

讨论稿

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

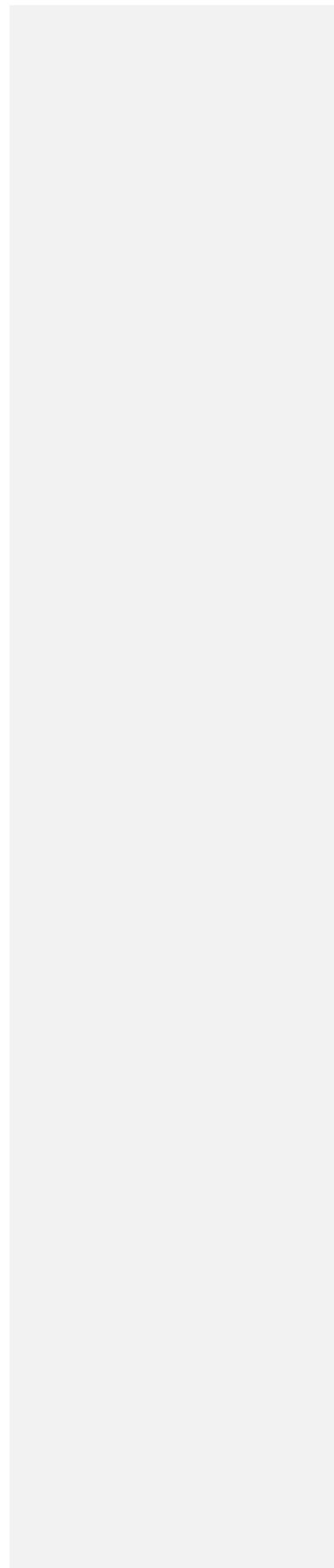
Audited Financial Statements

31 December 2011

CONTENTS

	Pages
REPORT OF THE BOARD OF DIRECTORS	
INDEPENDENT AUDITORS' REPORT	1 - 2
AUDITED FINANCIAL STATEMENTS	
Consolidated income statement	3
Consolidated statement of comprehensive income	4
Consolidated balance sheet	5 - 6
Consolidated statement of changes in equity	7 - 8
Consolidated cash flow statement	9
Balance sheet	10
Notes to financial statements	11 - 108

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2011



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 108, which comprise the consolidated and company balance sheets as at 31 December 2011, 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.

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 2011, 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
23 March 2012

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2011

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

Group	Notes	2011	2010
Gross written premiums	6(a)	154,958	139,555
Less: Premiums ceded to reinsurers	6(b)	(13,384)	(13,422)
Net written premiums	6	141,574	126,133
Net change in unearned premium reserves		(4,336)	(6,382)
Net premiums earned		137,238	119,751
Investment income	7	16,392	20,657
Other operating income		1,887	919
Other income		18,279	21,576
Total income		155,517	141,327
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(21,508)	(17,018)
Claims incurred	8	(28,010)	(20,829)
Changes in long-term life insurance contract liabilities	8	(56,063)	(59,241)
Policyholder dividends	8	(3,807)	(3,399)
Finance costs	9	(848)	(373)
Interest credited to investment contracts		(2,257)	(1,722)
Other operating and administrative expenses		(33,120)	(28,063)
Total benefits, claims and expenses		(145,613)	(130,645)
Gain from disposal of a jointly-controlled entity	23	479	-
Share of profit/(loss) of a jointly-controlled entity		16	(12)
Profit before tax	10	10,399	10,670
Income tax	14	(2,006)	(2,005)
Net profit for the year		8,393	8,665
Attributable to:			
Equity holders of the parent		8,313	8,557
Minority interests		80	108
		8,393	8,665
Basic earnings per share	15	RMB0.97	RMB1.00
Diluted earnings per share	15	RMB0.97	RMB1.00

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 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2011	2010
Net profit for the year		<u>8,393</u>	<u>8,665</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		(18)	(11)
Available-for-sale financial assets		(11,899)	(4,242)
Income tax relating to available-for-sale financial assets		<u>2,966</u>	<u>1,060</u>
Other comprehensive loss for the year	16	<u>(8,951)</u>	<u>(3,193)</u>
Total comprehensive (loss)/income for the year		<u>(558)</u>	<u>5,472</u>
Attributable to:			
Equity holders of the parent		(490)	5,417
Minority interests		<u>(68)</u>	<u>55</u>
		<u>(558)</u>	<u>5,472</u>

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2011	31 December 2010
ASSETS			
Property and equipment	17	7,833	6,831
Investment properties	18	6,573	2,366
Goodwill	19	962	149
Other intangible assets	20	533	404
Prepaid land lease payments	21	24	203
Investment in a jointly-controlled entity	23	-	440
Financial assets at fair value through profit or loss	24	2,907	3,604
Held-to-maturity financial assets	25	202,536	157,360
Available-for-sale financial assets	26	117,592	119,759
Investments classified as loans and receivables	27	32,929	22,811
Securities purchased under agreements to resell	28	43	2,600
Term deposits	29	137,373	106,772
Restricted statutory deposits		3,580	2,772
Policy loans		4,094	2,307
Interest receivables	30	11,006	9,207
Reinsurance assets	31	14,118	12,347
Deferred income tax assets	32	4,980	1,586
Insurance receivables	33	6,252	5,409
Other assets	34	2,374	3,824
Cash and short-term time deposits	35	14,903	14,960
Total assets		570,612	475,711

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,600
Reserves	37	50,203	58,476
Retained profits	37	17,993	13,221
Equity attributable to equity holders of the parent		76,796	80,297
Minority interests		1,259	1,254
Total equity		78,055	81,551
Liabilities			
Insurance contract liabilities	38	374,931	307,186
Investment contract liabilities	39	47,182	51,272
Policyholders' deposits		80	82
Subordinated debt	40	8,000	2,338
Securities sold under agreements to repurchase	41	32,105	8,150
Deferred income tax liabilities	32	960	2
Income tax payable		624	1,165
Premium received in advance		4,711	3,549
Policyholder dividend payable		9,132	7,110
Payables to reinsurers		3,235	3,510
Other liabilities	42	11,597	9,796
Total liabilities		492,557	394,160
Total equity and liabilities		570,612	475,711

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 2011

(All amounts expressed in RMB million unless otherwise specified)

<u>Group</u>	2011								
	Attributable to equity holders of the parent								
	Reserves					Retained profits	Total	Minority interests	Total equity
	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve				
At 1 January 2011	8,600	58,908	1,703	(37)	(2,098)	13,221	80,297	1,254	81,551
Total comprehensive loss	-	-	-	(18)	(8,785)	8,313	(490)	(68)	(558)
Dividend declared ¹	-	-	-	-	-	(3,010)	(3,010)	-	(3,010)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(65)	(65)
Capital injection into subsidiaries	-	(1)	-	-	-	-	(1)	138	137
Appropriations to surplus reserves	-	-	531	-	-	(531)	-	-	-
At 31 December 2011	8,600	58,907	2,234	(55)	(10,883)	17,993	76,796	1,259	78,055

¹ Dividend declared represents final dividend on ordinary shares declared for 2010, 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 STATEMENT OF CHANGES IN EQUITY (continued)
Year ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	2010								
	Attributable to equity holders of the parent								
	Reserves					Retained profits	Total	Minority interests	Total equity
	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve				
At 1 January 2010	8,483	56,216	1,395	(26)	1,031	7,552	74,651	1,022	75,673
Total comprehensive income	-	-	-	(11)	(3,129)	8,557	5,417	55	5,472
Dividend declared ¹	-	-	-	-	-	(2,580)	(2,580)	-	(2,580)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(44)	(44)
Issue of shares	117	2,688	-	-	-	-	2,805	-	2,805
Capital injection into subsidiaries	-	4	-	-	-	-	4	221	225
Appropriations to surplus reserves	-	-	308	-	-	(308)	-	-	-
At 31 December 2010	8,600	58,908	1,703	(37)	(2,098)	13,221	80,297	1,254	81,551

¹ Dividend declared represents final dividend on ordinary shares declared for 2009, amounting to RMB2,580 million (RMB0.30 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 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2011	2010
OPERATING ACTIVITIES			
Cash generated from operating activities	46	58,470	62,610
Income tax paid		(2,943)	(992)
Net cash inflow from operating activities		55,527	61,618
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(1,745)	(2,296)
Proceeds from sale of items of property and equipment, intangible assets and other assets		733	1,048
Proceeds from disposal of a jointly-controlled entity		949	-
Purchases of investments, net		(99,085)	(83,502)
Acquisition of subsidiaries		(4,125)	-
Interest received		16,897	11,463
Dividends received from investments		2,264	2,687
Net cash outflow from investing activities		(84,112)	(70,600)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		24,004	(1,650)
Capital contribution from minority shareholders of subsidiaries		137	225
Proceeds from issuance of shares		-	2,796
Proceeds from issuance of subordinated debt		8,000	-
Repayment of subordinated debt		(2,000)	-
Interest paid		(952)	(162)
Dividends paid		(3,075)	(2,653)
Others		-	(1,939)
Net cash inflow/(outflow) from financing activities		26,114	(3,383)
Effects of exchange rate changes on cash and cash equivalents		(123)	(313)
Net decrease in cash and cash equivalents		(2,594)	(12,678)
Cash and cash equivalents at beginning of year		17,560	30,238
Cash and cash equivalents at end of year		14,966	17,560
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		7,001	5,713
Time deposits with original maturity of no more than three months		7,628	8,358
Other monetary assets		274	889
Investments with original maturity of no more than three months		63	2,600
Cash and cash equivalents at end of year		14,966	17,560

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
BALANCE SHEET
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

<u>Company</u>	<u>Notes</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
ASSETS			
Property and equipment	17	568	619
Investment properties	18	2,486	2,551
Intangible assets		16	22
Prepaid land lease payments	21	-	180
Investments in subsidiaries	22	54,663	44,866
Investment in a jointly-controlled entity	23	-	400
Financial assets at fair value through profit or loss	24	32	415
Held-to-maturity financial assets	25	1,922	1,849
Available-for-sale financial assets	26	4,463	5,279
Investments classified as loans and receivables	27	1,199	1,199
Securities purchased under agreements to resell	28	-	2,600
Term deposits	29	10,029	8,529
Interest receivables		320	248
Deferred income tax assets		300	568
Other assets	34	199	1,115
Cash and short-term time deposits	35	823	5,471
Total assets		77,020	75,911
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,600
Reserves	37	59,696	59,567
Retained profits	37	7,380	5,562
Total equity		75,676	73,729
Liabilities			
Securities sold under agreements to repurchase		900	-
Income tax payable		27	27
Due to subsidiaries		61	575
Other liabilities	42	356	1,580
Total liabilities		1,344	2,182
Total equity and liabilities		77,020	75,911

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS
31 December 2011

(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 State Council of the PRC and Circular [2001] No. 239 issued by China Insurance Regulatory Commission (the “CIRC”), the Company was restructured as a joint stock limited company in October 2001 with 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.

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 1 Amendments	Presentation of Items of Other Comprehensive Income ³
HKAS 12 Amendments	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (2011)	Employee Benefits ⁴
HKAS 27 (2011)	Separate Financial Statements ⁴
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁴
HKAS 32 Amendments	Presentation - Offsetting Financial Assets and Financial Liabilities ⁵
HKFRS 1 Amendments	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 Amendments	Transfers of Financial Assets ¹
HKFRS 7 Amendments	Disclosures - Offsetting Financial Assets and Financial Liabilities ⁴
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

Amendments to HKAS 1 were issued in July 2011. The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKAS 12 Amendments were issued in December 2010. The amendments mainly concern the determination of deferred tax on investment properties measured using the fair value model in HKAS 40 Investment Property. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKAS 19 (2011) was issued in July 2011 which includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. It is expected that the amendments would have no significant impact on the Group's financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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.

In December 2010, the HKICPA issued amendments to HKFRS 1 to introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. It also removes the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. It is expected that the amendments would have no significant impact on the Group’s financial statements.

HKFRS 7 Amendments were issued in October 2010. The amendments require more disclosure information that enables users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Currently, it is expected that the amendments would have no significant impact on the Group’s financial statements.

Together with the Amendments to HKAS 32 as aforementioned, HKICPA issued amendments to HKFRS 7 to introduce additional disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. 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 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. HKFRS 9 was originally scheduled to be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. In December 2011, the HKICPA issued amendments to defer the mandatory effective date from 1 January 2013 to 1 January 2015 (with early adoption permission). 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

HKFRS 10, issued in June 2011, establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

HKFRS 11 was issued in June 2011. This new standard replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. It is expected that the new standard would have no significant impact on the Group's financial statements.

HKFRS 12 was issued in June 2011. This new standard includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. It is expected that the new standard would have no significant impact on the Group's financial statements.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. It is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. This new interpretation has no significant impact on the Group's financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

The Group presents its assets and liabilities based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) in the notes to these financial statements.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 Changes in accounting policy and disclosures

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

- **HKAS 24 (Revised): Related Party Disclosures**
The revised HKAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under this revised standard. Currently, the revision did not have significant impact on the Group's financial statements.
- **HKAS 32 Amendment: Presentation - Classification of Rights Issues**
The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Currently, the amendment did not have significant impact on the Group's financial statements.
- **HKFRS 1 Amendment: Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters**
HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to HKFRS 7). It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to HKFRS 7 provide to current HKFRSs preparers. The amendment did not have significant impact on the Group's financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 (continued)

- **HK(IFRIC)-Int 14 Amendments: Prepayments of a Minimum Funding Requirement**
The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in the future contributions is thus equal to the sum of (i) the prepayment of future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. Currently, the amendments did not have significant impact on the Group's financial statements.
- **HK(IFRIC)-Int 19: Extinguishing Financial Liabilities with Equity Instruments**
HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. Currently, the interpretation did not have significant impact on the Group's financial statements.
- ***Improvements to HKFRSs (issued May 2010)***
In May 2010, HKICPA issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in certain changes to accounting policies, but did not have significant impact on the financial position or performance of the Group.
 - (a) **HKFRS 3 Business Combinations:** The amendments limit the measurement choice of minority interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of minority interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of minority interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.
 - (b) **HKAS 34 Interim Financial Statements:** Requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities, in the interim condensed financial statements.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 (continued)

Other amendments resulting from improvements to HKFRSs to the following standards did not have significant impact on the accounting policies, financial position or performance of the Group:

- (a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2011. 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 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) Jointly-controlled entities

A jointly-controlled entity is an entity that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated balance 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 reserves of jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealized losses provided evidence of an impairment of the asset transferred.

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

(5) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled 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.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(6) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(6) 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.

(7) 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).

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(9) 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.

(10) 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.

(11) 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 the 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(12) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(12) 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.

(13) 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.

(14) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business at the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations. If current market prices are not available at the balance sheet date, reference is made to the most recent arm's length transaction prices, adjusted for significant changes, if any, in economic circumstances since the date of that recent transaction.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) Fair value of financial instruments (continued)

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.

(15) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(15) 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. In general, the larger the magnitude of the decline in fair value relative to cost, the lower the volatility, the longer the duration of the decline or the more consistent the magnitude of the decline, the more likely objective evidence of impairment of an equity instrument exists.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(15) 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.

(16) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(17) Securities purchased under agreements to resell

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

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

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

An impairment loss is 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(19) Reinsurance

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

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

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.

(20) Cash and cash equivalents

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) 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 insurance contract, while the portion with other risks should not be treated as 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 insurance contract if the insurance risk is significant; the whole contract should not be treated as insurance contract if the insurance risk is insignificant.

(22) 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 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% sometimes 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) 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 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.

(23) Insurance contract liabilities

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

When measuring long-term life insurance contract reserves, the Group classifies insurance contracts whose insurance risks are of 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 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(23) Insurance contract liabilities (continued)

Insurance contract liabilities are measured based on reasonable estimate of 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 change in assumptions.

The risk adjustment for property and casualty and short-term life insurance contract liabilities is determined by reference to 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(23) 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 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 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 contracts based on 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 reasonable estimate of 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 reasonable estimate of ultimate claim amount and the margin factor, and after considering the nature and distribution of insurance risk, claims developments, experience data, etc.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(23) Insurance contract liabilities (continued)

Claim expense reserves represent insurance contract provisions for related claims handling costs. The Group measures claim expense reserves based on 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 relevant acquisition costs incurred.

(24) 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.

(25) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(26) 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.

(27) 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.

(28) 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.

(29) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) 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 jointly-controlled entity, 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 jointly-controlled entity, 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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) 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 basis:

(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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(31) 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. Any change in the present value of the early retirement obligation is charged or credited to the income statement immediately as it occurs.

(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.

(32) Borrowing costs

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)

(33) 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 its cost. The determination of what is significant or prolonged requires judgement of directors. When making such judgement, the Group considers the normal volatility of 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2010 and 2011 are from 2.61% to 5.83% and from 2.65% to 7.09%, 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 2010 and 2011 are from 4.75% to 5.20% and from 4.85% 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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, 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 2011, 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 a decrease in long-term life insurance contract liabilities as at 31 December 2011 by approximately RMB50 million and an increase in profit before tax for 2011 by approximately RMB50 million.

The above change in accounting estimates has been approved by the board of directors of the Company on 23 March 2012.

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 2011, gross written premiums from transactions with the top five external customers amounted to 0.4% (2010: 0.3%) of the Group's total gross written premiums.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2011

	Life insurance		Property and casualty insurance			Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations	Sub-total			
Gross written premiums	93,203	61,687	332	(264)	61,755	-	-	154,958
Less: Premiums ceded to reinsurers	(2,549)	(11,061)	(38)	264	(10,835)	-	-	(13,384)
Net written premiums	90,654	50,626	294	-	50,920	-	-	141,574
Net change in unearned premium reserves	(161)	(4,140)	(35)	-	(4,175)	-	-	(4,336)
Net premiums earned	90,493	46,486	259	-	46,745	-	-	137,238
Investment income	13,503	1,821	21	-	1,842	896	151	16,392
Other operating income	768	205	3	-	208	1,532	(621)	1,887
Other income	14,271	2,026	24	-	2,050	2,428	(470)	18,279
Segment income	104,764	48,512	283	-	48,795	2,428	(470)	155,517
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(21,508)	-	-	-	-	-	-	(21,508)
Claims incurred	(646)	(27,235)	(129)	-	(27,364)	-	-	(28,010)
Changes in long-term life insurance contract liabilities	(56,063)	-	-	-	-	-	-	(56,063)
Policyholder dividends	(3,807)	-	-	-	-	-	-	(3,807)
Finance costs	(784)	(58)	-	-	(58)	(6)	-	(848)
Interest credited to investment contracts	(2,257)	-	-	-	-	-	-	(2,257)
Other operating and administrative expenses	(16,310)	(16,150)	(109)	-	(16,259)	(1,167)	616	(33,120)
Segment benefits, claims and expenses	(101,375)	(43,443)	(238)	-	(43,681)	(1,173)	616	(145,613)
Segment results	3,389	5,069	45	-	5,114	1,255	146	9,904
Gain from disposal of a jointly-controlled entity	-	-	-	-	-	479	-	479
Share of profits/(losses) of:								
A jointly-controlled entity	-	-	-	-	-	16	-	16
Associates	(14)	(1)	-	-	(1)	-	15	-
Profit before tax	3,375	5,068	45	-	5,113	1,750	161	10,399
Income tax	(200)	(1,301)	-	-	(1,301)	(440)	(65)	(2,006)
Net profit for the year	3,175	3,767	45	-	3,812	1,310	96	8,393

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2011

	Life insurance		Property and casualty insurance			Corporate and others	Elimina- tions	Total
		Mainland China	Hong Kong	Elimina- tions	Sub-total			
Investments in securities *	299,983	46,993	409	-	47,402	8,583	(4)	355,964
Term deposits	113,484	13,604	-	-	13,604	10,285	-	137,373
Others	44,047	24,627	237	(232)	24,632	10,582	(1,986)	77,275
Segment assets	457,514	85,224	646	(232)	85,638	29,450	(1,990)	570,612
Insurance contract liabilities	327,810	47,037	234	(150)	47,121	-	-	374,931
Investment contract liabilities	47,182	-	-	-	-	-	-	47,182
Policyholders' deposits	11	69	-	-	69	-	-	80
Subordinated debt	8,000	-	-	-	-	-	-	8,000
Securities sold under agreements to repurchase	27,735	3,470	-	-	3,470	900	-	32,105
Others	17,805	10,987	90	(82)	10,995	3,449	(1,990)	30,259
Segment liabilities	428,543	61,563	324	(232)	61,655	4,349	(1,990)	492,557

* Investments in securities 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 2011

	Life insurance		Property and casualty insurance			Corporate and others	Elimina- tions	Total
		Mainland China	Hong Kong	Elimina- tions	Sub-total			
Depreciation and amortization	467	352	-	-	352	355	-	1,174
Capital expenditure	5,336	1,060	1	-	1,061	126	-	6,523
Impairment loss charges	2,205	541	-	-	541	104	-	2,850
Interest income	15,811	2,160	21	-	2,181	992	(2)	18,982
Unrealized losses from financial assets at fair value through profit or loss	(303)	(74)	-	-	(74)	(6)	-	(383)

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2010

	Life insurance		Property and casualty insurance			Corporate and others	Elimina- tions	Total
		Mainland China	Hong Kong	Elimina- tions	Sub-total			
Gross written premiums	87,873	51,622	245	(185)	51,682	-	-	139,555
Less: Premiums ceded to reinsurers	(3,036)	(10,537)	(34)	185	(10,386)	-	-	(13,422)
Net written premiums	84,837	41,085	211	-	41,296	-	-	126,133
Net change in unearned premium reserves	(172)	(6,191)	(19)	-	(6,210)	-	-	(6,382)
Net premiums earned	84,665	34,894	192	-	35,086	-	-	119,751
Investment income	17,088	2,416	23	-	2,439	1,120	10	20,657
Other operating income	618	158	(3)	-	155	484	(338)	919
Other income	17,706	2,574	20	-	2,594	1,604	(328)	21,576
Segment income	102,371	37,468	212	-	37,680	1,604	(328)	141,327
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(17,018)	-	-	-	-	-	-	(17,018)
Claims incurred	(693)	(20,043)	(93)	-	(20,136)	-	-	(20,829)
Changes in long-term life insurance contract liabilities	(59,241)	-	-	-	-	-	-	(59,241)
Policyholder dividends	(3,399)	-	-	-	-	-	-	(3,399)
Finance costs	(343)	(24)	-	-	(24)	(6)	-	(373)
Interest credited to investment contracts	(1,722)	-	-	-	-	-	-	(1,722)
Other operating and administrative expenses	(14,607)	(12,775)	(94)	-	(12,869)	(930)	343	(28,063)
Segment benefits, claims and expenses	(97,023)	(32,842)	(187)	-	(33,029)	(936)	343	(130,645)
Segment results	5,348	4,626	25	-	4,651	668	15	10,682
Share of losses of:								
A jointly-controlled entity	-	-	-	-	-	(12)	-	(12)
Associates	(24)	(1)	-	-	(1)	-	25	-
Profit before tax	5,324	4,625	25	-	4,650	656	40	10,670
Income tax	(713)	(1,114)	-	-	(1,114)	(178)	-	(2,005)
Net profit for the year	4,611	3,511	25	-	3,536	478	40	8,665

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2010

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations			
Investment in a jointly-controlled entity	-	-	-	-	440	-	440
Investments in securities *	255,734	37,693	410	-	38,103	(4)	303,534
Term deposits	89,763	8,330	-	-	8,330	-	106,772
Others	32,856	18,688	159	(160)	18,687	(698)	64,965
Segment assets	378,353	64,711	569	(160)	65,120	(702)	475,711
Insurance contract liabilities	269,955	37,144	191	(104)	37,231	-	307,186
Investment contract liabilities	51,272	-	-	-	-	-	51,272
Policyholders' deposits	11	71	-	-	71	-	82
Subordinated debt	2,338	-	-	-	-	-	2,338
Securities sold under agreements to repurchase	4,250	3,900	-	-	3,900	-	8,150
Others	13,813	9,618	59	(56)	9,621	(700)	25,132
Segment liabilities	341,639	50,733	250	(160)	50,823	(700)	394,160

* Investments in securities 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 2010

	Life insurance	Property and casualty insurance			Corporate and others	Eliminations	Total
		Mainland China	Hong Kong	Eliminations			
Depreciation and amortization	481	342	1	-	343	-	989
Capital expenditure	1,005	911	-	-	911	-	2,218
Impairment loss charges	554	81	-	-	81	-	689
Interest income	12,060	1,417	-	-	1,417	-	14,311
Unrealized gains from financial assets at fair value through profit or loss	157	30	-	-	30	-	193

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION

Particulars of the Company's incorporated subsidiaries as at 31 December 2011 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	Notes
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Property and casualty insurance	Shanghai	The PRC	73337320-X	9,500,000	9,500,000	98.50	-	98.50	(1)
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.	Pension fund management business	Shanghai	Shanghai	66246731-2	787,610	787,610	-	51.00	51.75	
CPIC Investment Management (H.K.) Company Limited	Investment management	Hong Kong	Hong Kong	Not applicable	HK\$50,000 thousand	HK\$50,000 thousand	49.00	50.83	100.00	

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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	Notes
							Direct	Indirect		
City Island Development 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	(2)
Great Winwick Limited *	Investment Holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US\$50,000	US\$100	-	98.29	100.00	(2)
Great Winwick (Hong Kong) Limited *	Investment Holding	Hong Kong	Hong Kong	Not applicable	HK\$10,000	HK\$1	-	98.29	100.00	(2)
Newscott Investments Limited *	Investment Holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US\$50,000	US\$100	-	98.29	100.00	(2)
Newscott (Hong Kong) Investments Limited *	Investment Holding	Hong Kong	Hong Kong	Not applicable	HK\$10,000	HK\$1	-	98.29	100.00	(2)
Shanghai Xinhui Real Estate Development Co., Ltd. *	Real Estate	Shanghai	Shanghai	607203795	US\$15,600 thousand	US\$15,600 thousand	-	98.29	100.00	(2)
Shanghai Hehui Real Estate Development Co., Ltd. *	Real Estate	Shanghai	Shanghai	607325768	US\$46,330 thousand	US\$46,330 thousand	-	98.29	100.00	(2)
Pacific Insurance Online Services Technology Co., Ltd. (“CPIC Online”)	Consulting Service	Shandong	Shandong	58877325-7	50,000	50,000	100.00	-	100.00	(3)

* Subsidiaries of City Island

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(1) Capital injection in CPIC Property

On 19 November 2010, CPIC Property's 2nd extraordinary shareholders' meeting resolved to further increase CPIC Property's registered capital through issuance of 1,839,000,000 new ordinary shares with par value of RMB1 per share to its then existing shareholders at a price of RMB2.3 per share, of which the Company subscribed for 1,809,847,303 shares. In January 2011, the Company subscribed for additional 6,322,311 shares voluntarily forfeited by other shareholders. ~~The Company's subscription was paid in cash and verified by Shanghai Certified Public Accountants in January 2011.~~ Upon the completion of this capital injection, CPIC Property's issued capital was increased to RMB7,300 million, of which the Company holds 7,190,599,260 shares. The Company's equity interest in CPIC Property was increased from 98.41% to 98.50%. The increase of registered capital was approved by CIRC (Baojianfagai [2011]424) on 30 March 2011.

On 19 September 2011, CPIC Property's 2nd extraordinary shareholders' meeting resolved to further increase CPIC Property's registered capital through issuance of 2,200,000,000 new ordinary shares with par value of RMB1 per share to its then existing shareholders at a price of RMB2.57 per share, of which the Company subscribed for 2,167,029,914 shares. Upon the completion of this capital injection, CPIC Property's issued capital was increased to RMB9,500 million, of which the Company holds 9,357,629,174 shares. The Company's equity interest in CPIC Property remained unchanged at 98.50%. The increase in registered capital was approved by CIRC (Baojianfagai [2011]1908) on 13 December 2011.

(2) Acquisition of City Island

Pursuant to the resolution of CPIC Life's 3rd term of board of directors' 6th extraordinary meeting in 2010 and the approval from CIRC (Baojianzijin[2010]1520), CPIC Life resolved to purchase the entire 100% equity interest in and receivables from City Island held by Hawkwind Investment Limited, at a consideration amounting to approximately RMB4.3 billion (the "Acquisition of City Island"). City Island, through its subsidiaries, owns The Centre, a property located in Shanghai. CPIC Life completed the acquisition on 17 March 2011. All considerations were paid in cash.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(2) Acquisition of City Island (continued)

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

Assets:	
Investment properties	4,370
Cash and short-term time deposits	144
Other assets	35
	<hr/>
	4,549
Liabilities:	
Amount due to the parent company	(1,704)
Deferred income tax liabilities	(941)
Other liabilities	(164)
	<hr/>
	(2,809)
Total identifiable net assets at fair value	1,740
Receivable from City Island	1,704
Goodwill arising on acquisition	813
	<hr/>
Total consideration paid in cash	4,257
	<hr/>

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

Cash and bank balances acquired	144
Consideration paid in cash	(4,257)
Prepayment to be returned	(12)
	<hr/>
Net cash outflow	(4,125)
	<hr/>

From the date of acquisition, City Island has contributed approximately RMB198 million, RMB33 million and RMB39 million to the Group's total income, net profit and net cash outflow for the period ended 31 December 2011, respectively.

The goodwill arises primarily from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations.

From the date of acquisition to 31 December 2011, the Group did not dispose of and did not intend to dispose of any significant assets or liabilities of City Island.

(3) Establishment of CPIC Online

In 2011, the Company established CPIC Online with registered capital of RMB50 million. As of 31 December 2011, the Group has paid up all capital in cash, which has been verified by a firm of the Chinese Certified Public Accountants.

(4) Dissolution of Jiaxing Taibao Insurance Agency Co., Ltd. ("Taibao")

In December 2010, the 12th meeting of CPIC Life's 3rd term of board of directors resolved to dissolve its subsidiary Taibao. The dissolution was approved by CIRC Zhejiang Bureau in March 2011 and was completed in 2011.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	<u>2011</u>	<u>2010</u>
Long-term life insurance premiums	88,590	83,767
Short-term life insurance premiums	4,613	4,106
Property and casualty insurance premiums	61,755	51,682
	<u>154,958</u>	<u>139,555</u>

(b) Premiums ceded to reinsurers

	<u>2011</u>	<u>2010</u>
Long-term life insurance premiums ceded to reinsurers	(1,483)	(1,985)
Short-term life insurance premiums ceded to reinsurers	(1,066)	(1,051)
Property and casualty insurance premiums ceded to reinsurers	(10,835)	(10,386)
	<u>(13,384)</u>	<u>(13,422)</u>

(c) Net written premiums

	<u>2011</u>	<u>2010</u>
Net written premiums	<u>141,574</u>	<u>126,133</u>

7. INVESTMENT INCOME

	<u>2011</u>	<u>2010</u>
Interest and dividend income (a)	21,199	17,034
Realized (losses)/gains (b)	(1,619)	4,049
Unrealized (losses)/gains (c)	(383)	193
Charge of impairment losses on financial assets	(2,805)	(615)
Others	-	(4)
	<u>16,392</u>	<u>20,657</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2011	2010
Financial assets at fair value through profit or loss		
- Fixed maturity investments	31	20
- Investment funds	2	16
	<u>33</u>	<u>36</u>
Held-to-maturity financial assets		
- Fixed maturity investments	<u>7,858</u>	<u>6,035</u>
Loans and receivables		
- Fixed maturity investments	<u>8,053</u>	<u>5,248</u>
Available-for-sale financial assets		
- Fixed maturity investments	3,040	3,008
- Investment funds	1,565	2,431
- Equity securities	<u>650</u>	<u>276</u>
	<u>5,255</u>	<u>5,715</u>
	<u>21,199</u>	<u>17,034</u>

(b) Realized (losses)/gains

	2011	2010
Financial assets at fair value through profit or loss		
- Fixed maturity investments	43	214
- Investment funds	-	40
- Equity securities	<u>1</u>	<u>1</u>
	<u>44</u>	<u>255</u>
Available-for-sale financial assets		
- Fixed maturity investments	(7)	103
- Investment funds	(1,354)	997
- Equity securities	<u>(302)</u>	<u>2,694</u>
	<u>(1,663)</u>	<u>3,794</u>
	<u>(1,619)</u>	<u>4,049</u>

(c) Unrealized (losses)/gains

	2011	2010
Financial assets at fair value through profit or loss		
- Fixed maturity investments	(345)	188
- Investment funds	<u>(38)</u>	<u>5</u>
	<u>(383)</u>	<u>193</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2011		
	Gross	Ceded	Net
Life insurance death and other benefits paid	21,729	(221)	21,508
Claims incurred			
- Short-term life insurance	1,374	(728)	646
- Property and casualty insurance	33,310	(5,946)	27,364
Changes in long-term life insurance contract liabilities	56,422	(359)	56,063
Policyholder dividends	3,807	-	3,807
	<u>116,642</u>	<u>(7,254)</u>	<u>109,388</u>
	2010		
	Gross	Ceded	Net
Life insurance death and other benefits paid	17,168	(150)	17,018
Claims incurred			
- Short-term life insurance	1,146	(453)	693
- Property and casualty insurance	25,047	(4,911)	20,136
Changes in long-term life insurance contract liabilities	60,358	(1,117)	59,241
Policyholder dividends	3,399	-	3,399
	<u>107,118</u>	<u>(6,631)</u>	<u>100,487</u>

9. FINANCE COSTS

	2011	2010
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	629	160
- Interest expense on policyholder dividends	166	135
- Others	4	3
	<u>799</u>	<u>298</u>
Non-current liabilities		
- Interest expense on subordinated debt	49	75
	<u>848</u>	<u>373</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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):

	<u>2011</u>	<u>2010</u>
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	9,576	7,265
Auditors' remuneration	16	18
Operating lease payments in respect of land and buildings	570	449
Depreciation of property and equipment (note 17)	798	801
Depreciation of investment properties (note 18)	172	-
Amortization of other intangible assets (note 20)	184	176
Amortization of prepaid land lease payments (note 21)	2	5
Amortization of other assets	18	7
(Gain)/loss from disposal of items of property and equipment, intangible assets and other long-term assets	(665)	10
Charge of impairment loss on insurance receivables	28	83
Charge of impairment loss on financial assets (note 7)	2,805	615
Foreign exchange loss, net	71	200

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

	<u>2011</u>	<u>2010</u>
Salaries, allowances and other short-term benefits	8,094	6,191
Contributions to defined contribution plans (1)	1,381	998
Early retirement benefit obligation	17	15
Long-term incentive (2)	84	61
	<u>9,576</u>	<u>7,265</u>

- (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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

(in RMB thousand)	2011	2010
Fees	1,337	1,250
Other remuneration		
-Salaries, allowances and other short-term benefits	11,002	8,485
-Contributions to defined contribution plans	849	694
-Long-term incentive paid (1)	3,497	402
	15,348	9,581
	16,685	10,831

(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 RMB1,337 thousand paid to independent non-executive directors for the year ended 31 December 2011 (2010: RMB1,250 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2011.

(in RMB thousand)	2011				
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	279	-	-	-	279
XIAO Wei	250	-	-	-	250
YUEN Tin Fan	279	-	-	-	279
CHANG Tso Tung, Stephen	279	-	-	-	279
XU Shanda	250	-	-	-	250
	1,337	-	-	-	1,337

(in RMB thousand)	2010				
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	250	-	-	-	250
XIAO Wei	250	-	-	-	250
YUEN Tin Fan	250	-	-	-	250
CHANG Tso Tung, Stephen	250	-	-	-	250
XU Shanda	250	-	-	-	250
	1,250	-	-	-	1,250

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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)	2011			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu *	627	2,862	257	3,746
HUO Lianhong *	549	2,595	241	3,385
Non-executive directors:				
YANG Xianghai	-	250	-	250
ZHOU Ciming	-	250	-	250
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
	1,176	7,457	498	9,131

[* According to the policies of the relevant authorities in China, the final amounts of remunerations for the executive directors are currently subject to review and approval. The remaining portion of the remunerations will be disclosed when it is confirmed.]

批注 [J1]: 根据实际情况修改, 与年报中的相关章节的披露保持一致

(in RMB thousand)	2010			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu ³	-	1,445	208	1,653
HUO Lianhong ³	-	1,359	196	1,555
Non-executive directors:				
YANG Xianghai	-	250	-	250
ZHOU Ciming	-	250	-	250
WANG Chengran ¹	-	125	-	125
ZHENG Anguo ¹	-	125	-	125
WU Jumin ¹	-	125	-	125
XU Fei ¹	-	125	-	125
YANG Xiangdong	-	250	-	250
FENG Junyuan, Janine	-	250	-	250
HUANG Kongwei ²	-	125	-	125
XU Hulin ²	-	125	-	125
	-	4,554	404	4,958

¹ Non-executive directors since July 2010

² Resigned effective in June 2010

³ As at 31 December 2010, part of the two executive directors' remunerations was subject to review and approval and not included in the above amount. With relevant approval in 2011, the total remunerations for Mr. Gao Guofu and Mr. Huo Lianhong for 2010 amounted to RMB2,445 thousand and RMB2,286 thousand, respectively.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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. There was no arrangement under which a director waived or agreed to waive any remuneration during 2011.

(c) Supervisors

(in RMB thousand)

	2011		
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans
Total			
ZHOU Zhuping	-	250	-
ZHANG Jianwei	-	250	-
LIN Lichun	-	250	-
SONG Junxiang	2,204	2,053	232
HE Jihai	117	742	119
	2,321	3,545	351
			6,217

(in RMB thousand)

	2010		
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans
Total			
ZHOU Zhuping ¹	-	125	-
ZHANG Jianwei	-	250	-
LIN Lichun	-	250	-
SONG Junxiang	348	2,342	193
HE Jihai ¹	54	481	51
MA Guoqiang ²	-	125	-
YUAN Songwen ²	-	358	46
	402	3,931	290
			4,623

¹ Supervisors since July 2010

² Resigned effective in June 2010

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 2011.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2011 and 2010.

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

	2011	2010
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	-	2
RMB4,000,001 to RMB5,000,000	1	2
RMB5,000,001 to RMB6,000,000	1	1
RMB6,000,001 to RMB7,000,000	3	-
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)	2011	2010
Salaries, allowances and other short-term benefits	10,705	17,987
Contributions to defined contribution plans	1,143	665
Long-term incentive paid (1)	17,756	3,314
	29,604	21,966
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 2011 and 2010, 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	<u>2011</u>	<u>2010</u>
Current income tax	2,417	1,885
Deferred income tax (note 32)	(411)	120
	<u>2,006</u>	<u>2,005</u>

(b) Tax recorded in other comprehensive income

	<u>2011</u>	<u>2010</u>
Deferred income tax (note 32)	(2,966)	(1,060)

(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:

	<u>2011</u>	<u>2010</u>
Profit before tax	<u>10,399</u>	<u>10,670</u>
Tax computed at the statutory tax rate	2,600	2,668
Adjustments to income tax in respect of previous periods	44	(24)
Income not subject to tax	(927)	(857)
Expenses not deductible for tax	224	197
Attributable to a jointly-controlled entity	(4)	3
Others	69	18
Tax expense at the Group's effective rate	<u>2,006</u>	<u>2,005</u>

There was no share of income tax attributable to a jointly-controlled entity as it has been included in "Share of profit/(loss) of a jointly-controlled entity" on the face of the consolidated income statement.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	<u>2011</u>	<u>2010</u>
Consolidated net profit for the year attributable to equity holders of the parent	8,313	8,557
Weighted average number of ordinary shares in issue (million)	8,600	8,590
Basic earnings per share	RMB0.97	RMB1.00
Diluted earnings per share	RMB0.97	RMB1.00

The Company had no dilutive potential ordinary shares as at 31 December 2011 and 2010.

16. OTHER COMPREHENSIVE LOSS

	<u>2011</u>	<u>2010</u>
Exchange differences on translation of foreign operations	(18)	(11)
Available-for-sale financial assets		
Losses arising during the year	(15,713)	(3,090)
Reclassification adjustments for losses/(gains) included in profit or loss	1,663	(3,794)
Fair value change on available-for-sale financial assets attributable to policyholders	(654)	2,027
Impairment charges reclassified to the income statement	2,805	615
	(11,899)	(4,242)
Income tax relating to available-for-sale financial assets	2,966	1,060
	(8,933)	(3,182)
Other comprehensive loss	(8,951)	(3,193)

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2010	4,515	3,155	565	2,764	646	11,645
Additions	71	1,193	170	273	210	1,917
Transfers	641	(641)	-	-	-	-
Disposals	(158)	-	(53)	(139)	(27)	(377)
Transfer to investment properties (note 18)	-	(2,366)	-	-	-	(2,366)
At 31 December 2010	5,069	1,341	682	2,898	829	10,819
Additions	127	644	140	625	288	1,824
Transfers	408	(408)	-	-	-	-
Acquisition of subsidiaries	-	-	-	1	-	1
Disposals	(16)	(4)	(50)	(138)	(16)	(224)
At 31 December 2011	5,588	1,573	772	3,386	1,101	12,420
Accumulated depreciation and impairment						
At 1 January 2010	(1,141)	-	(327)	(1,673)	(359)	(3,500)
Depreciation charge	(156)	-	(66)	(468)	(111)	(801)
Disposals	113	-	50	131	19	313
At 31 December 2010	(1,184)	-	(343)	(2,010)	(451)	(3,988)
Depreciation charge	(180)	-	(85)	(373)	(160)	(798)
Acquisition of subsidiaries	-	-	-	(1)	-	(1)
Disposals	6	-	46	132	16	200
At 31 December 2011	(1,358)	-	(382)	(2,252)	(595)	(4,587)
Net book value						
At 31 December 2010	3,885	1,341	339	888	378	6,831
At 31 December 2011	4,230	1,573	390	1,134	506	7,833

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2010	298	2,319	9	429	113	3,168
Additions	-	171	4	17	59	251
Transfers	124	(124)	-	-	-	-
Disposals	(3)	-	-	(16)	-	(19)
Transfer to investment properties (note 18)	(8)	(2,366)	-	-	-	(2,374)
At 31 December 2010	411	-	13	430	172	1,026
Additions	1	1	1	17	65	85
Disposals	-	-	(3)	(7)	-	(10)
Transfer to investment properties (note 18)	(16)	-	-	-	-	(16)
At 31 December 2011	396	1	11	440	237	1,085
Accumulated depreciation and impairment						
At 1 January 2010	(84)	-	(5)	(210)	(14)	(313)
Depreciation charge	(9)	-	-	(77)	(27)	(113)
Disposals	2	-	-	15	-	17
Transfer to investment properties (note 18)	2	-	-	-	-	2
At 31 December 2010	(89)	-	(5)	(272)	(41)	(407)
Depreciation charge	(13)	-	(3)	(63)	(44)	(123)
Disposals	-	-	2	6	-	8
Transfer to investment properties (note 18)	5	-	-	-	-	5
At 31 December 2011	(97)	-	(6)	(329)	(85)	(517)
Net book value						
At 31 December 2010	322	-	8	158	131	619
At 31 December 2011	299	1	5	111	152	568

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

18. INVESTMENT PROPERTIES

	<u>Group</u>	<u>Company</u>
Cost		
At 1 January 2010	-	250
Transfer from property and equipment	2,366	2,374
At 31 December 2010	2,366	2,624
Acquisition of subsidiaries	4,370	-
Additions	9	9
Transfer from property and equipment	-	16
At 31 December 2011	6,745	2,649
Accumulated amortization		
At 1 January 2010	-	(63)
Transfer from property and equipment	-	(2)
Depreciation charge	-	(8)
At 31 December 2010	-	(73)
Depreciation charge	(172)	(85)
Transfer from property and equipment	-	(5)
At 31 December 2011	(172)	(163)
Carrying amount		
At 31 December 2010	2,366	2,551
At 31 December 2011	6,573	2,486

The fair values of investment properties of the Group and the Company as at 31 December 2011 amounted to RMB7,229 million and RMB3,520 million (31 December 2010: RMB2,588 million and RMB3,351 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 and CPIC Asset Management and 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.

19. GOODWILL

<u>Group</u>	
Cost	
At 1 January 2010 and 31 December 2010	149
Acquisition of subsidiaries (note 5(2))	813
At 31 December 2011	962
Accumulated impairment losses	
At 1 January 2010, 31 December 2010 and 31 December 2011	-
Net book value	
At 31 December 2010	149
At 31 December 2011	962

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

20. OTHER INTANGIBLE ASSETS

<u>Group</u>	Software
Cost	
At 1 January 2010	754
Additions	293
Disposal	(105)
At 31 December 2010	942
Additions	314
Disposal	(1)
At 31 December 2011	1,255
Accumulated amortization	
At 1 January 2010	(378)
Amortization	(176)
Disposal	16
At 31 December 2010	(538)
Amortization	(184)
At 31 December 2011	(722)
Carrying amount	
At 31 December 2010	404
At 31 December 2011	533

21. PREPAID LAND LEASE PAYMENTS

	<u>Group</u>	<u>Company</u>
Cost		
At 1 January 2010 and 31 December 2010	241	213
Disposal	(214)	(213)
At 31 December 2011	27	-
Accumulated amortization		
At 1 January 2010	(33)	(29)
Amortization	(5)	(4)
At 31 December 2010	(38)	(33)
Amortization	(2)	(2)
Disposal	37	35
At 31 December 2011	(3)	-
Carrying amount		
At 31 December 2010	203	180
At 31 December 2011	24	-

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

22. INVESTMENTS IN SUBSIDIARIES

<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Unlisted shares, at cost	54,663	44,866

Particulars of the Company's subsidiaries as at 31 December 2011 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.

23. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Share of net assets	-	440

<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Unlisted shares, at cost	-	400

Pursuant to a resolution made at the 2nd meeting of the Company's 5th term of board of directors held on 17 August 2007, the Company intended to sell its entire 50% equity interest in Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai"). On 27 December 2010, the Company entered into a share transfer agreement with joint purchasers led by China Construction Bank Corporation to sell its entire 50% equity interest in Pacific Antai for a consideration of RMB950 million. The consideration was determined through negotiations with the joint purchasers by reference to the valuation performed by independent valuers. The share transfer was approved by CIRC (Baojianfagai [2011] 425) on 31 March 2011. The risks and rewards associated with the ownership of the equity interest in Pacific Antai have been transferred and the Company recognized a net gain of RMB479 million in 2011.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

24. 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:

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Listed		
Investment funds	11	14
Debt securities		
- Government bonds	32	32
- Finance bonds	1,698	2,247
- Corporate bonds	525	17
	<u>2,266</u>	<u>2,310</u>
Unlisted		
Investment funds	641	238
Debt securities		
- Corporate bonds	-	1,056
	<u>641</u>	<u>1,294</u>
	<u>2,907</u>	<u>3,604</u>
<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Listed		
Debt securities		
- Government bonds	32	32
- Finance bonds	-	104
	<u>32</u>	<u>136</u>
Unlisted		
Debt securities		
- Corporate bonds	-	279
	<u>32</u>	<u>415</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

25. HELD-TO-MATURITY FINANCIAL ASSETS

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

Group	31 December 2011	31 December 2010
Listed		
Debt securities		
- Government bonds	2,522	3,027
- Finance bonds	47	62
- Corporate bonds	9,095	9,698
	<u>11,664</u>	<u>12,787</u>
Unlisted		
Debt securities		
- Government bonds	41,239	31,610
- Finance bonds	86,674	52,290
- Corporate bonds	62,959	60,673
	<u>190,872</u>	<u>144,573</u>
	<u>202,536</u>	<u>157,360</u>
Company	31 December 2011	31 December 2010
Listed		
Debt securities		
- Corporate bonds	<u>989</u>	<u>959</u>
Unlisted		
Debt securities		
- Finance bonds	833	790
- Corporate bonds	100	100
	<u>933</u>	<u>890</u>
	<u>1,922</u>	<u>1,849</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Group	31 December 2011	31 December 2010
Listed		
Equity securities	26,862	24,979
Investment funds	7,568	9,174
Debt securities		
- Government bonds	1,089	1,447
- Finance bonds	958	767
- Corporate bonds	16,206	14,095
	<u>52,683</u>	<u>50,462</u>
Unlisted		
Other equity investments	6,164	5,240
Investment funds	12,327	15,431
Debt securities		
- Government bonds	306	522
- Finance bonds	20,499	23,469
- Corporate bonds	25,613	24,635
	<u>64,909</u>	<u>69,297</u>
	<u>117,592</u>	<u>119,759</u>
Company	31 December 2011	31 December 2010
Listed		
Equity securities	1,278	1,442
Investment funds	411	420
Debt securities		
- Finance bonds	726	760
- Corporate bonds	698	102
	<u>3,113</u>	<u>2,724</u>
Unlisted		
Debt securities		
- Finance bonds	-	481
- Corporate bonds	1,350	2,074
	<u>1,350</u>	<u>2,555</u>
	<u>4,463</u>	<u>5,279</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

27. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Debt securities		
- Finance	7,226	6,886
- Debt investment scheme	25,563	15,925
Others	140	-
	<u>32,929</u>	<u>22,811</u>
 <u>Company</u>	 <u>31 December 2011</u>	 <u>31 December 2010</u>
Debt securities		
- Finance	<u>1,199</u>	<u>1,199</u>

28. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Securities - bonds		
Stock exchange	43	-
Inter-bank market	-	2,600
	<u>43</u>	<u>2,600</u>
 <u>Company</u>	 <u>31 December 2011</u>	 <u>31 December 2010</u>
Securities - bonds		
Inter-bank market	<u>-</u>	<u>2,600</u>

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

29. TERM DEPOSITS

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Within 1 year (including 1 year)	20,278	15,536
1 to 3 years (including 3 years)	42,940	62,260
3 to 5 years (including 5 years)	73,240	25,060
More than 5 years	915	3,916
	<u>137,373</u>	<u>106,772</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

29. TERM DEPOSITS (continued)

<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Within 1 year (including 1 year)	4,029	29
1 to 3 years (including 3 years)	2,500	6,500
3 to 5 years (including 5 years)	3,500	2,000
	<u>10,029</u>	<u>8,529</u>

30. INTEREST RECEIVABLES

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Interest receivables from deposits	6,042	5,094
Interest receivables from bonds	4,844	4,079
Interest receivables from loans	121	35
	<u>11,007</u>	<u>9,208</u>
Less: Bad debt provision	<u>(1)</u>	<u>(1)</u>
	<u>11,006</u>	<u>9,207</u>

31. REINSURANCE ASSETS

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Reinsurers' share of insurance contracts (note 38)	<u>14,118</u>	<u>12,347</u>

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.

<u>Group</u>	<u>2011</u>	<u>2010</u>
Net deferred income tax assets, at beginning of year	1,584	644
Acquisition of subsidiaries	(941)	-
Recognized in profit or loss (note 14(a))	411	(120)
Recognized in other comprehensive income (note 14(b))	<u>2,966</u>	<u>1,060</u>
Net deferred income tax assets, at end of year	<u>4,020</u>	<u>1,584</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

32. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Insurance contract liabilities	81	(295)
Impairment of assets	486	159
Commissions and handling fees	174	185
Tax losses carried forward	71	472
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	3,671	645
Fair value adjustments arising from acquisition of subsidiaries	(889)	-
Others	426	418
Net deferred income tax assets	4,020	1,584
Represented by:		
Deferred tax assets	4,980	1,586
Deferred tax liabilities	(960)	(2)

33. INSURANCE RECEIVABLES

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Insurance receivables	6,475	5,610
Provision for impairment of insurance receivables	(223)	(201)
	6,252	5,409

An aged analysis of the insurance receivables is as follows:

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Within 3 months (including 3 months)	4,895	4,216
Over 3 months and within 1 year (including 1 year)	881	762
Over 1 year	476	431
	6,252	5,409

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 2011	31 December 2010
Insurance receivables that are individually determined to be impaired	59	55
Related provision for impairment	(59)	(55)
	-	-

34. OTHER ASSETS

Group	31 December 2011	31 December 2010
Tax receivable other than income tax	1,123	320
Foreclosed assets (1)	1	874
Receivable from securities clearance	145	1,742
Due from agents	58	58
Co-insurance receivable	52	56
Investment refund (2)	78	78
Others	917	696
	2,374	3,824

Company	31 December 2011	31 December 2010
Due from subsidiaries	111	23
Foreclosed assets (1)	-	873
Receivable from securities clearance	-	198
Others	88	21
	199	1,115

- (1) In June 2007, the Company entered into a debt restructuring agreement with Fudan Pacific Institute of Finance (the "Institute"), pursuant to which the Company agreed to take possession of the buildings, related facilities and other assets of the Institute to settle the receivables due from the Institute.

According to relevant regulations, in 2010, the Company entered into an assets transfer agreement with Shanghai Pudong New Area Land Reserve Centre ("上海市浦东新区土地资源储备中心") to transfer to it the related land use right, buildings and facilities of the Institute (the "Institute-related assets"). The consideration was determined through negotiations with the transferee by reference to the valuation performed by independent valuers. During 2011, the Company completed the transaction and recognised a net gain of approximately RMB659 million.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

34. OTHER ASSETS (continued)

- (2) In November 2010, CPIC Life entered into a share subscription agreement with Bank of Tianjin Co. Ltd. to subscribe for 100 million RMB ordinary shares. The total investment amounted to RMB520 million. The transaction was cancelled in 2011 by both parties. As at 31 December 2011, the cumulative amount of RMB78 million previously paid by CPIC Life was recorded as receivable and was subsequently recovered in January 2012.

35. CASH AND SHORT-TERM TIME DEPOSITS

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash at banks and on hand	7,001	5,713
Time deposits with original maturity of no more than three months	7,628	8,358
Other monetary assets	274	889
	<u>14,903</u>	<u>14,960</u>
<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash at banks and on hand	280	621
Time deposits with original maturity of no more than three months	370	4,196
Other monetary assets	173	654
	<u>823</u>	<u>5,471</u>

The Group's balances denominated in RMB amounted to RMB13,860 million as at 31 December 2011 (31 December 2010: RMB11,038 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

<u>Group and Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Number of shares issued and fully paid at RMB1 each (million)	<u>8,600</u>	<u>8,600</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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, RMB3,181 million as at 31 December 2011 (31 December 2010: RMB2,493 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, RMB3,168 million as at 31 December 2011 (31 December 2010: RMB2,484 million) represents the Company's share of its subsidiaries' general reserve.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(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 8th meeting of the Company's 6th term of board of directors held on 23 March 2012, a final dividend of approximately RMB3,010 million (equivalent to RMB0.35 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:

<u>Company</u>	Capital reserve	Surplus reserves	Available- for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2010	55,641	1,091	(4)	56,728	5,355
Total comprehensive income for the year	-	-	(157)	(157)	3,095
Issue of shares	2,688	-	-	2,688	-
Dividend declared	-	-	-	-	(2,580)
Appropriations to surplus reserves	-	308	-	308	(308)
At 31 December 2010	58,329	1,399	(161)	59,567	5,562
At 1 January 2011	58,329	1,399	(161)	59,567	5,562
Total comprehensive income for the year	-	-	(402)	(402)	5,359
Dividend declared	-	-	-	-	(3,010)
Appropriations to surplus reserves	-	531	-	531	(531)
At 31 December 2011	58,329	1,930	(563)	59,696	7,380

Dividends from subsidiaries amounting to RMB4,006 million were included in the Company's net profit for 2011 (2010: RMB2,579 million).

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

38. INSURANCE CONTRACT LIABILITIES

<u>Group</u>	As at 31 December 2011		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	325,558	(5,180)	320,378
Short-term life insurance contracts			
- Unearned premiums	1,621	(285)	1,336
- Claim reserves	631	(144)	487
	2,252	(429)	1,823
Property and casualty insurance contracts			
- Unearned premiums	26,556	(3,916)	22,640
- Claim reserves	20,565	(4,593)	15,972
	47,121	(8,509)	38,612
	374,931	(14,118)	360,813
Incurred but not reported claim reserves	3,237	(746)	2,491
<u>Group</u>	As at 31 December 2010		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	267,953	(4,821)	263,132
Short-term life insurance contracts			
- Unearned premiums	1,456	(280)	1,176
- Claim reserves	546	(131)	415
	2,002	(411)	1,591
Property and casualty insurance contracts			
- Unearned premiums	21,951	(3,483)	18,468
- Claim reserves	15,280	(3,632)	11,648
	37,231	(7,115)	30,116
	307,186	(12,347)	294,839
Incurred but not reported claim reserves	2,445	(593)	1,852

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

38. INSURANCE CONTRACT LIABILITIES (continued)

(a) Long-term life insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	208,810	(3,704)	205,106
Valuation premiums	83,767	(1,985)	81,782
Liabilities released for payments on benefits and claims	(17,168)	150	(17,018)
Other movements	(7,456)	718	(6,738)
At 31 December 2010	267,953	(4,821)	263,132
Valuation premiums	88,590	(1,483)	87,107
Liabilities released for payments on benefits and claims	(21,729)	221	(21,508)
Other movements	(9,256)	903	(8,353)
At 31 December 2011	325,558	(5,180)	320,378

(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 2010	1,229	(226)	1,003
Premiums written	4,106	(1,051)	3,055
Premiums earned	(3,879)	997	(2,882)
At 31 December 2010	1,456	(280)	1,176
Premiums written	4,613	(1,066)	3,547
Premiums earned	(4,448)	1,061	(3,387)
At 31 December 2011	1,621	(285)	1,336

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	470	(136)	334
Claims incurred	1,146	(453)	693
Claims paid	(1,070)	458	(612)
At 31 December 2010	546	(131)	415
Claims incurred	1,374	(728)	646
Claims paid	(1,289)	715	(574)
At 31 December 2011	631	(144)	487

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

38. INSURANCE CONTRACT LIABILITIES (continued)

(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 2010	14,634	(2,372)	12,262
Premiums written	51,682	(10,386)	41,296
Premiums earned	(44,365)	9,275	(35,090)
At 31 December 2010	21,951	(3,483)	18,468
Premiums written	61,755	(10,835)	50,920
Premiums earned	(57,150)	10,402	(46,748)
At 31 December 2011	26,556	(3,916)	22,640

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	11,009	(2,709)	8,300
Claims incurred	25,047	(4,911)	20,136
Claims paid	(20,776)	3,988	(16,788)
At 31 December 2010	15,280	(3,632)	11,648
Claims incurred	33,310	(5,946)	27,364
Claims paid	(28,025)	4,985	(23,040)
At 31 December 2011	20,565	(4,593)	15,972

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

39. INVESTMENT CONTRACT LIABILITIES

Group

At 1 January 2010	52,090
Deposits received	4,943
Deposits withdrawn	(7,069)
Fees deducted	(300)
Interest credited	1,722
Others	(114)
At 31 December 2010	51,272
Deposits received	3,366
Deposits withdrawn	(9,335)
Fees deducted	(295)
Interest credited	2,257
Others	(83)
At 31 December 2011	47,182

40. SUBORDINATED DEBT

On 29 June 2006, CPIC Life issued a 10-year fixed rate subordinated debt with a face value of RMB2,000 million. CPIC Life has the option to redeem all or part of the aforementioned debt at face value before the interest payment date in the fifth year. CPIC Life exercised the option to redeem the debt in full on 29 June 2011 and settled in cash in July 2011.

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 simple coupon rate of the debt is 5.5% per annum, with interest payable on an annual basis. If CPIC Life does not exercise the redemption option, the annual coupon rate for the last 5 years would increase to 7.5% which remains unchanged for the remaining period.

41. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Group	31 December 2011	31 December 2010
Bonds		
Stock exchange	12,581	3,650
Inter-bank market	19,524	4,500
	32,105	8,150

As at 31 December 2011, bond investments of approximately RMB32,770 million (31 December 2010: RMB9,765 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

42. OTHER LIABILITIES

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Annuity and other insurance payables	4,315	2,669
Salary and staff welfare payable	1,717	1,457
Commission and brokerage payable	1,348	1,325
Tax payable other than income tax	1,221	923
Accrued expenses	374	369
Payables for purchase of office buildings	264	145
Insurance guarantee fund	236	286
Co-insurance payable	138	174
Provisions	13	119
Dividend payable	4	4
Proceeds received from disposal of the Institute-related assets	-	1,000
Others	1,967	1,325
	<u>11,597</u>	<u>9,796</u>
<u>Company</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Salary and staff welfare payable	132	161
Payables for purchase of office buildings	61	55
Provisions	5	94
Proceeds received from disposal of the Institute-related assets	-	1,000
Others	158	270
	<u>356</u>	<u>1,580</u>

43. 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

43. 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 2011			
	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	(11,854)	-3.64%
	-25 basis points	12,672	3.89%
Mortality and morbidity rates	+10%	1,028	0.32%
	-10%	(1,009)	-0.31%
Surrender rates	+10%	655	0.20%
	-10%	(646)	-0.20%
Expenses	+10%	1,858	0.57%
Policy dividend	+5%	4,016	1.23%
As at 31 December 2010			
	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	(9,970)	-3.72%
	-25 basis points	10,674	3.98%
Mortality and morbidity rates	+10%	811	0.30%
	-10%	(784)	-0.29%
Surrender rates	+10%	751	0.28%
	-10%	(772)	-0.29%
Expenses	+10%	1,612	0.60%
Policy dividend	+5%	2,857	1.07%

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

43. 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 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 2011 by RMB799 million and RMB24 million (31 December 2010: RMB582 million and RMB21 million), respectively.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

43. 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:

Estimate of ultimate claim cost as of:	Property and casualty insurance (Accident year)					Total
	2007	2008	2009	2010	2011	
End of current year	13,249	18,631	19,144	24,635	33,232	
One year later	12,725	18,473	19,317	24,251		
Two years later	12,520	18,429	19,591			
Three years later	12,528	18,500				
Four years later	12,516					
Current estimate of cumulative claims	12,516	18,500	19,591	24,251	33,232	108,090
Cumulative payments to date	(12,429)	(18,252)	(18,492)	(21,218)	(17,740)	(88,131)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						606
Total gross claim reserves included in the consolidated balance sheet						20,565

Net property and casualty insurance claim reserves:

Estimate of ultimate claim cost as of:	Property and casualty insurance (Accident year)					Total
	2007	2008	2009	2010	2011	
End of current year	10,459	14,036	15,280	19,768	27,311	
One year later	10,108	14,055	15,440	19,565		
Two years later	9,989	14,042	15,596			
Three years later	9,954	14,281				
Four years later	9,951					
Current estimate of cumulative claims	9,951	14,281	15,596	19,565	27,311	86,704
Cumulative payments to date	(9,887)	(14,140)	(15,078)	(17,344)	(14,840)	(71,289)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						557
Total net claim reserves included in the consolidated balance sheet						15,972

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

43. 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:

Estimate of ultimate claim cost as of:	Short-term life insurance (Accident year)					Total
	2007	2008	2009	2010	2011	
End of current year	909	1,005	1,002	1,197	1,423	
One year later	920	990	985	1,177		
Two years later	876	964	965			
Three years later	865	954				
Four years later	867					
Current estimate of cumulative claims	867	954	965	1,177	1,423	5,386
Cumulative payments to date	(867)	(953)	(953)	(1,112)	(886)	(4,771)
Liability in respect of prior years and risk adjustment margin						16
Total gross claim reserves included in the consolidated balance sheet						631

Net short-term life insurance claim reserves:

Estimate of ultimate claim cost as of:	Short-term life insurance (Accident year)					Total
	2007	2008	2009	2010	2011	
End of current year	545	711	725	901	1,091	
One year later	558	692	717	885		
Two years later	524	677	701			
Three years later	519	668				
Four years later	520					
Current estimate of cumulative claims	520	668	701	885	1,091	3,865
Cumulative payments to date	(520)	(667)	(691)	(834)	(678)	(3,390)
Liability in respect of prior years and risk adjustment margin						12
Total net claim reserves included in the consolidated balance sheet						487

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	2,888	-	19	2,907
Held-to-maturity financial assets	202,356	171	9	202,536
Available-for-sale financial assets	115,356	205	2,031	117,592
Investments classified as loans and receivables	32,929	-	-	32,929
Term deposits	137,342	25	6	137,373
Reinsurance assets	14,118	-	-	14,118
Cash and short-term time deposits	13,860	655	388	14,903
Others	26,361	697	31	27,089
	<u>545,210</u>	<u>1,753</u>	<u>2,484</u>	<u>549,447</u>
Insurance contract liabilities	374,931	-	-	374,931
Investment contract liabilities	47,182	-	-	47,182
Policyholders' deposits	80	-	-	80
Subordinated debt	8,000	-	-	8,000
Securities sold under agreements to repurchase	32,105	-	-	32,105
Others	21,858	160	19	22,037
	<u>484,156</u>	<u>160</u>	<u>19</u>	<u>484,335</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December 2010			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	3,604	-	-	3,604
Held-to-maturity financial assets	157,145	207	8	157,360
Available-for-sale financial assets	117,586	20	2,153	119,759
Investments classified as loans and receivables	22,811	-	-	22,811
Term deposits	106,746	26	-	106,772
Reinsurance assets	12,347	-	-	12,347
Cash and short-term time deposits	11,038	199	3,723	14,960
Others	24,360	495	167	25,022
	<u>455,637</u>	<u>947</u>	<u>6,051</u>	<u>462,635</u>
Insurance contract liabilities	307,186	-	-	307,186
Investment contract liabilities	51,272	-	-	51,272
Policyholders' deposits	82	-	-	82
Subordinated debt	2,338	-	-	2,338
Securities sold under agreements to repurchase	8,150	-	-	8,150
Others	18,275	361	6	18,642
	<u>387,303</u>	<u>361</u>	<u>6</u>	<u>387,670</u>

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 2011	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	101	101
USD and HKD	- 5%	(101)	(101)
		<u> </u>	<u> </u>
Currency	Changes in exchange rate	31 December 2010	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	231	231
USD and HKD	- 5%	(231)	(231)
		<u> </u>	<u> </u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011						
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
<u>Financial assets:</u>						
Deposits with original maturity of no more than three months	7,628	-	-	-	7,273	14,901
Financial assets at fair value through profit or loss	24	44	1,701	486	-	2,255
Securities purchased under agreements to resell	43	-	-	-	-	43
Policy loans	4,094	-	-	-	-	4,094
Term deposits	4,328	15,830	60,510	200	56,505	137,373
Available-for-sale financial assets	6,355	19,136	9,869	29,311	-	64,671
Held-to-maturity financial assets	5,188	14,111	7,911	175,326	-	202,536
Investments classified as loans and receivables	14,618	3,336	4,350	2,345	8,280	32,929
Restricted statutory deposits	460	1,652	1,308	-	160	3,580
<u>Financial liabilities:</u>						
Securities sold under agreements to repurchase	32,105	-	-	-	-	32,105
Investment contract liabilities	47,182	-	-	-	-	47,182
Policyholders' deposits	80	-	-	-	-	80
Subordinated debt	-	-	8,000	-	-	8,000

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

	As at 31 December 2010					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
<u>Financial assets:</u>						
Deposits with original maturity of no more than three months	8,358	-	-	-	6,599	14,957
Financial assets at fair value through profit or loss	978	31	8	2,335	-	3,352
Securities purchased under agreements to resell	2,600	-	-	-	-	2,600
Policy loans	2,307	-	-	-	-	2,307
Term deposits	14,536	18,900	20,880	2,700	49,756	106,772
Available-for-sale financial assets	6,897	13,657	16,167	28,214	-	64,935
Held-to-maturity financial assets	5,049	13,461	6,909	131,941	-	157,360
Investments classified as loans and receivables	6,719	2,386	3,220	2,349	8,137	22,811
Restricted statutory deposits	100	2,012	-	500	160	2,772
<u>Financial liabilities:</u>						
Securities sold under agreements to repurchase	8,150	-	-	-	-	8,150
Investment contract liabilities	51,272	-	-	-	-	51,272
Policyholders' deposits	82	-	-	-	-	82
Subordinated debt	2,338	-	-	-	-	2,338

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	-	(798)
-50 basis points	-	818

	31 December 2010	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	(5)	(897)
-50 basis points	5	932

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 2011	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	359	359
-50 basis points	(359)	(359)

	31 December 2010	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	320	320
-50 basis points	(320)	(320)

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 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 95% confidence level.

As at 31 December 2011, 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 is RMB1,622 million (31 December 2010: RMB2,098 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 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011	31 December 2010
Financial assets at fair value through profit or loss	2,255	3,352
Held-to-maturity financial assets	202,536	157,360
Available-for-sale financial assets	64,671	64,935
Investments classified as loans and receivables	32,929	22,811
Term deposits	137,373	106,772
Reinsurance assets	14,118	12,347
Insurance receivables	6,252	5,409
Cash and short-term time deposits	14,901	14,957
Others	20,837	19,613
Total credit risk exposure	495,872	407,556

The above asset account balances did not include 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011						
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	-	61	1,959	500	652	3,172
Held-to-maturity financial assets	-	13,266	59,627	286,468	-	359,361
Available-for-sale financial assets	-	6,799	40,495	35,765	52,921	135,980
Investments classified as loans and receivables	-	1,959	15,249	27,882	-	45,090
Securities purchased under agreements to resell	-	43	-	-	-	43
Term deposits	-	27,379	137,419	1,077	-	165,875
Restricted statutory deposits	-	1,155	2,907	-	-	4,062
Insurance receivables	707	5,358	406	4	-	6,475
Cash and short-term time deposits	7,275	7,628	-	-	-	14,903
Others	257	6,264	19	-	-	6,540
Total	8,239	69,912	258,081	351,696	53,573	741,501
Liabilities:						
Insurance contract liabilities	-	44,625,472.93	53,077,522.49	277,229,275.13	-	374,931
Investment contract liabilities	-	1,163	1,147	44,872	-	47,182
Policyholders' deposits	69	11	-	-	-	80
Subordinated debt	-	440	9,760	-	-	10,200
Securities sold under agreements to repurchase	-	32,191	-	-	-	32,191
Others	13,630	7,829	489	14	-	21,962
Total	13,699	86,259,888.927	64,473,633.895	322,115,332.025	-	486,546

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2010					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	-	1,016	155	2,165	252	3,588
Held-to-maturity financial assets	-	9,987	49,111	213,163	-	272,261
Available-for-sale financial assets	-	6,672	42,147	34,680	54,824	138,323
Investments classified as loans and receivables	-	1,292	9,773	20,099	-	31,164
Securities purchased under agreements to resell	-	2,609	-	-	-	2,609
Term deposits	-	20,155	98,245	4,075	-	122,475
Restricted statutory deposits	-	108	2,312	614	-	3,034
Insurance receivables	480	4,676	434	20	-	5,610
Cash and short-term time deposits	6,602	8,358	-	-	-	14,960
Others	277	4,980	8	-	-	5,265
Total	7,359	59,853	202,185	274,816	55,076	599,289
Liabilities:						
Insurance contract liabilities	-	42,578	32,750	231,858	-	307,186
Investment contract liabilities	-	1,474	1,187	48,611	-	51,272
Policyholders' deposits	71	11	-	-	-	82
Subordinated debt	-	2,375	-	-	-	2,375
Securities sold under agreements to repurchase	-	8,168	-	-	-	8,168
Others	9,829	8,249	523	35	-	18,636
Total	9,900	62,855	34,460	280,504	-	387,719

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 2011		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	2,907	-	2,907
Held-to-maturity financial assets	3,628	198,908	202,536
Available-for-sale financial assets	50,702	66,890	117,592
Investments classified as loans and receivables	140	32,789	32,929
Term deposits	514	136,859	137,373
Cash and short-term time deposits	14,903	-	14,903
Others	34,559	27,813	62,372
Total assets	107,353	463,259	570,612
Liabilities:			
Insurance contract liabilities	44,625	330,306	374,931
Investment contract liabilities	47,293	327,636	47,182
Policyholders' deposits	1,163	46,019	80
Subordinated debt	80	-	8,000
Securities sold under agreements to repurchase	-	8,000	32,105
Others	32,105	-	30,259
Total liabilities	106,845	385,712	492,557
	109,512	383,042	
	As at 31 December 2010		
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	3,604	-	3,604
Held-to-maturity financial assets	2,872	154,488	157,360
Available-for-sale financial assets	53,438	66,321	119,759
Investments classified as loans and receivables	180	22,631	22,811
Term deposits	863	105,909	106,772
Cash and short-term time deposits	14,960	-	14,960
Others	29,789	20,656	50,445
Total assets	105,706	370,005	475,711
Liabilities:			
Insurance contract liabilities	30,354	276,832	307,186
Investment contract liabilities	-	51,272	51,272
Policyholders' deposits	71	11	82
Subordinated debt	2,338	-	2,338
Securities sold under agreements to repurchase	8,150	-	8,150
Others	24,598	534	25,132
Total liabilities	65,511	328,649	394,160

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. RISK MANAGEMENT (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequate 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

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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

44. 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 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 CIRC's solvency rules.

<u>Group</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Actual solvency margin	73,556	76,673
Minimum solvency margin	25,884	21,486
Surplus	47,672	55,187
Solvency margin ratio	284%	357%
<u>CPIC Property</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Actual solvency margin	17,644	10,266
Minimum solvency margin	7,568	6,132
Surplus	10,076	4,134
Solvency margin ratio	233%	167%
<u>CPIC Life</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Actual solvency margin	34,213	36,687
Minimum solvency margin	18,267	15,222
Surplus	15,946	21,465
Solvency margin ratio	187%	241%

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

45. 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)).

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

45. 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, 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 2011	
		Carrying amounts	Estimated fair values
Financial assets:			
	Held-to-maturity financial assets	202,536	201,656 34
	Investments classified as loans and receivables	32,929	32,524
Financial liabilities:			
	Subordinated debt	8,000	8,043
		As at 31 December 2010	
		Carrying amounts	Estimated fair values
Financial assets:			
	Held-to-maturity financial assets	157,360	154,812
	Investments classified as loans and receivables	22,811	22,434
Financial liabilities:			
	Subordinated debt	2,338	2,329

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.

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

Determination of fair value and fair value hierarchy

The Group establishes a framework that includes a hierarchy used to classify the inputs used in measuring fair value for financial assets. 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

Determination of fair value and fair value hierarchy (continued)

The levels of the fair value hierarchy are as follows:

- Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities ("Level 1");
- 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
- Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3").

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	As at 31 December 2011			Total fair value
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Investment funds	652	-	-	652
- Debt securities	2,255	-	-	2,255
	2,907	-	-	2,907
Available-for-sale financial assets				
- Equity securities	26,862	-	-	26,862
- Investment funds	19,895	-	-	19,895
- Other equity investments	-	-	6,164	6,164
- Debt securities	16,906	47,765	-	64,671
	63,663	47,765	6,164	117,592
Total	66,570	47,765	6,164	120,499
	As at 31 December 2010			Total fair value
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Investment funds	252	-	-	252
- Debt securities	2,295	1,057	-	3,352
	2,547	1,057	-	3,604
Available-for-sale financial assets				
- Equity securities	24,979	-	-	24,979
- Investment funds	24,605	-	-	24,605
- Other equity investments	-	-	5,240	5,240
- Debt securities	16,308	48,627	-	64,935
	65,892	48,627	5,240	119,759
Total	68,439	49,684	5,240	123,363

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

Determination of fair value and fair value hierarchy (continued)

In 2011, the Group transferred certain debt securities from Level 1 to Level 2 as there were no available quoted prices (unadjusted) in active markets. As at 31 December 2011, the carrying amount of these debt securities approximated RMB1,156 million. There were no transfers between Level 1 and Level 2 in 2010.

Reconciliation of movements in Level 3 financial instruments:

	2011				
	Beginning of year	Purchases	Transfer from cost model to Level 3	Changes in fair value	End of year
Available-for-sale financial assets					
- Other equity investments	5,240	1,296	-	(372)	6,164
	2010				
	Beginning of year	Purchases	Transfer from cost model to Level 3	Changes in fair value	End of year
Available-for-sale financial assets					
- Other equity investments	-	148	5,154	(62)	5,240

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2011	2010
Profit before tax	10,399	10,670
Investment income	(16,392)	(20,657)
Foreign currency losses, net	71	200
Finance costs	682	238
Charge of impairment losses on insurance receivables and other assets, net	45	74
Depreciation of property and equipment	798	801
Depreciation of investment properties	172	-
Amortization of other intangible assets	184	176
Amortization of prepaid land lease payments	2	5
Amortization of other assets	18	7
(Gain)/loss on disposal of items of property and equipment, intangible assets and other long-term assets, net	(665)	10
(Reversal)/accrual of provision for lawsuits	(106)	21
Gain from disposal of a jointly-controlled entity	(479)	-
Share of (profit)/loss of a jointly-controlled entity	(16)	12
	(5,287)	(8,443)
Increase in reinsurance assets	(1,771)	(3,200)
Increase in insurance receivables	(865)	(1,615)
Increase in other assets	(1,783)	(951)
Change in insurance contract liabilities, net	66,569	72,255
Increase in other operating liabilities	1,607	4,564
Cash generated from operating activities	58,470	62,610

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

47. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

(a) Sale of insurance contracts

	<u>2011</u>	<u>2010</u>
Equity holders who individually own more than 5% of equity interests of the Company	9	73

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

(b) Compensation of key management personnel

	<u>2011</u>	<u>2010</u>
Salaries, allowances and other short-term benefits	31	38
Long-term incentive paid (1)	12	3
Total compensation of key management personnel	<u>43</u>	<u>41</u>

(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.

(c) 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.

Apart from the disposal of equity interest in Pacific Antai and the disposal of the Institute-related assets, as disclosed in note 23 and note 34, respectively, during 2010 and 2011, the Group had other transactions with other 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, the sale, purchase, 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.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

48. COMMITMENTS

(a) Capital commitments

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

		31 December 2011	31 December 2010
Contracted, but not provided for	(1), (2)	1,712	2,436
Authorized, but not contracted for	(1)	1,000	4,300
		<u>2,712</u>	<u>6,736</u>

- (1) In March 2008, the Company's shareholders' general meeting approved to establish the IT Backup Center and the Customer Support Center in the Chengdu High-tech Zone. The expected total investment amounts to RMB1,000 million. As at 31 December 2011, the cumulative amount paid by the Company was RMB40 million, and RMB960 million was disclosed as capital commitments contracted but not provided for.

In March 2011, the 4th meeting of the Company's 6th term of board of directors resolved to increase the total investment of the above project by RMB1,000 million. As at 31 December 2011, the additional investment was disclosed as capital commitments authorized but not contracted for.

- (2) In December 2011, CPIC Life and CPIC Property, acting as principals, entered into the "Subscription Agreement regarding Pacific-Longyuan Electric Power Debt Investment Scheme" with CPIC Asset Management. The investments amount to RMB1,475 million and RMB295 million respectively. As at 31 December 2011, the cumulative amounts paid by CPIC Life and CPIC Property were RMB1,300 million and RMB260 million respectively, and the total unpaid amount of RMB210 million was disclosed as capital commitments contracted but not provided for.

(b) Operating lease commitments

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

	31 December 2011	31 December 2010
Within 1 year (including 1 year)	436	352
1 to 2 years (including 2 years)	316	249
2 to 3 years (including 3 years)	206	163
3 to 5 years (including 5 years)	228	183
More than 5 years	<u>343</u>	<u>346</u>
	<u>1,529</u>	<u>1,293</u>

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
NOTES TO FINANCIAL STATEMENTS (continued)
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

48. COMMITMENTS (continued)

(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 2011	31 December 2010
Within 1 year (including 1 year)	561	19
1 to 2 years (including 2 years)	449	40
2 to 3 years (including 3 years)	260	40
3 to 5 years (including 5 years)	155	22
More than 5 years	19	-
	<u>1,444</u>	<u>121</u>

49. 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 2011, 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.

50. POST BALANCE SHEET EVENTS

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

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on 23 March 2012.