allocation, improves the asset quality and enhances the operating efficiency so as to underscore the role of profitability in relation to solvency margin.

(All amounts expressed in RMB million unless otherwise specified)

45. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

In practice, the Group manages its capital requirements mainly through monitoring the solvency margins of the Group and its major insurance subsidiaries. The solvency margins are computed based on the relevant regulations issued by the CIRC; actual solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations.

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

Group	**31 December 2013**	**31 December 2012**
Actual solvency margin	90,081	92,254
Minimum solvency margin	31,849	29,600
Surplus	58,232	62,654
Solvency margin ratio	283%	312%

CPIC Property	**31 December 2013**	**31 December 2012**
Actual solvency margin	16,441	16,739
Minimum solvency margin	10,136	8,891
Surplus	6,305	7,848
Solvency margin ratio	162%	188%

CPIC Life	**31 December 2013**	**31 December 2012**
Actual solvency margin	41,436	43,478
Minimum solvency margin	21,651	20,654
Surplus	19,785	22,824
Solvency margin ratio	191%	211%

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

46. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(All amounts expressed in RMB million unless otherwise specified)

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

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

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

Fair value of financial assets and liabilities not carried at fair value

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

	As at 31 December 2013	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	262,942	236,976
Investments classified as loans and receivables	41,320	40,614
Financial liabilities:		
Subordinated debt	15,500	15,103

	As at 31 December 2012	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	248,766	246,178
Investments classified as loans and receivables	36,097	35,737
Financial liabilities:		
Subordinated debt	15,500	15,714

As permitted by HKFRS 7, the Group has not disclosed fair values for certain investment contract liabilities with discretionary participation features ("DPF") because fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

The carrying amounts of other financial assets and financial liabilities approximate their fair values.

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE MEASUREMENT

Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

(a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities (“Level 1”);
(b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (“Level 2”); and
(c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) (“Level 3”).

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	1,071	-	-	1,071
- Investment funds	648	-	-	648
- Debt securities	3,207	-	-	3,207
	4,926	-	-	4,926
Available-for-sale financial assets				
- Equity securities	30,130	-	-	30,130
- Investment funds	32,878	-	-	32,878
- Debt securities	17,209	84,257	-	101,466
- Others	-	4,489	6,526	11,015
	80,217	88,746	6,526	175,489
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 46)	-	6,069	34,545	40,614
Held-to-maturity financial assets (Note 46)	9,353	227,623	-	236,976
Investment properties(Note 18)	-	-	8,356	8,356
Liabilities for which fair values are disclosed (Note 46)				
Subordinated debt	-	-	15,103	15,103

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	As at 31 December 2012			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	194	-	-	194
- Investment funds	346	-	-	346
- Debt securities	1,174	-	-	1,174
	1,714	-	-	1,714
Available-for-sale financial assets				
- Equity securities	26,864	-	-	26,864
- Investment funds	28,170	-	-	28,170
- Debt securities	20,164	53,476	-	73,640
- Others	-	-	7,141	7,141
	75,198	53,476	7,141	135,815
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 44)	-	7,396	28,341	35,737
Held-to-maturity financial assets (Note 44)	11,059	235,119	-	246,178
Investment properties(Note 18)	-	-	7,567	7,567
Liabilities for which fair values are disclosed (Note 44)				
Subordinated debt	-	-	15,714	15,714

In 2013, due to changes in availability of market observable inputs, the Group transferred certain debt securities between Level 1 and Level 2. As at 31 December 2013, the Group transferred the debt securities with a carrying amount of RMB8,334 million from Level 1 to Level 2 and RMB200 million from Level 2 to Level 1. In 2012, the Group also transferred certain debt securities from Level 1 to Level 2 with a carrying amount of approximately RMB771 million as at 31 December 2013.

(All amounts expressed in RMB million unless otherwise specified)

47. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	As at 31 December 2013			
	Beginning of year	Purchases	Net unrealised loss recognized in other comprehensive income	End of year
Available-for-sale financial assets				
- Other equity investments	7,141	-	(615)	6,526

	As at 31 December 2012			
	Beginning of year	Purchases	Net unrealised gain recognized in other comprehensive income	End of year
Available-for-sale financial assets				
- Other equity investments	6,164	821	156	7,141

Valuation techniques

The fair value of the unquoted debt investments is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities, with appropriate adjustment where applicable.

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

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

(All amounts expressed in RMB million unless otherwise specified)

48. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

	2013	2012
Profit before tax	11,914	6,113
Investment income	(30,972)	(18,060)
Foreign currency losses, net	280	11
Finance costs	2,335	1,960
(Reversal)/charge of impairment losses on insurance receivables and other assets, net	(58)	65
Depreciation of property and equipment	1,046	903
Depreciation of investment properties	215	203
Amortization of other intangible assets	273	212
Amortization of prepaid land lease payments	1	2
Amortization of other assets	25	26
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(3)	(22)
Reversal of provision for lawsuits	(4)	(9)
	(14,948)	(8,596)
Increase in reinsurance assets	(3,267)	(3)
Decrease/(increase) in insurance receivables	467	(1,974)
Decrease/(increase) in other assets	1,405	(1,996)
Change in insurance contract liabilities	62,705	63,258
Increase in other operating liabilities	875	2,679
Cash generated from operating activities	47,237	53,368

49. RELATED PARTY TRANSACTIONS

The Group had the following major transactions with related parties:

(a) Sale of insurance contracts

	2013	2012
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	54	28

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

(b) Claims paid

	2013	2012
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	4	-

(All amounts expressed in RMB million unless otherwise specified)

49. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

	2013	2012
Salaries, allowances and other short-term benefits	45	31
Long-term incentive paid (1)	9	9
Total compensation of key management personnel	54	40

(1) This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

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

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

	2013	2012
Payments made on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses	1,034	-

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

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

The Group mainly operates in an economic environment predominated by enterprises that are controlled, jointly controlled or significantly influenced by the PRC government through its authorities, affiliates or other organizations (collectively "government-related entities"). The Company is also a government-related entity.

In 2012 and 2013, the Group had certain transactions with some government-related entities primarily related to insurance, investment and other activities (including, but not limited to, issuing insurance policies, provision of asset management or other services, and the sale, purchase, issuance and redemption of bonds or equity instruments).

Management considers that those transactions with other government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are controlled, jointly controlled or significantly influenced by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

(All amounts expressed in RMB million unless otherwise specified)

50. COMMITMENTS

(a) Capital commitments

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

		31 December 2013	31 December 2012
Contracted, but not provided for	(1)(2)	2,440	3,139
Authorized, but not contracted for	(1)	798	1,425
		3,238	4,564

(1) The Company resolved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone and the expected total capital expenditure is approximately RMB2,000 million. As at 31 December 2013, the cumulative amount incurred by the Company amounted to RMB372 million. Of the balance, RMB830 million was disclosed as a capital commitment contracted but not provided for and RMB798 million was disclosed as a capital commitment authorized but not contracted for.

(2) In December 2013, the Company purchased a commercial property under construction located at Xuhui District, Shanghai, with a total investment of approximately RMB1,130 million. As at 31 December 2013, the cumulative amount incurred by the Company amounted to RMB400 million. The balance of RMB730 million will be paid as the construction progresses and was disclosed as a capital commitment contracted but not provided for.

(b) Operating lease commitments

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

	31 December 2013	31 December 2012
Within 1 year (including 1 year)	600	536
1 to 2 years (including 2 years)	434	376
2 to 3 years (including 3 years)	272	274
3 to 5 years (including 5 years)	277	297
More than 5 years	387	369
	1,970	1,852

(c) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2013	31 December 2012
Within 1 year (including 1 year)	404	411
1 to 2 years (including 2 years)	255	287
2 to 3 years (including 3 years)	133	145
3 to 5 years (including 5 years)	40	40
More than 5 years	6	1
	838	884

(All amounts expressed in RMB million unless otherwise specified)

51. CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Group is involved in the making of estimates for contingencies and legal proceedings in the ordinary course of business, both in the capacity as plaintiff or defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for the probable losses to the Group, including those claims where directors can reasonably estimate the outcome of the litigations taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or the probability of loss is so low.

In addition to the above legal proceedings, as at 31 December 2013, the Group was the defendant in certain pending litigation and disputes. Provisions have been made for the possible loss based on best estimate by the directors and the Group would only be contingently liable for any claim that is in excess of what had been provided.

52. POST BALANCE SHEET EVENTS

Pursuant to the resolution made in the 2013 1st extraordinary meeting of the 6th term of board of directors in January 2013, the Company entered into the Shareholder Agreement Between China Pacific Insurance (Group) Co., Ltd. and Allianz SE, whereby the two parties agreed to set up CPIC Allianz Health Insurance Co., Ltd. (the "Health Insurance Company"). The setting up of the Health Insurance Company was approved by the CIRC in February 2014.

Pursuant to the approval of the CIRC (Baojianxuke [2014] No. 121), on 5 March 2014, CPIC Property issued a 10-year subordinated debt with a total face value of RMB4,000 million. CPIC Property has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 5.9% per annum, payable annually in arrears. If CPIC property does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.9% and would remain unchanged for the remaining term.

Other than as mentioned in other notes, the Group does not have other significant post balance sheet events.

53. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on 28 March 2014.