中國太平洋保險（集團）股份有限公司

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(**Stock Code: 02601**)

Announcement of Audited Annual Results

for the year ended 31 December 2014

Chairman statement

Dear shareholders:

The past year can be aptly called a milestone in the evolution of China's insurance industry. Government released a raft of policies to boost its development, culminating in the promulgation of the new *Guo Shi Tiao* (Opinions on Accelerating the Development of Modern Insurance Industry). An even brighter future of the business beckons, and hundreds of millions of people in China stand to gain. As a major player on the market, we feel proud to be part of this process.

The insurance market is now part of China's effort to improve governance and to "modernize" its administration capabilities, while better satisfying consumers' needs as they become more affluent. This presents an important window of opportunity for insurance, and in particular, for pension, health and agricultural insurance. To capture these opportunities, we vigorously promoted the expansion of our insurance-based portfolio, adding 4 new companies, and extended the scope of our services and products.

We established the CPIC Allianz Health Insurance Co., Ltd. after over a year's preparation. The new company is positioned to provide professional health products and health management services to domestic mid-and-high-end customers. It will be a platform for consolidation of resources, combining CPIC's strengths in market standing, branding, customer resources, distribution channels and sales network with Allianz's strengths in product development, services, operation and risk management.

Changjiang Pension went through a major management restructuring in 2014, with its new chairman nominated and appointed by CPIC Group. This marks further integration of this pension subsidiary into CPIC Group's centralized governance, promoting resource-sharing across the entire organization, and boosting the development of its corporate annuity business across the country.

Our property casualty subsidiary became the single largest shareholder of the Anxin Agricultural Insurance Co., Ltd. The thinking is to leverage Anxin's insurance expertise and human resources, and combine them with the geographic reach of CPIC Group. This will boost the overall capability and competitiveness of our agricultural insurance and pave the way for its healthy and rapid development.

We established Pacific Insurance Aging Industry Investment Management Co., Ltd., seeking to provide professional long-term care to mid-and-high-end customers. Light in assets, the new operation focuses on offering a wide range of health-related services to the elderly population in urban areas and seeks to work out a business model that can be duplicated across the country.

The year 2014 also saw sustained value growth.

We refined our value-oriented business strategies and committed ourselves to providing high-quality products and services to our customers. In 2014, we realized an operating revenue[note 1] of RMB219.778 billion, up 13.8%, with net profit[note 2] of RMB11.049 billion and earnings per share[note 2] of RMB1.22, up 19.3% for both. Weighted average ROE[note 2] stood at 10.3%, up 0.8 percentage point. As of the end of 2014, group EV amounted to RMB171.294 billion, an increase of 18.6% from the end of 2013, of which 74.064 billion was value of in-force business (VIF) which also experienced an increase of 18.6%. Our life business achieved one-year value of new business of RMB8.725 billion, up 16.3%, and its compound growth rate over the previous 5 years reached 9.4%. We maintained a strong financial position, with a solvency margin ratio of 280%. For the fourth consecutive year we ranked 384th place on the list of Fortune Global 500, up 45 notches from the end of 2013.

In 2014, we delivered steady growth in both life and asset management businesses.

Our life business persists in the focus on the agency channel and regular premium business and delivered sustained increase in NBV and the NBV margin. We recorded life gross written premiums (GWPs) of RMB98.692 billion, an increase of 3.8%, and made much progress in the value-centered business mix restructuring. The individual business, which mainly consists of the agency channel business, garnered RMB71.693 billion, up 18.7%, and accounting for 72.6% of total life premiums. Regular premium's share of total life GWPs was 85.1%, and its share of first year premiums (FYPs) 54.4%. On value metrics, the NBV for 2014 amounted to RMB8.725 billion, up 16.3%, with a NBV margin of 24.5%, up 3.8 percentage points. As for the individual business, monthly average agent number stood at 344,000, a growth of 14.3%. In particular, the growth of active and high-performing agents, a key measure of the quality of the sales force was both 18.4%, testifying to further improvement in our ability to create value.

Our asset management business took the initiative to adapt to regulatory changes such as the deregulation of life insurance rates and the liberalization of investment for insurance companies, and has delivered a rapid increase in assets under management (AuM) and a steady rise in investment yields. We introduced more market mechanisms into the model for in-house assets management, and in particular, gave priority to the development of alternative business so as to enhance our capabilities to compete on the market with other money managers. As of the end of 2014, group total AuM amounted to RMB910.542 billion, an increase of 21.6% from the end of 2013. Of this, third-party AuM amounted to RMB148.656 billion, up 80.7% from the end of 2013 and generating a management fee income of RMB396 million, up 77.6%. At the same time, we persisted in asset liability management (ALM) and continued to optimize asset allocation, delivering steady improvement in investment yields. In 2014, total investment yield and growth rate of investments' net asset value reached 6.1% and 8.8% respectively, up 1.1 and 4.5 percentage points.

But there was also disappointment. We feel sorry about our property casualty business, which realized GWPs of RMB93.113 billion, with the growth slowing down to 13.8%. It reported underwriting losses for the first time in 6 years, with the combined ratio reaching 103.8%, up 4.3 percentage points. In particular, none of the top 5 lines of business recorded any underwriting profit, meaning we are trailing further behind our competitors. The causes are many and run deep. There was the impact of reserve strengthening. But the performance also mirrors our problems in development strategy, operational mechanisms, as well as risk selection and claims cost management. As a company which highly values its investors' trust, we blame ourselves and keenly feel the responsibilities on our shoulders. There is no denying that the situation is grave, and we will meet the challenges head-on and take radical steps to improve the combined ratio. We have enhanced risk selection, rationalized expense allocation, and stepped up the implementation of intensive management initiatives to better control claims costs. On the other hand, we've revisited and reformed the management model for our property casualty business, putting in place a "closed-loop" of management system for motor, non-auto and agricultural insurance respectively in a bid to improve centralization and specialization. We'll adhere to underwriting profitability and sustainable growth, and are confident that these steps will help us deliver a turn-around in our property casualty business.

In 2014, we pressed ahead with the customer-need-oriented transitioning initiatives and achieved some success.

The customer-need-driven innovations in products and services helped us achieve a shift in the mode of value growth. CPIC Life launched *Caifu Shengji*, a universal plan and *Anxingbao*, a long term PA product, which promoted up-selling to existing customers. In 2014, we successfully up-sold to a total of 1,522,200 existing customers in individual business, up 56.9%, with GWPS of RMB9.776 billion, up 57.5% and representing 62.7% of FYPs from the agency channel. On the property casualty side, based on insights into needs of small-and-medium-sized corporate clients, we developed a product package called *Caifu Ubao*, catering for restaurants, hotels and machinery manufacturers. The package is now available in 41 of our branch offices and provides around 80,000 SMEs with a cover of more than RMB800 billion and RMB200 billion in property and liability respectively as measured by sum assured.

We also made much progress in customer-sharing across channels and companies, which helped to improve the input-output ratio. For example, our life agents may recommend life products or services to our motor insurance customers. With this arrangement, we can satisfy diverse insurance needs of our customers, and on the other hand, help our agents gain access to potential customers. So far, this mechanism is already up and running in 21 offices of CPIC Life and CPIC P/C. Besides, we've introduced the mobile CRM system to standardize the operational model.

We also promoted the use of new technologies to improve customer interface. Our e-commerce platform provides a total of 82 products and 100 service items, and supports online functions such as policy inquiries by 4.57 million customers. In 2014, our internet platforms handled up to 77 million service requests. We built a lab for mobile APPs, the first of its kind in the industry, which serves as an enterprise-level incubator for mobile APPs. Our mobile distribution platform, *Shenxing Taibao*, has become an eco-system for mobile APPs, covering sales, service, claims management and administration, serving 16 million customer service requests in 2014 with 120,000 terminals in use.

We are committed to corporate social responsibility. In the context of changing demographics, surging demand for health services, mounting concerns over food safety and government's focus on farmers and agriculture, we launched a series of products and services to contribute to the improvement of the lot of the Chinese people. We strived to promote public good. Our charitable program, "Responsibility for a Better Future", is gaining traction across the country and has benefited an increasing number of people. In environmental protection, we promoted public liability insurance for environmental pollution and wild-life, as well as forest insurance. To cope with higher risk of catastrophes as a result of climate change, we prepared regular risk-assessment reports, with concrete recommendations for policy-makers. We made ethical investments. Apart from their finances, business strategies and market conditions, we also look at the targets' track record in fulfilling their social and environmental responsibilities.

Looking into 2015, we have reasons to be confident. With the implementation of government's supportive policies and rising public demand for insurance, and in particular, for pension and health, the insurance sector will be geared for even faster growth. On the other hand, the deepening of market-based reform means more correlation between the insurance market and other markets such as money market, capital market and foreign exchange market. This will lead to more intense competitions while allowing for more differentiation in products, services and business strategies. Increased use of new technologies has made it possible to do customer profiling based on large amounts of nebulous and unstructured data, translating big data into customer insights, thus making customers' retention, mining and life cycle management something viable.

Against this backdrop, in 2015, we will stay focused on the insurance business and continue to pursue value growth, while forging ahead with the transitioning initiatives in response to the changing environment. We will focus on the NBV growth for life, the control of the combined ratio for property casualty business, investment capabilities for asset management, competitiveness for health business, asset management for pension, service operation for the elderly care business, and the realignment of resources at the group level to further optimize the insurance-based portfolio. The transitioning initiatives, which we launched 4 years ago, have entered a critical stage. In 2015, a large number of successful pilot programs will be duplicated across our branch offices, boosting our ability to pursue sustainable value growth.

We are keenly aware of the fact that our growth over the past 20-odd years was based on our value proposition for our customers numbering over 80 million. I'd like to thank them for their unstinting support. I also want to express my gratitude to CPIC's 90,000 employees and 350,000 agents for their hard work and commitment. With their support, I'm confident of delivering another year of success in 2015.

Notes:

1. Based on PRC GAAP.

2. Attributable to equity holders of the parent.

Review and analysis of operating results

Given our strategic focus on insurance, we made continued efforts to extend our insurance-based business portfolio, and added to it CPIC Allianz Health Insurance Co. Ltd. and Pacific Insurance Aging Industry Investment Management Co., Ltd., on top of the existing subsidiaries of CPIC Life, CPIC P/C, CPIC AMC, Changjiang Pension, CPIC HK and CPIC Online. We provide life insurance through CPIC Life, property casualty insurance through CPIC P/C and CPIC HK, health insurance through CPIC Allianz Health and manage insurance funds, including third-party assets, through our investment arm, CPIC AMC. At the same time, we conduct pension-related business via Changjiang Pension. We also provide comprehensive services, as well as life and property casualty insurance products via the telemarketing and e-commerce platforms of CPIC Online (www.ecpic.com.cn). Besides, we engage in the investment in, and construction, operation and management of the care for the elderly population, as well as related health business via Pacific Insurance Aging Industry Investment Management Co., Ltd.

Performance overview

We persisted in the pursuit of sustained value growth, focused on the core business of insurance, pressed ahead with the transitioning initiatives, and delivered overall value growth for the reporting period.

I. Performance highlights

Steady growth in Group value. As at the end of 2014, Group embedded value stood at RMB171.294 billion, an increase of 18.6% from the end of 2013. Of this, Group value of in-force business[note 1] reached RMB74.064 billion, up 18.6% from the end of 2013. Our life insurance business delivered RMB8.725 billion in one-year new business value, up 16.3%.

Sound financial results. For the reporting period, we recorded an operating revenue[note 2] of RMB219.778 billion, up 13.8%, of which GWPs amounted to RMB191.805 billion, up 8.4%. Net profit[note 3] reached RMB11.049 billion, with earnings per share[note 3] reaching RMB1.22, both increased by 19.3%. Net assets[note 3] totaled RMB117.131 billion, a growth of 18.4% from the end of 2013 and the weighted average return on equity[note 3] stood at 10.3%, 0.8 percentage point higher than in 2013.

Solid increase in AuM. As of the end of 2014, our total AuM[note 5] increased by 21.6% to RMB910.542 billion, of which, in-house AuM stood at RMB761.886 billion, rising 14.3% from the end of 2013, and third-party AuM[note 5] RMB148.656 billion, an increase of 80.7% versus the end of 2013.

Sustained growth in NBV for life

- The NBV of our life business grew by 16.3% and reached RMB8.725 billion while the NBV margin[note 4], at 24.5%, increased by 3.8 percentage points.
- The NBV from the individual business was RMB8.069 billion, accounting for 92.5% of the total, with its share rising by 4.7 percentage points. First year premiums from the individual business amounted RMB17.281 billion, a growth of 20.2%.
- Monthly average number of agents[note 5] stood at 344,000, up 14.3%. First year premiums per agent[note 5] per month reached RMB4,097, up 5.9%.

Underwriting losses for property casualty business

- Our property casualty insurance business[note 6] reported GWPs of RMB93.113 billion, up 13.8%, with a combined ratio of 103.8%, rising by 4.3 percentage points.
- CPIC P/C achieved GWPs of RMB73.175 billion from its automobile business, up 14.6 %, with a combined ratio of 102.0%, an increase of 2.2 percentage points. It reported RMB19.851 billion from its non-automobile segment, up 10.9%, with a combined ratio of 112.6%, rising by 14.2 percentage points.
- CPIC P/C recorded RMB19.659 billion in GWPs from telemarketing, internet sales and cross-selling, up 17.9%, which represented 21.1% of the total GWPs of CPIC P/C, with the share increasing by 0.7 percentage point.

Rapid growth of investment income for asset management business

- Group in-house AuM generated a total investment income of RMB41.973 billion, an increase of 32.9%. Total investment yield reached 6.1%, up 1.1 percentage points, the highest in 5 years. Net investment income amounted to RMB36.718 billion, an increase of 16.9%, with the net investment yield standing at 5.3%, rising by 0.3 percentage point. The growth rate of investments' net asset value was 8.8%, an increase of 4.5 percentage points.

- Third-party AuM totaled around RMB150 billion, generating a fee income of RMB396 million, up 77.6%.
- In 2014, CPIC AMC issued in total 26 investment plans linked to infrastructure and real estate, raising a total of RMB32.319 billion.
- Changjiang Pension's assets under investment management[note 5] reached RMB58.815 billion, rising by 53.9% from the end of 2013.

Notes：

1. Based on Group's share of life's value of in-force business after solvency.
2. Based on PRC GAAP.
3. Attributable to equity holders of the parent.
4. NBV margin = NBV/annualized first year premiums.
5. Figures for 2013 have been restated.
6. This includes both CPIC P/C and CPIC HK.

II. Key performance indicators

Unit: RMB million

Indicators	As at 31 December 2014/for the period between January and December in 2014	As at 31 December 2013/for the period between January and December in 2013	Changes (%)
Key value indicators			
Embedded value of the Group	171,294	144,378	18.6
Value of in-force business[note 1]	74,064	62,422	18.6
Net assets of the Group[note 2]	117,131	98,968	18.4
New business value of CPIC Life	8,725	7,499	16.3
New business margin of CPIC Life (%)	24.5	20.7	3.8pt
Combined ratio of CPIC P/C (%)	103.8	99.5	4.3pt
Growth rate of investments' net asset value (%)	8.8	4.3	4.5pt
Key operating indicators			
GWPs	191,805	176,923	8.4
CPIC Life	98,692	95,101	3.8
CPIC P/C	93,026	81,744	13.8
Market share			
CPIC Life (%)	7.8	8.9	(1.1pt)
CPIC P/C (%)	12.3	12.6	(0.3pt)
Number of Group customers (in thousand)[note 3]	84,627	78,973	7.2
Average number of insurance policies per customer	1.52	1.49	2.0

Monthly average agent number (in thousand)[note 4]	344	301	14.3
Monthly average first year premiums per agent (RMB)[note 4]	4,097	3,870	5.9
Total investment yield (%)	6.1	5.0	1.1pt
Net investment yield (%)	5.3	5.0	0.3pt
Third-party AuM[note 4]	148,656	82,249	80.7
Third-party AuM by CPIC AMC	89,841	44,038	104.0
Assets under investment management by Changjiang Pension[note 4]	58,815	38,211	53.9
Key financial indicators			
Net Profit attributable to equity holders of the parent	11,049	9,261	19.3
CPIC Life	9,084	6,219	46.1
CPIC P/C	1,037	2,622	(60.5)
Solvency margin ratio (%)			
CPIC Group	280	283	(3pt)
CPIC Life	218	191	27pt
CPIC P/C	177	162	15pt

Notes:

1. Based on Group's share of life's value of in-force business after solvency.

2. Attributable to equity holders of the parent.

3. The number of Group customers refers to the number of applicants and insureds who hold at least one insurance policy issued by one or any of CPIC subsidiaries as at the end of the period/year which has an insurance coverage period of not less than 365 days. In the event that the applicants and insureds are the same person, they shall be deemed as one customer.

4. Figures for 2013 have been restated.

Life insurance business

In 2014, CPIC Life continued to implement its business strategy of focusing on the agency channel and regular premium business, and delivered rapid growth in the NBV and sustained improvement in the NBV margin. The one-year new business value of our life insurance business amounted to RMB8.725 billion, up 16.3%. The NBV margin reached 24.5%, up 3.8 percentage points.

I. Business analysis

In 2014, CPIC Life continued to implement the business strategy of focusing on the agency channel and regular premium business, and delivered rapid growth in the NBV and sustained improvement in the NBV margin. In 2014, our life insurance business reported GWPs of RMB98.692 billion, up 3.8%. Of this, FYPs reached RMB32.250 billion, down by 5.0%, and renewal business RMB66.442 billion, up 8.6%. The one-year new business value of our life business amounted to RMB8.725 billion, up 16.3%. The NBV margin reached 24.5%, up 3.8 percentage points.

(I) Analysis by channels.

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Invididual business			
GWPs	71,693	60,391	18.7
New policies	17,281	14,379	20.2
Regular premium	16,148	13,202	22.3
Single premium	1,133	1,177	(3.7)
Renewed policies	54,412	46,012	18.3
Group & Partnerships			
GWPs	26,999	34,710	(22.2)
New policies	14,969	19,560	(23.5)
Regular premium	1,394	2,201	(36.7)
Single premium	13,575	17,359	(21.8)
Renewed policies	12,030	15,150	(20.6)
Total	**98,692**	**95,101**	**3.8**

Note: Figures for 2013 have been restated.

As part of our strategic transitioning which is driven by customers' needs, we restructured our life insurance business into the individual business and group & partnerships, based on the difference in customer types. The former focuses on the development of individual customers, while the latter on corporate clients, government business and third-party agency channels.

1. The individual business

For the reporting period, we realized RMB71.693 billion in GWPs for individual business, up 18.7%, representing 72.6% of total life GWPs. Of this, new polices contributed RMB17.281 billion, up 20.2%, and renewal business RMB54.412 billion, an increase of 18.3%.

For the individual business, we persisted in promoting the quality and productivity of our sales force. We stepped up selection during recruitment, revamped agency management rules to promote retention, enhanced customer insights to drive new customer acquisition and up-selling to existing customers, launched products and productivity campaigns, and stepped up infrastructure management in training and attendance so as to enhance agents' skills and capabilities. As a result of these measures, the mix of our sales force continued to improve. Monthly average headcount reached 344,000, up 14.3%, with increased proportions of productive and high-performing agents. Monthly average FYPs per agent reached RMB4,097, up 5.9%.

For 12 months ended 31 December	2014	2013	Changes (%)
Monthly average agent number (in thousand)	344	301	14.3
Monthly average first-year GWPs per agent (RMB)	4,097	3,870	5.9
Average number of new long-term life insurance policies per agent per month	1.21	1.23	(1.6)

Note: Figures for 2013 have been restated.

2. Group & partnerships

In 2014, we enhanced business selection for this channel. For the reporting period, we realized RMB26.999 billion in GWPs from this channel, down by 22.2%. It consisted of RMB14.969 billion in first year premiums, down by 23.5% and RMB12.030 billion in renewal business, down by 20.6%.

With the restructuring, the new channel now focuses on third-party channel management, employees' benefits (EB) business and government business, seeking to accelerate its transformation and realize sustained profits. For third-party channel management, we'll step up the transformation of bancassurance, re-positioning customer segments to push innovations and profitability. For EB business, we're pursuing a shift towards more comprehensive solutions, with continued efforts in innovations in products and services, as well as improvement in customer interface. As for government business, we'll actively participate in government-sponsored health insurance program for terminal illnesses, while continuing to extend our scope of service, duplicate successful models, set benchmarks so that insurance can play its due role in public administration. As of the end of 2014, we already participated in the terminal illness program in 9 provinces or municipalities.

(II) Analysis by products

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
GWPs	**98,692**	**95,101**	**3.8**
Traditional	24,178	16,773	44.1
Participating	67,929	72,627	(6.5)
Universal	43	54	(20.4)
Short-term accident and health	6,542	5,647	15.8

We give priority to risk protection and long-term savings products while seizing opportunities arising from the reform of the pricing for traditional life insurance. For the reporting period, traditional business generated RMB24.178 billion in GWPs, up 44.1%, participating RMB67.929 billion, down by 6.5%, and short-term accident & health RMB6.542 billion, up15.8%.

Information of the top five products

Unit: RMB million

For 12 months ended 31 December 2014

Ranking	Name	Type	Premiums	Sales channel
1	E66A-10-year *Hong Fu Bao* 紅福寶兩全保險	Participating endowment	8,290	Group & Partnerships
2	EL82-*Hongxin Rensheng* 鴻鑫人生兩全保險	Participating endowment	6,449	Individual /Group & Partnerships
3	EM11-*Hong Fa Nian Nian* 鴻發年年全能定投年金	Participating annuity	6,249	Individual /Group & Partnerships
4	E24-*Bao De Ying(A)* 保得赢（A 款）兩全保險	Traditional endowment	5,286	Group & Partnerships

5	EM20-*Hong Fa Nian Nian* A 2013 鴻發年年全能年金保險（分紅型）A 款（2013 版）	Traditional annuity	4,274	Individual /Group & Partnerships

(III) Policy persistency ratio

For 12 months ended 31 December	2014	2013	Changes (%)
Individual life insurance customer 13-month persistency ratio (%)[note 1]	89.8	90.2	(0.4pt)
Individual life insurance customer 25-month persistency ratio (%)[note 2]	86.4	87.0	(0.6pt)

Notes:

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

Both ratios maintained healthy levels, though falling slightly year-on-year due to the rise in surrender rate from bancassurance which was still in the period of adjustment.

(IV) Top 10 regions for GWPs

Our GWPs mainly came from economically developed regions or populous areas.

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
GWPs	**98,692**	**95,101**	**3.8**
Jiangsu	10,407	10,000	4.1
Henan	8,936	8,671	3.1
Shandong	8,122	7,597	6.9
Guangdong	7,230	6,668	8.4
Zhejiang	6,975	6,636	5.1
Hebei	5,582	5,717	(2.4)
Hubei	4,730	4,371	8.2
Shanxi	4,703	4,516	4.1
Beijing	3,897	3,965	(1.7)
Sichuan	3,566	4,310	(17.3)
Subtotal	64,148	62,451	2.7
Others	34,544	32,650	5.8

II. Financial analysis

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net premiums earned	97,234	93,268	4.3
Investment income[note]	34,922	26,576	31.4
Other operating income	966	768	25.8
Total income	**133,122**	**120,612**	**10.4**
Net policyholders' benefits and claims	(95,069)	(89,451)	6.3
Finance costs	(2,690)	(2,626)	2.4
Interest credited to investment contracts	(1,373)	(1,924)	(28.6)
Other operating and administrative expenses	(22,284)	(19,046)	17.0
Total benefits, claims and expenses	**(121,416)**	**(113,047)**	**7.4**
Profit before tax	11,706	7,565	54.7
Income tax	(2,622)	(1,346)	94.8
Net profit	**9,084**	**6,219**	**46.1**

Note: Investment income includes investment income and share of profit/(losses) in equity accounted investees.

Investment income for the reporting period was RMB34.922 billion, up 31.4%, due to higher interest payments on fixed income investments and higher securities trading gains.

Net policyholders' benefits and claims amounted to RMB95.069 billion, up 6.3%. Of this, death and other benefits paid increased by 41.6%, largely due to the impact of higher amounts surrendered and decrease in the payment of maturity and survival benefits.

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net policyholders' benefits and claims	**95,069**	**89,451**	**6.3**
Life insurance death and other benefits paid	40,245	28,420	41.6
Claims incurred	2,604	1,849	40.8
Changes in long-term insurance contract liabilities	47,250	55,056	(14.2)
Policyholder dividends	4,970	4,126	20.5

Finance costs amounted to RMB2.690 billion in 2014, an increase of 2.4%, largely attributable to higher interest expenses on securities sold under agreements to repurchase.

Other operating and management expenses amounted to RMB22.284 billion, up 17.0%. The increase was mainly caused by growing business.

As a result, CPIC Life recorded a net profit of RMB9.084 billion for 2014.

Property casualty insurance business

In 2014, our property casualty business faced formidable challenges. It recorded RMB93.113 billion in GWPs, up 13.8%. The combined ratio stood at 103.8%, up 4.3 percentage points, incurring underwriting losses for the first time in 6 years. To cope with the grave situation, we'll take a multi-pronged approach towards the control of the combined ratio, seeking to address the root-cause. We'll enhance risk selection and claims cost control at the same time, making greater efforts to improve the intensive management for expenses, so as to put in place an effective and end-to-end control system for the combined ratio. On the other hand, we'll continue to refine the "closed-loop" management systems for auto insurance, non-auto business, and agricultural insurance, in a bid to increase specialization and centralization.

I. CPIC P/C

(I) Business analysis

In 2014, CPIC P/C reported GWPs of RMB93.026 billion, up 13.8%, with a combined ratio of 103.8%, up 4.3 percentage points, incurring underwriting losses for the first time in 6 years. Going forward, the company will focus on refining the "closed-loop" management systems for auto insurance, non-auto business, and agricultural insurance, in a bid to increase specialization and centralization. It will also enhance risk selection and claims cost control, and improve the intensive management for expenses, so as to achieve a turnaround.

1. Analysis by lines of business

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
GWPs from insurance business	**93,026**	**81,744**	**13.8**
Automobile insurance	73,175	63,849	14.6
Compulsory motor insurance	15,869	14,531	9.2
Commercial automobile insurance	57,306	49,318	16.2
Non-automobile insurance	19,851	17,895	10.9
Commercial property insurance	5,912	5,725	3.3
Liability insurance	3,706	2,767	33.9
Accident insurance	2,610	2,400	8.8
Cargo insurance	1,794	1,661	8.0
Others	5,829	5,342	9.1

(1) Automobile insurance

For the reporting period, we reported GWPs of RMB73.175 billion from automobile business, up 14.6%, with a combined ratio of 102.0%, up 2.2 percentage points, largely due to increasing competitions, claims cost inflation and reserve strengthening.

In 2014, we strengthened segmentation between corporate clients and individual customers to support differentiation in our business strategies, giving priority to individual customers while maintaining stable development of corporate client business. We stepped up investment in high-quality customers, in a bid to increase their share, and in 2014, the renewal ratio of commercial auto business customers with reported claims from 0 to 1 reached 63.6%, up 1.2 percentage points.

Going forward, we'll step up channel specialization, optimizing the multi-dimensional accounting system to accelerate the development of low-cost channels while strictly controlling that of high-cost ones, and enhance the management of loss-making channels so that they can also turn profits. Efforts will also be made to further rationalize the centralized claims management system, increase the use of new technologies for claims management. In the mean time, in the context of the upcoming market-based reform, we'll improve our risk pricing mechanisms and enhance our capabilities in risk management based on customer segmentation.

(2) Non-auto insurance

For the reporting period, its GWPs amounted to RMB19.851 billion, up 10.9%, with its combined ratio rising 14.2 percentage points to 112.6%, due to increasing competitions, claims cost inflation and reserves strengthening.

In 2014, we pushed for faster growth of the emerging lines of business such as agricultural and credit insurance, in a bid to improve the mix of non-auto business. On the other hand, we maintained our leadership in major corporate accounts, which generated GWPs of RMB6.495 billion, up 19.0%. We continued to push C*aifu Ubao*, a non-auto insurance package with flexible sector-specific combinations targeting small-and-medium-sized corporate clients, generating RMB833 million in GWPs and adding nearly 30,000 new customers.

Going forward, we will focus on channel development, cost control and customers services so as to stabilize the development of traditional lines of business and improve their profitability. We'll also step up differentiation in customer development, and continue to consolidate our lead in major corporate accounts while tapping the potential of micro, small and medium sized clients. We'll seize the opportunities of the new *Guo Shi Tiao* to accelerate the development of the emerging lines in non-automobile business and foster competitive edge.

(3) Key financials of major business lines

Unit: RMB million

For 12 months ended 31 December 2014

Name of insurance	Premiums	Amounts Insured	Claims paid	Reserves	Underwriting profit	Combined ratio (%)
Automobile insurance	73,175	10,892,654	43,457	48,759	(1,219)	102.0
Commercial property insurance	5,889	11,054,221	3,588	5,665	(671)	119.4
Liability insurance	3,698	11,428,583	1,792	3,290	(571)	122.0
Accident insurance	2,609	23,800,772	1,254	1,948	(126)	105.0
Cargo insurance	1,778	5,288,264	1,016	883	(59)	105.0

2. Analysis by distribution channels

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
GWPs	**93,026**	**81,744**	**13.8**
Direct sales	14,805	13,155	12.5
Insurance agents	50,996	45,506	12.1
Insurance brokers	7,566	6,411	18.0
Telemarketing, Internet sales and cross-selling	19,659	16,672	17.9

In 2014, we persisted in the strategy of pursuing co-ordinated development across different channels and continued with their capacity-building.

We made steadfast efforts to boost telemarketing and internet sales in a bid to strengthen their ability to acquire customers and contribute value. GWPs from this channel amounted to RMB16.049 billion, up 18.6%. We refined the model for cross-selling to promote resource-sharing, with RMB3.610 billion in GWPs from cross-selling, up 14.8%. These two channels combined represented 21.1% of total GWPs of CPIC P/C, up 0.7 percentage point.

3. Top 10 regions for GWPs

We derived our GWPs mainly from China's eastern coastal provinces and prosperous inland regions. Looking ahead, we will rely on our nationwide distribution network to implement differentiated regional development strategies based on factors like market potential and operational efficiency.

Unit: in RMB million

For 12 months ended 31 December	2014	2013	Changes (%)

GWPs	93,026	81,744	13.8
Guangdong	13,164	11,412	15.4
Jiangsu	10,819	9,430	14.7
Zhejiang	8,890	7,390	20.3
Shanghai	7,090	6,285	12.8
Shandong	6,167	5,988	3.0
Beijing	5,227	4,769	9.6
Sichuan	3,065	2,659	15.3
Fujian	3,013	2,539	18.7
Hebei	2,634	2,388	10.3
Guangxi	2,555	2,310	10.6
Sub-total	62,624	55,170	13.5
Others	30,402	26,574	14.4

(II) Financial analysis

Unit: in RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net premiums earned	75,254	66,001	14.0
Investment income[note]	4,455	3,341	33.3
Other operating income	386	320	20.6
Total income	**80,095**	**69,662**	**15.0**
Claims incurred	(51,184)	(43,584)	17.4
Finance costs	(365)	(109)	234.9
Interest expenses on investment contract accounts	(1)	-	/
Other operating and administrative expenses	(27,266)	(22,382)	21.8
Total benefits, claims and expenses	**(78,816)**	**(66,075)**	**19.3**
Profit before tax	1,279	3,587	(64.3)
Income tax	(242)	(965)	(74.9)
Net profit	**1,037**	**2,622**	**(60.5)**

Note: Investment income includes investment income and share of profit/(losses) in equity accounted investees.

Investment income in 2014 amounted to RMB4.455 billion, up 33.3%, mainly attributable to increase in securities trading gains and interest income.

Claims incurred in 2014 totaled RMB51.184 billion, representing an increase of 17.4%, mainly due to rising claims costs.

Other operating and administrative expenses amounted to RMB27.266 billion, up 21.8%, mainly due to increased commissions on the back of market competitions and decreased reinsurers' share of expenses on the back of reduced premiums ceded to reinsurers.

Hence, a net profit of RMB1.037 billion was booked for CPIC P/C for 2014.

II. CPIC HK

We conduct overseas business via CPIC HK, a wholly-owned subsidiary. As at 31 December, 2014, its total assets stood at RMB764 million, with net assets reaching RMB290 million. Its GWPs for the reporting period amounted to RMB456 million, with a combined ratio of 95.4%, and a net profit of RMB31 million.

Asset management business

Our asset management business focuses on serving its in-house clients, while exploring ways to enhance its competitive edge to attract more third-party business. As of the end of 2014, our total AuM reached RMB910.542 billion, a growth of 21.6% from the end of 2013. Of this, in-house AuM rose by 14.3% from the end of 2013 to RMB761.886 billion, with the growth rate of Group investments' net asset value of 8.8%. Third-party AuM stood at RMB148.656 billion, up 80.7% vis-a-vis the end of 2013, and generating a fee income of RMB396 million, up 77.6%.

I. Group AuM

As of the end of 2014, Group total AuM reached RMB910.542 billion, a growth of 21.6% from the end of 2013.

Unit: RMB million

	31 December 2014	31 December 2013	Changes (%)
AuM of the Group[note]	**910,542**	**749,048**	**21.6**
Group in-house assets	761,886	666,799	14.3
Third-party AuM[note]	148,656	82,249	80.7
Third-party AuM by CPIC AMC	89,841	44,038	104.0
Assets under investment management by Changjiang Pension[note]	58,815	38,211	53.9

Note: Figures for 2013 have been restated.

II. Group in-house AuM

In 2014, China's economic growth, though slowing down, remained at reasonable levels, and was largely in line with market expectations. The moderately easy monetary policy underpinned a rising bond market, though yields on bonds fell steeply. On the other hand, the equity market, having been in decline for 4 years on end, rallied in the second half of 2014. Based on our insights into the liability profiles, we seized opportunities with the fixed income market which was at its historical highs and further optimized the mix of asset allocation so as to reduce investment risks and further align our asset allocation with the profiles of our liabilities. .

(I) Consolidated investment portfolios

Unit: RMB million

	31 December 2014	Share (%)	Share change (pt)	Change (%)
Group investment assets (Total)	761,886	100.0	-	14.3
By investment category				

Fixed income investments	660,699	86.7	1.9	16.8
– Debt securities	420,281	55.2	(0.8)	12.6
– Term deposits	165,562	21.7	0.1	14.7
– Debt investment plans	47,573	6.3	1.1	37.7
–Wealth management products[note 1]	9,450	1.2	1.0	584.8
– Other fixed income investments[note 2]	17,833	2.3	0.5	48.1
Equity investment	80,582	10.6	(0.7)	7.3
– Investment funds[note3]	33,407	4.4	(0.6)	(0.4)
–Equity securities	29,046	3.8	(0.9)	(6.9)
–Wealth management products[note 1]	7,511	1.0	0.7	313.8
–Other equity investments[note 4]	10,618	1.4	0.1	23.7
Investment properties	6,563	0.9	(0.1)	(3.4)
Cash and cash equivalents	14,042	1.8	(1.1)	(27.4)
By investment purpose				
Financial assets at fair value through profit or loss	17,764	2.3	1.5	260.6
Available-for-sale financial assets	166,601	21.9	(4.4)	(5.1)
Held-to-maturity financial assets	311,998	41.0	1.6	18.7
Interests in associates	253	-	-	/
Investment in joint ventures	11	-	-	-
Loans and other investments[note 5]	265,259	34.8	1.3	18.7

Notes:

1. Wealth management products include wealth management products issued by commercial banks, collective trust plans by trust firms, special asset management plans by securities firms and credit assets backed securities by banking institutions, etc.
2. Other fixed income investments include restricted statutory deposits and policy loans, etc.
3. The aggregate amounts of bond funds and money market funds as at 31 December 2014 and 31 December 2013 were RMB17.453 billion and RMB16.812 billion, respectively.
4. Other equity investments include unlisted equities, etc.
5. Loan and other investments include term deposits, cash and short-term time deposits, securities purchased under agreements to resell, policy loans, restricted statutory deposits, and investments classified as loans and receivables, and investment properties, etc.

1. By investment category

In 2014, our fixed income assets increased by RMB95.159 billion. Of this, bond investment and term deposits increased by 12.6% and 14.7% respectively. Of bond holdings, treasury bonds, financial bonds and enterprise bonds accounted for 17.1%, 31.7% and 51.2% respectively, with their credit rating predominantly AA+ and above. Debt investment plans grew by 37.7%. New fixed income assets for the year mostly were allocated in instruments of high credit ratings, with overall credit risk under control. Equity's share of the total portfolio was 10.6%, down by 0.7 percentage point from the end of 2013.

2. By investment purpose

By investment purpose, our in-house AuM are mainly in three categories, namely, available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments as well as loans and other investments. Of this, AFS financial assets fell by 5.1% from the end of 2013, and HTM investments rose by 18.7%, primarily due to increased investment in bonds. Loans and other investments increased by 18.7%, as a result of increased allocation in term deposits and debt investment plans.

(II) Investment income

For the reporting period, our investment income totaled RMB41.973 billion, up 32.9%. Total investment yield reached 6.1%, up 1.1 percentage points, mainly attributable to higher net investment income, a steep rise in trading gains from equity securities and an increase in provisions for asset impairment losses.

Net investment income amounted to RMB36.718 billion, up 16.9%. This increase stemmed mainly from higher interest income from fixed income investments and higher dividend income from equity securities, with the former rising by 16.9% and the latter exceeding RMB3 billion, up 17.9% year-on-year. Net investment yield reached 5.3%, up 0.3 percentage point.

The growth rate of investments' net asset value was 8.8%, up 4.5 percentage points, mainly due to an increase in unrealized gains for AFS assets as a result of the rally of the bond and stock markets.

1. Group consolidated

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Interest income from fixed income investments	33,185	28,398	16.9
Dividend income from equity securities	3,010	2,554	17.9
Rental income from investment properties	523	456	14.7
Net investment income	**36,718**	**31,408**	**16.9**
Realized gains	7,938	1,231	544.8
Unrealized gains	713	16	4,356.3
Charge of impairment losses on investment assets	(3,672)	(1,321)	178.0
Other income[note 1]	276	248	11.3
Total investment income	**41,973**	**31,582**	**32.9**
Net investment yield (%)[note 2]	5.3	5.0	0.3pt
Total investment yield (%)[note 2]	6.1	5.0	1.1pt
Growth rate of investments' net asset value (%)[notes 2, 3]	8.8	4.3	4.5pt

Notes:

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

2. CPIC Life

Unit：RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net investment income	30,770	26,731	15.1
Net investment yield (%)	5.3	5.1	0.2pt
Total investment income	35,256	26,917	31.0
Total investment yield (%)	6.1	5.1	1.0pt

Note: The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets used as the denominator are computed based on Modified Dietz method in principle in the calculation of net/total investment yield.

3. CPIC P/C

Unit：RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net investment income	4,110	3,407	20.6
Net investment yield (%)	5.3	5.0	0.3pt
Total investment income	4,455	3,358	32.7
Total investment yield (%)	5.7	4.9	0.8pt

Note: The impact of securities sold under agreements to repurchase was considered in the calculation of net investment yield. Average investment assets used as the denominator are computed based on Modified Dietz method in principle in the calculation of net/total investment yield.

(III) Total investment yield on a consolidated basis

Unit: %

For 12 months ended 31 December	2014	2013	Changes
Total investment yield	**6.1**	**5.0**	**1.1pt**
Fixed income investments[note]	5.7	5.2	0.5pt
Equity investment[note]	8.4	3.7	4.7pt
Investment properties[note]	8.1	7.1	1.0pt
Cash and cash equivalents[note]	1.6	1.4	0.2pt

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

III. Third-party AuM

(I) Third-party AuM by CPIC AMC

CPIC AMC seeks to drive its business growth through products and innovations, and has stepped up its efforts to expand the third-party business. As of the end of 2014, its third-party AuM rose by 104.0% from the end of 2013, amounting to RMB89.841 billion, with a fee income of RMB190 million, up 84.5%. During the reporting period, it successfully issued 26 debt investment plans of various types, raising in total RMB32.319 billion. Besides, to further extend its product line-up, CPIC AMC issued 33 asset management products, covering equity, bonds, hybrid, cash management, indices, FOF, deposits and alternative investments.

(II) Assets under investment management by Changjiang Pension

Changjiang Pension is committed to its core pension business, pursues long-term value growth and sustainable development. It stays focused on the trust type of pension business, striving to promote its specialization and enhance its core competitiveness in pension-related asset management. It is committed to promoting the development of China’s multi-tiered system for elderly provisions. It seeks to grow in the niche market of social security fund management, and stays actively involved in the development of China’s pension-related asset management business, so as to deliver sustainable value growth for its clients and shareholders. In 2014, in spite of economic slowdown, it saw rapid growth in both traditional and innovative businesses. It seized opportunities of the bond and equity markets, and delivered record level returns for its clients. It achieved rapid expansion in both corporate annuities and pension business, with total AuM exceeding RMB100 billion, and vast improvement in its profitability, turning profits for the first time since its incorporation. The company has begun to show advantages in differentiation, specialization and economies of scale.

Based on its corporate annuity business, the company commits itself to serving China's economic development, improving people's well-being and in particular, facilitating the reform of SOEs. It also strives to contribute to the market-based development and innovations of pension-related asset management resting on multiple pillars. With the support from the regulators, it pushed the key innovative projects in an all-around way, and launched the first collective plan for SMEs on the market, a corporate annuities debt investment plan for affordable housing, the first innovative corporate annuities investment product on the market, the first debt investment plan launched by a pension company, as well as the first pension product with deferred payment on the market. In the same year, the company obtained qualifications for equity investment from CIRC, becoming the first pension company with such qualifications. It also became the first asset manager involved in the hybrid-ownership reform of SOEs under the central government with proceeds from corporate annuities. In response to the latest developments of China's wealth management industry and in particular, the needs of its corporate clients, the company achieved a number of breakthroughs in employees' ownership, management of insurance assets, and private placement by listed firms.

As of the end of 2014, Changjiang Pension's assets under investment management reached RMB58.815 billion, rising by 53.9% from the end of 2013, and assets under custody amounted to RMB49.669 billion, up 31.5% from the end of 2013.

Analysis of specific items

This part has 8 components, including items concerning consolidated results, liquidity and solvency analysis.

I. Key consolidated results

Unit: RMB million

	31 December 2014/Year 2014	31 December 2013/Year 2013	Changes (%)	Main Reasons
Total assets	825,100	723,533	14.0	Business expansion
Total liabilities	705,905	623,147	13.3	Business expansion
Total equity	119,195	100,386	18.7	Profit for the period, fair value change on available-for-sale financial assets

Net profit attributable to equity holders of the parent	11,049	9,261	19.3	Increase in investment yield

II. Liquidity analysis

(I) Cash flow statement

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
Net cash inflow from operating activities	40,050	45,114	(11.2)
Net cash outflow from investing activities	(46,940)	(20,010)	134.6
Net cash inflow/(outflow) from financing activities	1,570	(30,581)	(105.1)

(II) Gearing ratio

	31 December 2014	31 December 2013	Changes
Gearing ratio (%)	85.8	86.3	(0.5pt)

Note: Gearing ratio = (total liabilities + equity attributable to minority interests)/total assets.

(III) Liquidity analysis

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

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

We usually record net cash inflows from our operating activities due to growing premium income. That being said, we adhere to ALM, and in line with our strategic asset allocation (SAA), we would maintain an appropriate level of allocation in high liquidity assets to meet liquidity requirement.

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

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

III. Solvency

We calculate and disclose our actual capital, required capital and solvency margin ratio in accordance with requirements by CIRC. The solvency margin ratio of domestic insurance companies in the PRC shall meet certain prescribed levels as stipulated by CIRC.

Unit: RMB million

	31 December 2014	31 December 2013	Reasons of Change
CPIC Group			
Actual solvency margin	103,293	90,081	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets
Minimum solvency margin	36,842	31,849	Growth of life and property casualty insurance business

Solvency margin ratio (%)	280	283	
CPIC Life			
Actual solvency margin	53,747	41,436	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets and capital injection
Minimum solvency margin	24,611	21,651	Growth of insurance business
Solvency margin ratio (%)	218	191	
CPIC P/C			
Actual solvency margin	21,461	16,441	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets, capital injection and subordinated debt
Minimum solvency margin	12,106	10,136	Growth of insurance business
Solvency margin ratio (%)	177	162	

IV. Sensitivity analysis

(I) Sensitivity analysis of solvency

1. CPIC Life

As of the end of 2014, our actual solvency margin and minimum solvency margin stood at RMB53.747 billion and RMB24.611 billion respectively, with a solvency margin ratio of 218%. Maintaining the required capital and other market conditions being equal, we assumed a 50BPs-change in interest rates or a 10% change in stock prices (assuming the fair value of equity assets[note 1] move in proportion to stock prices), and tested their impact on our solvency margin ratio[note 2] as at 31 December 2014. The results are as follows:

31 December 2014	Changes in interest rates		Changes in equity securities prices	
	+50bp	-50bp	+10%	-10%
Solvency margin ratio (%)	216	221	228	208

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

2. CPIC P/C

As of the end of 2014, our actual solvency margin and minimum solvency margin stood at RMB21.461 billion and RMB12.106 billion respectively, with a solvency margin ratio of 177%. We assumed, while maintaining the required capital and other market conditions being equal, a 50BPs-change in interest rates or a 10% change in stock prices (assuming the fair value of equity assets[note] move in proportion to stock prices), and tested their impact on our solvency margin ratio as at 31 December 2014. The results are as follows:

31 December 2014	Changes in interest rates		Changes in equity securities prices	
	+50bp	-50bp	+10%	-10%
Solvency margin ratio (%)	176	179	182	173

Note: Equity assets do not include bond investment funds, money market investment funds, wealth management products and other equity investments.

(II) Sensitivity analysis of price risk

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

Unit: RMB million

Market value	Year 2014 / 31 December 2014	
	Impact on profit before tax	Impact on equity
+10%	242	2,918
-10%	(242)	(2,918)

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

V. Insurance contract liabilities

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

As at 31 December 2014, insurance contract liabilities of CPIC Life amounted to RMB497.089 billion, representing an increase of 11.8% from the end of 2013. Those of CPIC P/C amounted to RMB67.465 billion, an increase of 16.9%. The rise was mainly caused by business expansion and accumulation of insurance liabilities.

We also tested the adequacy of reserves at the balance sheet date. The test results show that reserves set aside for each type of insurance contracts was sufficient and no additional provision was required.

Unit: RMB million

	31 December 2014	31 December 2013	Changes (%)
CPIC Life			
Unearned premiums	1,868	1,879	(0.6)
Claim reserves	1,316	958	37.4
Long-term life insurance contract liabilities	493,905	441,924	11.8
CPIC P/C			
Unearned premiums	37,297	33,395	11.7
Claim reserves	30,168	24,308	24.1

VI. Investment contract liabilities

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

Unit: RMB million

	31 December 2013	Increase for the period			Decrease for the period		31 December 2014
		Deposit received	Interest credited	Others	Deposits withdrawn	Fees deducted	
Investment contract liabilities	34,443	5,259	1,374	949	(6,199)	(164)	35,662

VII. Reinsurance business

In 2014, premiums ceded to reinsurers are shown below:

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
CPIC Life	1,424	1,605	(11.3)
Traditional insurance	1,113	1,160	(4.1)
Participating insurance	247	252	(2.0)
Universal insurance	3	6	(50.0)
Short-term accident and health insurance	61	187	(67.4)
CPIC P/C	12,344	13,984	(11.7)
Automobile insurance	6,181	8,400	(26.4)
Non-automobile insurance	6,163	5,584	10.4

The decrease in ceded premiums for CPIC Life was due to lower reinsurance ratio whereas that for CPIC P/C was because of reduced ceded business.

In 2014, premiums ceded inwardly are set out below:

Unit: RMB million

For 12 months ended 31 December	2014	2013	Changes (%)
CPIC P/C	**188**	**130**	**44.6**
Automobile insurance	-	-	/
Non-automobile insurance	188	130	44.6

As at the end of 2014, assets under reinsurance are set out below:

Unit: RMB million

	31 December 2014	31 December 2013	Changes (%)
CPIC Life			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	11	55	(80.0)
Claim reserves	11	32	(65.6)
Long-term life insurance contract liabilities	6,873	6,347	8.3
CPIC P/C			
Reinsurers' share of insurance contract liabilities			
Unearned premiums	4,259	5,786	(26.4)
Claim reserves	6,202	5,332	16.3

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

Reinsurance Company (瑞士再保險公司).

VIII. Analysis of core competitiveness

We are a leading insurance group with a strong foothold in China, ranking 384th on the list of Fortune Global 400. We are committed to the core business of insurance and the pursuit of sustainable value growth, striving to deliver stable returns for our shareholders. Our core competitiveness rests upon:

- Strong insurance expertise, with an extended portfolio in life, property casualty, pension, health, insurance asset management and investment in care for the elderly;
- One of the most recognized insurance brand names with an extensive customer base and a nation-wide distribution network;
- Progress in the implementation of the transitioning initiatives, with intensified focus on customers' needs, improved customer interface and enhanced customer experience;
- Initial success in a new business model underpinned by both insurance and asset management, with professional insurance asset management capabilities based on ALM and market-based third-party asset management capabilities;
- Sound corporate governance, solid risk management and internal control systems and a scientific decision-making process of a modern financial institution;
- An advanced and reliable information technology system with competitive edge in operational efficiency, new technologies and customer experience;
- An experienced management team and a centralized management platform.

Outlook

I. Market environment

In 2014, China's insurance industry surpassed the mark of RMB2 trillion in GWPs, reaching RMB2,023.481 billion, a growth of 17.5%, the highest since the eruption of the international financial crisis. Of this, property casualty insurance achieved GWPs of RMB720.338 billion, up 16.0%, and the personal lines RMB1.3 trillion, an increase of 18.2%. The industry's assets exceeded the mark of RMB10 trillion, at RMB10,159.147 billion, rising 22.6% from the end of 2013.

On the back of the Opinions on Accelerating the Development of Modern Insurance Industry by the State Council, the deepening of market-based reforms and the support from the public, the insurance sector moved onto a fast track of development amid macro-economic slowdown, set records in premiums, claims pay-outs, AuM and total assets, and reached new heights in terms of risk management capability and the ability to serve the macro-economy, small and micro-businesses, agriculture and the development of rural areas.

Looking ahead into 2015, world economy will continue to feel the squeeze of the international financial crisis, and its recovery remains subdued. There will be more volatility on the international financial and commodities markets, which are increasingly impacted by geo-political factors. Domestically, the “new normalcy” of China’s economy, the promulgation of the new *Guo Shi Tiao* will have far-reaching consequences for the industry. The mid-to-high growth rates under the new economic normalcy will lay a solid foundation for the healthy development of the sector. The government’s commitment to a “pro-active fiscal policy” means increased investments or more favorable policies in agriculture, domestic consumption and people’s well-being. The new *Guo Shi Tiao,* together with other supportive documents such as the *Several Opinions of the General Office of the State Council on Accelerating the Development of Commercial Health Insurance* will be instrumental in boosting the development of insurance and present an important window of opportunity for health insurance, tax-deferred pension schemes, innovative agricultural insurance, safety liability insurance and guarantee insurance for consumer loans. Government policies for the health and care for the elderly industries will support insurance companies in their efforts to diversify their portfolio. Fund management companies owned by insurance companies will grow even faster, helping to expand the AuM. In the meantime, changing demographics and environmental pollution mean increasing demand for pension and health business. Interest rate movements, and in particular, the expectation for rate cuts would help with the sales of life insurance products. Opportunities would abound for investments in new technologies, new products, now business types and models. In a nutshell, the new *Guo Shi Tiao* will pave the way for the insurance industry to become a pillar of the financial services sector, a centerpiece of social safety net, a key driver of innovations in public administration, an engine for the upgrading of China’s economy and an enabler of the shift of government roles.

Apart from opportunities, there will also be challenges, given profound external and internal changes. With the emergence of new technologies, new business types and models, the insurance sector needs to change and innovate. With the deepening of market-based reforms such as the deregulation of participating, universal and automobile insurance, insurance companies will have to focus even more on customers, product innovations and pricing capabilities, so as to improve their input-output ratio and business models. Sustained inflation in labor and materials costs would erode profits of the automobile insurance, and on the other hand, the business model and risk management techniques of health insurance are still evolving and yet to mature.

II. Business plan

In 2014, we forged ahead with the transitioning initiatives centered on customers' needs, and delivered encouraging results. We achieved a fundamental shift in the value growth model for our life insurance business, put in place a contract-based model for ALM, with investment yields exceeding cost of liabilities, made big progress in establishing a sustainable business model for online business, with extensive use of mobile internet technologies in business operation. We set up a health subsidiary, which, together with Changjiang Pension and Anxin Agricultural Insurance Co. Ltd., went a long way to expand and optimize our portfolio. With another year of value growth, we were again ranked among Fortune Global 400.

In 2015, in response to the new economic normalcy, we will give priority to innovations and further roll-out of transitioning initiatives, in a bid to improve the company's input-output ratio and profitability, with more balanced portfolios underpinned by both insurance and asset management.

- Capturing opportunities and optimizing business portfolios to deliver sustainable value growth

We will focus on the NBV growth for life, the control of the combined ratio for property casualty business, a new business model underpinned by both insurance and asset management, competitiveness for health insurance, asset management for pension, service operation for the elderly care business, and the realignment of resources at the group level to further optimize our insurance portfolio， with an aim to enhancing our ability to pursue sustainable development.

- Driving the transitioning and upgrading through problem-solving

We'll continue to improve the smart online operational platform so as to establish a data-driven business model for customer needs. We will build a management system to enhance customers' experience, strengthen our capabilities in customer segmentation and put in place a customer-oriented, smart operational system of excellence.

- Increased accountability for risk prevention and mitigation

We'll enhance the organizational support for the transitioning initiatives, improve our financial planning and control based on value management, consolidate the infrastructure for compliance management and enterprise risk management, push for an increased role for internal auditing in oversight and the provision of value-added services so as to ensure the company's healthy development.

Change in accounting estimates

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

As at 31 December 2014, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2014 by approximately RMB4.648 billion and a decrease in profit before tax for 2014 by approximately RMB4.648 billion.

The above change in accounting estimates has been approved by the board of directors of the Company on 27 March 2015.

Embedded Value

Summary of embedded value and value of one Year's sales

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2014, and the value of one year's sales of CPIC Life in the 12 month to 31 December 2014 at risk discount rate of 11%.

Unit: RMB Million

Valuation Date	31 December 2014	31 December 2013
Group Adjusted Net Worth	**97,230**	**81,956**
Adjusted Net Worth of CPIC Life	50,386	33,791
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written prior to June 1999	(4,721)	(4,370)
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written since June 1999	94,938	80,592
Cost of Solvency Margin Held for CPIC Life	(14,867)	(12,715)
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held	75,351	63,507
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held attributable to the shareholders of CPIC Group	**74,064**	**62,422**
Group Embedded Value	**171,294**	**144,378**
Life Embedded Value	125,737	97,298
Value of One Year's Sales of CPIC Life Before Cost of Solvency Margin Held	10,205	8,680
Cost of Solvency Margin	(1,479)	(1,181)

Value of One Year's Sales of CPIC Life After Cost of Solvency Margin Held	**8,725**	**7,499**

Note that figures may not be additive due to rounding

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

New business volumes and value of one year's sales

The table below shows the volume of new business sold in terms of first year annual premium and value of one year's sales of CPIC Life after cost of solvency margin held at risk discount rate of 11% for year 2014.

Unit: RMB Million

	First Year Annual Premium (FYAP)		**Value of One Year's Sales After Cost of Solvency Margin Held**	
	2014	**2013**	**2014**	**2013**
Individual business	19,503	15,455	8,069	6,580
Group & Partnerships	16,105	20,832	656	919
Total	**35,608**	**36,287**	**8,725**	**7,499**

Note that figures may not be additive due to rounding.

Analysis of change in embedded value

The following table shows the change in the Group Embedded Value from 31 December 2013 to 31 December 2014.

Unit: RMB Million

No.	**Item**	**Value**	**Comments**
1	Embedded Value of the life business at 31 December 2013	**97,298**	
2	Expected Return on Embedded value	10,373	Expected returns on the 2013 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2014
3	Value of One Year's Sales	8,725	Value of one year's sale in respect of new

			business written in the 12 months prior to 31 December 2014
4	Investment Experience Variance	6,165	Reflects the difference between actual and assumed investment return in 2014
5	Operating Experience Variance	292	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(1,194)	Reflects assumption and methodology changes, together with model enhancements
7	Change in market value adjustment	2,494	Reflects the change in value of certain assets not valued on a market value basis
8	Capital injection	4,576	Shareholders' capital injection to CPIC Life
9	Shareholder Dividends	(2,812)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	(178)	
11	Embedded Value of the life business at 31 December 2014	**125,737**	Increased by 29.2% relative to 31 December 2013
12	Adjusted net worth of businesses other than CPIC Life as at 31 December 2013	**49,305**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	620	
14	Shareholder dividends	(3,354)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	2,007	Reflects the change in value of assets not valued on a market value basis
16	Adjusted net worth of businesses other than CPIC Life as at 31 December 2014	**48,578**	
17	Minority interests relating to equity and market value adjustments	(3,022)	Minority interests on Embedded Value as at 31 December 2014
18	Group Embedded Value as at 31 December 2014	**171,294**	
19	Embedded Value as at 31 December 2014 per share(RMB)	18.90	

Note that figures may not be additive due to rounding.

Compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

During the reporting period, the Company was in compliance with all code provisions and substantially all of the recommended best practices of the Corporate Governance Code, except

for a deviation from the code provision A.6.7 with the reasons below:
All directors (including independent non-executive directors) attended the annual general meeting of the Company held on 29 May 2014 other than 1 non-executive director who was not able to attend as he was not in Foshan.

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

During the year ended 31 December 2014, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

Proposed final dividend

On 27 March 2015, the Board recommended a final dividend of RMB0.50 per share (including tax) for the year ended 31 December 2014, amounting to approximately RMB4.531 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2014 annual general meeting of the Company ("AGM"). If approved, it is expected that the payment of the final dividend will be made on or before Friday, 17 July 2015 to the shareholders whose names appear on the H Share Register of Members of the Company on Wednesday, 3 June 2015.

Withholding of dividend income tax

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (PRC) and its implementation rules enacted in 2008, the Company is required to withhold 10% of corporate income tax when it distributes the final dividend to its non-resident enterprise shareholders whose names appear on the H Share Register of Members of the Company on Wednesday, 3 June 2015.

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC and its implementation rules and confirmed by the relevant tax authorities in the PRC after consulting with them by the Company, the Company will withhold individual income tax at the tax rate of 10% when it distributes the final dividend to individual holders of H Shares appeared on the Company's H Share Register of Members on Wednesday, 3 June 2015. However, if it is otherwise stated in the tax regulations and relevant tax treaty, the Company will withhold individual income tax based on their dividend at the required tax rate and in accordance with the relevant procedures. If the applicable dividend tax rate is less than 10%, the individual H

Share shareholders are entitled to apply for refund of the over-deducted amount on their own or appoint an agent to act on their behalf according to the tax treaty entered into between their countries of domicile and the PRC and the regulations of the relevant PRC tax authorities.

The Company will withhold the enterprise income tax as well as the individual income tax as required by law for H Share shareholders whose names appeared on the Company's H Share Register of Members on Wednesday, 3 June 2015. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share shareholders or any disputes over the withholding mechanism or arrangements.

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

Eligibility for proposed final dividend and closure of H share register of members

The H Share Register of Members of the Company will be closed from Friday, 29 May 2015 to Wednesday, 3 June 2015 (both days inclusive), during which no transfer of H shares will be registered. In order to be eligible for the entitlement of the final dividend, H Share shareholders should ensure that all transfer documents, accompanied with the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Thursday, 28 May 2015.

The Company will announce details on the payment of the final dividend for the year 2014 to A Share shareholders on the Shanghai Stock Exchange.

Eligibility for attending the AGM and closure of H share register of members

The 2014 AGM will be held on Friday, 22 May 2015. The H Share Register of Members of the Company will be closed for the purpose of determining H Share shareholders' entitlement to attend the AGM, from Wednesday, 22 April 2015 to Friday, 22 May 2015 (both days inclusive), during which no transfer of H Shares will be registered. In order to attend the AGM, H Share shareholders should ensure that all transfer documents, accompanied with the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Tuesday, 21 April 2015.

The Company will announce details on A Share shareholders' eligibility for attending the AGM on the Shanghai Stock Exchange.

Review of accounts

The audit committee of the Company has reviewed the principal accounting policies of the Group and the audited financial statements for the year ended 31 December 2014 in the presence of internal and external auditors.

Publication of results on the websites of the Hong Kong Stock Exchange and the Company

The annual report of the Company for the year ended 31 December 2014 will be dispatched to shareholders in due course and will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.cpic.com.cn).

Definitions

"The Company" or "CPIC Group"	China Pacific Insurance (Group) Co., Ltd.
"CPIC Life"	China Pacific Life Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC P/C"	China Pacific Property Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC AMC"	Pacific Asset Management Co., Ltd., a subsidiary of CPIC Group
"CPIC Allianz Health"	CPIC Allianz Health Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC HK"	China Pacific Insurance Co., (H.K.) Limited, a wholly-owned subsidiary of CPIC Group
"Changjiang Pension"	Changjiang Pension Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC Online"	Pacific Insurance Online Services Technology Co., Ltd., a wholly-owned

	subsidiary of CPIC Group
"CIRC"	China Insurance Regulatory Commission
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"RMB"	Renminbi
"pt"	Percentage point

By Order of the Board

China Pacific Insurance (Group) Co., Ltd.

GAO Guofu

Chairman

Hong Kong, 30 March 2015

As of the date of this announcement, the executive directors of the Company are Mr. GAO Guofu and Mr. HUO Lianhong; the non-executive directors of the Company are Mr. WANG Chengran, Ms. SUN Xiaoning, Mr. YANG Xianghai, Mr. WU Jumin, Mr. WU Junhao, Mr. ZHENG Anguo and Ms. HA Erman; and the independent non-executive directors of the Company are Mr. BAI Wei, Mr. LAM Chi Kuen, Mr. ZHOU Zhonghui, Mr. GAO Shanwen and Mr. FOK Kwong Man.

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

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Independent Auditor's Report

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

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 115, which comprise the consolidated and company balance sheets as at 31 December 2014, 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.

Auditor's Responsibility

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

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 auditor's judgment, 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 auditor considers 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.

Independent Auditor's Report

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

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 2014, 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
27 March 2015

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**2014**	**2013**
Gross written premiums	6(a)	191,805	176,923
Less: Premiums ceded to reinsurers	6(b)	(13,437)	(15,295)
Net written premiums	6	178,368	161,628
Net change in unearned premium reserves		(5,477)	(2,003)
Net premiums earned		172,891	159,625
Investment income	7	41,428	30,972
Other operating income		1,886	1,620
Other income		43,314	32,592
Total income		216,205	192,217
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(40,245)	(28,420)
Claims incurred	8	(54,032)	(45,657)
Changes in long-term life insurance contract liabilities	8	(47,337)	(55,056)
Policyholder dividends	8	(4,970)	(4,126)
Finance costs	9	(3,153)	(2,755)
Interest credited to investment contracts		(1,374)	(1,924)
Other operating and administrative expenses		(50,616)	(42,365)
Total benefits, claims and expenses		(201,727)	(180,303)
Share of profit in equity accounted investees		22	-
Profit before tax	10	14,500	11,914
Income tax	14	(3,255)	(2,519)
Net profit for the year		11,245	9,395
Attributable to:			
Equity holders of the parent		11,049	9,261
Non-controlling interests		196	134
		11,245	9,395
Basic earnings per share	15	RMB1.22	RMB1.02
Diluted earnings per share	15	RMB1.22	RMB1.02

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2014**	**2013**
Net profit for the year		11,245	9,395
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	16	1	(9)
Available-for-sale financial assets	16	14,523	(4,444)
Income tax relating to available-for-sale financial assets	16	(3,617)	1,105
Share of other comprehensive income in equity accounted investees	16	10	-
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		10,917	(3,348)
Other comprehensive income/(loss) for the year	16	10,917	(3,348)
Total comprehensive income for the year		22,162	6,047
Attributable to:			
Equity holders of the parent		21,788	5,963
Non-controlling interests		374	84
		22,162	6,047

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2014**	**31 December 2013**
ASSETS			
Goodwill	17	962	962
Property and equipment	18	12,960	10,542
Investment properties	19	6,563	6,795
Other intangible assets	20	886	907
Prepaid land lease payments	21	58	59
Interests in associates	23	253	-
Investment in joint ventures	24	11	11
Held-to-maturity financial assets	25	311,998	262,942
Investments classified as loans and receivables	26	61,259	41,320
Restricted statutory deposits	27	5,580	3,600
Term deposits	28	165,562	144,317
Available-for-sale financial assets	29	166,601	175,489
Financial assets at fair value through profit or loss	30	17,764	4,926
Securities purchased under agreements to resell	31	2,822	2,394
Policy loans		12,253	8,444
Interest receivables	32	15,232	12,003
Reinsurance assets	33	17,167	17,388
Deferred income tax assets	34	148	3,178
Insurance receivables	35	8,357	7,763
Other assets	36	7,444	3,932
Cash and short-term time deposits	37	11,220	16,561
Total assets		825,100	723,533

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

(All amounts expressed in RMB million unless otherwise specified)

Group	**Notes**	**31 December 2014**	**31 December 2013**
EQUITY AND LIABILITIES			
Equity			
Issued capital	38	9,062	9,062
Reserves	39	81,375	69,156
Retained profits	39	26,694	20,750
Equity attributable to equity holders of the parent		117,131	98,968
Non-controlling interests		2,064	1,418
Total equity		119,195	100,386
Liabilities			
Insurance contract liabilities	40	564,643	502,536
Investment contract liabilities	41	35,662	34,443
Policyholders' deposits		76	77
Subordinated debts	42	19,496	15,500
Long-term borrowings	43	187	188
Securities sold under agreements to repurchase	44	26,908	25,199
Deferred income tax liabilities	34	1,628	1,021
Income tax payable		1,631	867
Premium received in advance		7,860	4,886
Policyholder dividend payable		16,024	13,875
Payables to reinsurers		3,577	4,703
Other liabilities	45	28,213	19,852
Total liabilities		705,905	623,147
Total equity and liabilities		825,100	723,533

GAO Guofu
Director

HUO Lianhong
Director

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group

	2014										
		Attributable to equity holders of the parent									
		Reserves									
	Issued capital	Capital reserves	Surplus reserves	General reserves	Available-for-sale investment revaluation reserves	Foreign currency translation reserves	Share of other comprehensive income in equity accounted investees	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2014	9,062	66,742	3,089	4,544	(5,155)	(64)	-	20,750	89,906	1,418	100,386
Total comprehensive income	-	-	-	-	10,728	1	10	11,049	21,788	374	22,162
Dividend declared [1]	-	-	-	-	-	-	-	(3,625)	(3,625)	-	(3,625)
Changes in ownership interests in subsidiaries without change of control	-	-	-	-	-	-	-	-	-	109	109
Non-controlling interests on newly established subsidiaries	-	-	-	-	-	-	-	-	-	230	230
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(67)	(67)
Appropriations to general reserves	-	-	-	995	-	-	-	(995)	-	-	-
Appropriations to surplus reserves	-	-	485	-	-	-	-	(485)	-	-	-
At 31 December 2014	9,062	66,742	3,574	5,539	5,573	(63)	10	26,694	108,069	2,064	119,195

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2013, amounting to RMB3,625 million (RMB0.40 per share).

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group

	2013									
	Attributable to equity holders of the parent									
		Reserves								
	Issued capital	Capital reserves	Surplus reserves	General reserves	Foreign currency translation reserves	Available-for-sale investment revaluation reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2013	9,062	66,742	2,698	3,675	(55)	(1,866)	15,921	87,115	1,392	97,569
Total comprehensive income	-	-	-	-	(9)	(3,289)	9,261	5,963	84	6,047
Dividend declared [1]	-	-	-	-	-	-	(3,172)	(3,172)	-	(3,172)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(58)	(58)
Appropriations to general reserves	-	-	-	869	-	-	(869)	-	-	-
Appropriations to surplus reserves	-	-	391	-	-	-	(391)	-	-	-
At 31 December 2013	9,062	66,742	3,089	4,544	(64)	(5,155)	20,750	89,906	1,418	100,386

[1] Dividend declared represents the final dividend on ordinary shares declared for the year ended 31 December 2012, amounting to RMB3,172 million (RMB0.35 per share).

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Group	**Note**	**2014**	**2013**
OPERATING ACTIVITIES			
Cash generated from operating activities	51	42,521	47,237
Income tax paid		(2,471)	(2,123)
Net cash inflow from operating activities		40,050	45,114
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(3,645)	(3,676)
Proceeds from sale of property and equipment, intangible assets and other assets		56	70
Purchases of investments, net		(76,655)	(48,108)
Acquisition of a subsidiary and interests in joint ventures		(221)	(389)
Interest received		30,540	29,540
Dividends received from investments		2,985	2,553
Net cash outflow from investing activities		(46,940)	(20,010)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		1,709	(24,908)
Repayment of borrowings		(2)	(2)
Proceeds from issuance of subordinated debts		4,000	-
Interest paid		(2,431)	(2,440)
Dividends paid		(3,692)	(3,231)
Capital injection to subsidiaries by NCI		339	-
Proceeds from NCI of consolidated structured entities		1,647	-
Net cash inflow/(outflow) from financing activities		1,570	(30,581)
Effects of exchange rate changes on cash and cash equivalents		27	(178)
Net decrease in cash and cash equivalents		(5,293)	(5,655)
Cash and cash equivalents at beginning of year		19,335	24,990
Cash and cash equivalents at end of year		14,042	19,335
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		7,819	8,432
Time deposits with original maturity of no more than three months		2,803	7,697
Other monetary assets		598	432
Investments with original maturity of no more than three months		2,822	2,774
Cash and cash equivalents at end of year		14,042	19,335

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

CHINA PACIFIC INSURANCE (GROUP) CO., LTD.
BALANCE SHEET
31 December 2014

(All amounts expressed in RMB million unless otherwise specified)

Company	**Notes**	**31 December 2014**	**31 December 2013**
ASSETS			
Investments in subsidiaries	22	62,079	54,813
Property and equipment	18	2,461	1,035
Investment properties	19	2,271	2,345
Intangible assets		30	34
Prepaid land lease payments	21	35	36
Held-to-maturity financial assets	25	965	1,945
Investments classified as loans and receivables	26	1,130	-
Term deposits	28	3,860	6,407
Available-for-sale financial assets	29	15,530	16,527
Financial assets at fair value through profit or loss	30	20	41
Securities purchased under agreements to resell	31	100	100
Interest receivables	32	429	493
Deferred income tax assets		-	284
Other assets	36	181	339
Cash and short-term time deposits	37	389	2,762
Total assets		89,480	87,161
EQUITY AND LIABILITIES			
Equity			
Issued capital	38	9,062	9,062
Reserves	39	69,686	68,404
Retained profits	39	9,641	8,897
Total equity		88,389	86,363
Liabilities			
Securities sold under agreements to repurchase		70	-
Deferred income tax liabilities		6	-
Income tax payable		122	39
Due to subsidiaries		104	353
Other liabilities	45	789	406
Total liabilities		1,091	798
Total equity and liabilities		89,480	87,161

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

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

1. CORPORATE INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

(1) Changes in accounting policy and disclosures

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

HKAS 32 Amendments	Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Investment Entities
HKAS 36 Amendments	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 Amendments	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies
HKAS 19 Amendments	Defined benefit plans
Annual Improvements 2012 and 2013	Amendments to a number of HKFRSs Issued from the 2010 – 2013 reporting cycle

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

(2) New and revised standards not yet adopted

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

HKFRS 11 Amendments	Accounting for Acquisitions of Interests in Joint Operation[1]
HKAS 16 and HKAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture[1]
HKAS 27 Amendments	Equity Method[1]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 9	Financial Instruments[4]
Annual Improvements 2014	Amendments to a number of HKFRSs Issued from the 2012 – 2014 reporting cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 July 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 January 2018

(All amounts expressed in RMB million unless otherwise specified)

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

2.1 Basis of preparation (continued)

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

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

HKFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through income statement. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI which are not recycled to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9’s full impact.

HKFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 ‘Revenue’ and HKAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the full impact of HKFRS 15.

(3) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies

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

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2014. 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.

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(2) Foreign currency translation

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

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

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

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

(3) Subsidiaries

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(3) Subsidiaries (continued)

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.

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

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

(4) Investments in associates and joint ventures

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

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

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

(5) Business combinations and goodwill

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(5) Business combinations and goodwill (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(6) Related parties

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

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

or

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

(7) Property and equipment and depreciation

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(7) Property and equipment and depreciation (continued)

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.

(8) Investment properties

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

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

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

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

An investment property is 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.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(9) Intangible assets (other than goodwill)

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

(10) Operating leases

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

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

(11) Investments and other financial assets

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

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. Loans and receivables mainly comprise different kinds of account receivables, policy loans, term deposits, investments classified as loans and receivables, restricted statutory deposits and securities purchased under agreements to resell. After initial measurement, such assets are subsequently carried at 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 as "Investment income" 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 as "Investment income" when the investments are derecognized or impaired, as well as through the amortization process.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(11) Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserves 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 reserves. 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 as “Investment income”.

(12) Derivative financial instruments

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

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

(13) Fair value measurement

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(13) Fair value measurement (continued)

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

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

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

(14) Impairment of financial assets

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

Assets carried at amortized cost

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

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is 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.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(14) Impairment of financial assets (continued)

Assets carried at amortized cost (continued)

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.

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. The Group uses the weighted average method to calculate the initial costs of available-for-sale equity investments. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. The Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group usually considers a significant decline to be one in which the fair value is below the weighted average cost by more than 50% or a prolonged decline to be one in which fair value is below the weighted average cost for a continuous period of more than twelve months.

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

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

Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement. Increases in their fair value after impairment are 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.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(15) Derecognition of financial assets

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

(16) Offsetting of financial instruments

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

(17) Securities purchased under agreements to resell

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

An impairment loss is 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.

(19) Reinsurance

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(19) Reinsurance (continued)

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are 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.

(21) Insurance contracts

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(22) Testing the significance of insurance risk

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities

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

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

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

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

- 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 a Day-One gain. However, a Day-One loss should be recorded in profit or loss at inception when it occurs.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

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

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

(25) Investment contract liabilities

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

(26) 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 as finance costs.

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(26) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are 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.

(27) 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.

(28) 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.

(29) 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.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(29) Provisions (continued)

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

(30) Income tax

Income tax comprises current and deferred tax. Income tax relating to items 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.

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 joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are 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:

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(30) Income tax (continued)

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only 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.

(31) Revenue recognition

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

(a) Gross premiums

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(31) Revenue recognition (continued)

(a) Gross premiums (continued)

Premiums from direct life insurance contracts with instalment or single payments are 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.

(32) 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.

(All amounts expressed in RMB million unless otherwise specified)

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

2.2 Summary of principal accounting policies (continued)

(32) Employee benefits (continued)

(a) Pension schemes (continued)

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

(b) Housing benefits

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

(c) Medical benefits

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

(d) Deferred bonus plans

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

(33) Borrowing costs

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

(34) Dividends

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Significant judgements

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

(1) Classification of financial assets

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

(2) Unbundling and classification of hybrid contracts

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

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

(3) Measurement unit for insurance contracts

The Group shall make 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.

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Significant judgements (continued)

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

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

(5) Determination of control over the structured entities

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

3.2 Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

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 long-term life insurance contract reserves

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by 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 2013 and 2014 were from 3.57% to 6.42% and from 3.57% to 6.28%, 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 in consideration of the time value of money. The ranges of discount rates used as at 31 December 2013 and 2014 were from 4.90% to 5.20% and from 5.00% 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.

(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.

(c) Loss ratios

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

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

(d) Surrender rates

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

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

(e) Expenses

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

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

(f) Policy dividend

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

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Claim reserves

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

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

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

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

(3) Deferred income tax assets

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

(All amounts expressed in RMB million unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.3 Change in accounting estimates

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

As at 31 December 2014, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2014 by approximately RMB 4,648 million and a decrease in profit before tax for 2014 by approximately RMB 4,648 million.

The above change in accounting estimates has been approved by the board of directors of the Company on 27 March 2015.

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 (including Mainland China segment and Hong Kong 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 2014, gross written premiums from transactions with the top five external customers amounted to 0.6% (2013: 0.4%) of the Group's total gross written premiums.

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Gross written premiums	98,692	93,026	456	(369)	93,113	-	-	191,805
Less: Premiums ceded to reinsurers	(1,424)	(12,344)	(38)	369	(12,013)	-	-	(13,437)
Net written premiums	97,268	80,682	418	-	81,100	-	-	178,368
Net change in unearned premium reserves	(34)	(5,428)	(15)	-	(5,443)	-	-	(5,477)
Net premiums earned	97,234	75,254	403	-	75,657	-	-	172,891
Investment income	34,897	4,434	27	-	4,461	3,012	(942)	41,428
Other operating income	966	386	2	-	388	2,293	(1,761)	1,886
Other income	35,863	4,820	29	-	4,849	5,305	(2,703)	43,314
Segment income	133,097	80,074	432	-	80,506	5,305	(2,703)	216,205
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(40,245)	-	-	-	-	-	-	(40,245)
Claims incurred	(2,604)	(51,184)	(244)	-	(51,428)	-	-	(54,032)
Changes in long-term life insurance contract liabilities	(47,250)	-	-	-	-	-	(87)	(47,337)
Policyholder dividends	(4,970)	-	-	-	-	-	-	(4,970)
Finance costs	(2,690)	(365)	-	-	(365)	(98)	-	(3,153)
Interest credited to investment contracts	(1,373)	(1)	-	-	(1)	-	-	(1,374)
Other operating and administrative expenses	(22,284)	(27,266)	(151)	-	(27,417)	(2,440)	1,525	(50,616)
Segment benefits, claims and expenses	(121,416)	(78,816)	(395)	-	(79,211)	(2,538)	1,438	(201,727)
Segment results	11,681	1,258	37	-	1,295	2,767	(1,265)	14,478
Share of profit in equity accounted investees	25	21	-	-	21	-	(24)	22
Profit before tax	11,706	1,279	37	-	1,316	2,767	(1,289)	14,500
Income tax	(2,622)	(242)	(6)	-	(248)	(344)	(41)	(3,255)
Net profit for the year	9,084	1,037	31	-	1,068	2,423	(1,330)	11,245

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Investment in associates	-	-	-	-	-	253	-	253
Investment in joint ventures	-	11	-	-	11	-	-	11
Financial assets *	480,381	56,794	381	-	57,175	20,066	-	557,622
Term deposits	132,733	24,189	-	-	24,189	8,640	-	165,562
Others	57,151	33,487	383	(361)	33,509	27,701	(16,709)	101,652
Segment assets	670,265	114,481	764	(361)	114,884	56,660	(16,709)	825,100
Insurance contract liabilities	497,089	67,465	324	(235)	67,554	-	-	564,643
Investment contract liabilities	35,622	40	-	-	40	-	-	35,662
Policyholders' deposits	11	65	-	-	65	-	-	76
Subordinated debts	15,500	3,996	-	-	3,996	-	-	19,496
Securities sold under agreements to repurchase	22,273	1,903	-	-	1,903	2,732	-	26,908
Others	41,236	13,083	150	(126)	13,107	5,501	(724)	59,120
Segment liabilities	611,731	86,552	474	(361)	86,665	8,233	(724)	705,905

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

Other segment information for the year ended 31 December 2014

	Life insurance	Property and casualty insurance				Corporate and others	Elimina-tions	Total
		Mainland China	Hong Kong	Elimina-tions	Sub-total			
Depreciation and amortization	613	687	2	-	689	419	-	1,721
Capital expenditure	1,250	1,038	2	-	1,040	1,640	-	3,930
Impairment loss charges	3,567	151	1	-	152	81	-	3,800
Interest income	27,971	3,787	27	-	3,814	1,898	(244)	33,439
Unrealized gains from financial assets at fair value through profit or loss	654	54	-	-	54	5	-	713

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment income statement for the year ended 31 December 2013

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

(All amounts expressed in RMB million unless otherwise specified)

4. SEGMENT INFORMATION (continued)

Segment balance sheet at 31 December 2013

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

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

Other segment information for the year ended 31 December 2013

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

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2014 are as follows:

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Property and casualty insurance	Shanghai	The PRC	73337320-X	19,470,000	19,470,000	98.50	-	98.50	(1)
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Life insurance	Shanghai	The PRC	73337090-6	8,420,000	8,420,000	98.29	-	98.29	(2)
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Investment management	Shanghai	Shanghai	78954956-9	500,000	500,000	80.00	19.67	100.00	
China Pacific Insurance Co., (H.K.) Ltd.	Property and casualty insurance	Hong Kong	Hong Kong	Not applicable	HK$250,000 thousand	HK$250,000 thousand	100.00	-	100.00	
Shanghai Pacific Real Estate Co., Ltd.	Management of properties	Shanghai	Shanghai	13370078-0	115,000	115,000	100.00	-	100.00	
Fenghua Xikou Garden Hotel	Hotel operations	Zhejiang	Zhejiang	72639899-4	8,000	8,000	-	98.39	100.00	
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Pension business and investment management	Shanghai	Shanghai	66246731-2	787,610	787,610	-	51.00	51.75	
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Investment management	Hong Kong	Hong Kong	Not applicable	HK$50,000 thousand	HK$50,000 thousand	49.00	50.83	100.00	(3)

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2014 are as follows (continued):

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Note
							Direct	Indirect		
City Island Developments Limited ("City Island")	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$1,000	-	98.29	100.00	
Great Winwick Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	-	98.29	100.00	
Great Winwick (Hong Kong) Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	-	98.29	100.00	
Newscott Investments Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	-	98.29	100.00	
Newscott (Hong Kong) Investments Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	-	98.29	100.00	
Shanghai Xinhui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60720379-5	US$15,600 thousand	US$15,600 thousand	-	98.29	100.00	
Shanghai Hehui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60732576-8	US$46,330 thousand	US$46,330 thousand	-	98.29	100.00	
Pacific Insurance Online Services Technology Co., Ltd.	Consulting services, etc	Shandong	The PRC	58877325-7	200,000	200,000	100.00	-	100.00	
Tianjin Trophy Real Estate Co., Ltd. ("Tianjin Trophy")	Real estate	Tianjin	Tianjin	66306432-0	353,690	353,690	-	98.29	100.00	
Pacific Insurance Aging Industry Investment Management Co., Ltd. ("CPIC Aging Investment")	Pension business investment, etc	Shanghai	Shanghai	31257444-1	100,000	100,000	-	98.29	100.00	(4)
CPIC Allianz Health Insurance Co.,Ltd. ("CPIC Allianz Health")	Health insurance	Shanghai	Shanghai	32465377-X	1,000,000	1,000,000	77.05	-	77.05	(5)

* Subsidiaries of City Island

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(a) Particulars of the Company's incorporated subsidiaries as at 31 December 2014 are as follows (continued):

(1) According to CPIC Property's resolution of its first extraordinary stockholders' meeting on 4 September 2014, CPIC Property issued 1,470 million shares of common stocks at the price of RMB1.38 per share to its existing shareholders, and the Group subscribed for 1,447,969,992 shares by cash. After this addition, its capital stock has increased to 19,470 million shares in which the Group owns 19,178,214,743 shares and stands for 98.5 percent. On 31 December 2014, the CIRC officially approved this capital injection via file of No. (2014)1181.

(2) According to CPIC Life's resolution of its first extraordinary stockholders' meeting on 25 August 2014, CPIC Life issued 820 million shares of common stocks at the price of RMB5.58 per share to its existing shareholders, and the Group subscribed for 805,997,513 shares by cash. After this addition, its capital stock has increased to 8,420 million shares in which the Group owns 8,276,218,369 shares and stands for 98.29 percent. On 31 December 2014, the CIRC officially approved the capital injection via file of No. (2014)1180.

(3) On 28 August 2013, CPIC Investment (H.K.) submitted to the Securities and Futures Commission (the "SFC") a request for revoking the licence. On 2 May 2014, the SFC officially approved the request.

(4) CPIC Life set up CPIC Aging Investment in 2014 with a registered capital of RMB100 million.

(5) The Group set up CPIC Allianz Health together with Allianz SE in 2014 with a registered capital reached RMB1,000 million.

(All amounts expressed in RMB million unless otherwise specified)

5. SCOPE OF CONSOLIDATION (continued)

(b) As at 31 December 2014, consolidated structured entities material to the Group are as followings:

Name	Collective Holding by the Group (%)	Paid-in capital (Units in thousand)	Principal activities
Pacific Stable Wealth Management NO.1	52.19	2,904,688	Mainly investing in bonds (including the debt part of warrant bonds) except convertible bonds, bond repurchases, bank deposits and the other fix income instruments in which insurance funds are permitted by laws and regulations or CIRC to invest.
Pacific Excellent Wealth NO.1 (Corporate Bond)	58.11	1,055,492	Mainly investing in corporate bonds (including the debt part of warrant bonds), other bonds except convertible bonds, bond repurchases, bank deposits, Asset-Backed securities and the other fix income instruments in which insurance funds are permitted by laws and regulations or CIRC to invest.
Pacific Excellent Wealth Cash Management No.1406	96.77	1,550,000	All investing in bank deposits, including but not limited to current deposits, term deposits, call deposits, agreement deposits, negotiation deposits (including negotiation deposits with rights of redemption), interbank deposits, etc.
Pacific Excellent Wealth Cash Management No.1407	100.00	1,000,000	All investing in bank deposits, including but not limited to current deposits, term deposits, call deposits, agreement deposits, negotiation deposits (including negotiation deposits with rights of redemption), interbank deposits, etc.
Pacific Excellent Wealth Cash Management No.1408	91.73	1,500,000	All investing in bank deposits, including but not limited to current deposits, term deposits, call deposits, agreement deposits, negotiation deposits (including negotiation deposits with rights of redemption), interbank deposits, etc.
Pacific Excellent Wealth CSI 300 Index	99.61	1,859,760	All investing in CSI300 constituent stock and alternative one, new shares(newly- issued in primary market), government bond due within one year, exchange-traded securities purchased under agreements to resell, current deposits, monetary funds and the other financial instruments which are permitted by laws and regulations.

(All amounts expressed in RMB million unless otherwise specified)

6. NET WRITTEN PREMIUMS

(a) Gross written premiums

	2014	**2013**
Long-term life insurance premiums	92,150	89,454
Short-term life insurance premiums	6,542	5,647
Property and casualty insurance premiums	93,113	81,822
	191,805	176,923

(b) Premiums ceded to reinsurers

	2014	**2013**
Long-term life insurance premiums ceded to reinsurers	(1,363)	(1,418)
Short-term life insurance premiums ceded to reinsurers	(61)	(187)
Property and casualty insurance premiums ceded to reinsurers	(12,013)	(13,690)
	(13,437)	(15,295)

(c) Net written premiums

	2014	**2013**
Net written premiums	178,368	161,628

7. INVESTMENT INCOME

	2014	**2013**
Interest and dividend income (a)	36,449	31,046
Realized gains (b)	7,938	1,231
Unrealized gains (c)	713	16
Charge of impairment losses on financial assets	(3,672)	(1,321)
	41,428	30,972

(All amounts expressed in RMB million unless otherwise specified)

7. INVESTMENT INCOME (continued)

(a) Interest and dividend income

	2014	**2013**
Financial assets at fair value through profit or loss		
- Fixed maturity investments	398	16
- Investment funds	16	19
- Equity securities	48	23
	462	58
Held-to-maturity financial assets		
- Fixed maturity investments	14,521	12,542
Loans and receivables		
- Fixed maturity investments	13,043	11,231
Available-for-sale financial assets		
- Fixed maturity investments	5,477	4,703
- Investment funds	1,348	1,171
- Equity securities	1,145	1,180
- Other equity investments	453	161
	8,423	7,215
	36,449	31,046

(b) Realized gains

	2014	**2013**
Financial assets at fair value through profit or loss		
- Fixed maturity investments	1,028	51
- Investment funds	6	1
- Equity securities	703	50
	1,737	102
Available-for-sale financial assets		
- Fixed maturity investments	13	(101)
- Investment funds	1,998	556
- Equity securities	4,190	674
	6,201	1,129
	7,938	1,231

(c) Unrealized gains

	2014	**2013**
Financial assets at fair value through profit or loss		
- Fixed maturity investments	323	37
- Investment funds	15	(12)
- Equity securities	375	(9)
	713	16

(All amounts expressed in RMB million unless otherwise specified)

8. NET POLICYHOLDERS' BENEFITS AND CLAIMS

	2014		
	Gross	Ceded	Net
Life insurance death and other benefits paid	40,748	(503)	40,245
Claims incurred			
- Short-term life insurance	2,607	(3)	2,604
- Property and casualty insurance	60,334	(8,906)	51,428
Changes in long-term life insurance contract liabilities	47,863	(526)	47,337
Policyholder dividends	4,970	-	4,970
	156,522	(9,938)	146,584

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

9. FINANCE COSTS

	2014	2013
Current liabilities		
- Interest expense on securities sold under agreements to repurchase	1,693	1,539
- Interest expense on policyholder dividends	470	420
- Others	-	4
	2,163	1,963
Non-current liabilities		
- Interest expense on subordinated debts	977	784
- Long-term borrowings	13	8
	990	792
	3,153	2,755

(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):

	2014	2013
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	12,049	10,792
Auditors' remuneration	13	17
Operating lease payments in respect of land and buildings	802	808
Depreciation of property and equipment (note 18)	1,127	1,046
Depreciation of investment properties (note 19)	227	215
Amortization of other intangible assets (note 20)	339	273
Amortization of prepaid land lease payments (note 21)	1	1
Amortization of other assets	20	25
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(38)	(3)
Charge/(reversal) of impairment loss on insurance receivables	118	(49)
Charge of impairment loss on financial assets (note 7)	3,672	1,321
Foreign exchange (gain)/loss, net	(40)	280

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

	2014	2013
Salaries, allowances and other short-term benefits	9,741	8,707
Contributions to defined contribution plans (1)	2,159	1,943
Early retirement benefit obligation	21	58
Deferred bonus (2)	128	84
	12,049	10,792

(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 deferred bonus plans.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

(in RMB thousand)	2014	2013
Fees	1,233	1,379
Other remuneration		
- Salaries, allowances and other short-term benefits	9,699	10,853
- Contributions to defined contribution plans	795	1,090
- Deferred bonus (1)	2,677	2,891
	13,171	14,834
	14,404	16,213

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

(a) Independent non-executive directors

Included in the fees is an amount of RMB1,233 thousand paid to independent non-executive directors for the year ended 31 December 2014 (2013: RMB1,379 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2014.

(in RMB thousand)	**2014**				
	Fees	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LIN Zhiquan	300	-	-	-	300
ZHOU Zhonghui	300	-	-	-	300
BAI Wei	250	-	-	-	250
HUO Guangwen	300	-	-	-	300
GAO Shanwen[1]	83	-	-	-	83
	1,233	-	-	-	1,233

1. Independent non-executive director since August 2014

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

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

(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)	2014			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu [1]	948	2,622	241	3,811
HUO Lianhong [1]	859	2,363	231	3,453
Non-executive directors:				
YANG Xianghai	-	250	-	250
WANG Chengran	-	250	-	250
SUN Xiaoning	-	-	-	-
ZHENG Anguo	-	250	-	250
WU Jumin	-	250	-	250
WU Junhao	-	250	-	250
HA Erman[2]	-	83	-	83
	1,807	6,318	472	8,597

[1] Part of the above amounts of two executive directors' remuneration for 2014, which was subject to review and approval, will be disclosed when it is confirmed.
[2.] Non-executive director since August 2014

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

[1] As at 31 December 2013, part of the two executive directors' remuneration was subject to review and approval and thus not included in the above amount. With the relevant approval obtained in 2014, the total remuneration for Mr. Gao Guofu and Mr. Huo Lianhong for 2013 amounted to RMB2,870 thousand and RMB2,699 thousand, respectively.
[2.] Non-executive director since July 2013
[3.] Retired with effect from June 2013
[4.] Resigned with effect from November 2013

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB250,000 (before tax) per year. In May 2011, the 2010 annual general meeting resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. Except for SUN Xiaoning, the non-executive director, there was no other arrangement under which a director waived or agreed to waive any remuneration during 2014 and 2013.

(c) Supervisors

(in RMB thousand)	**2014**			
	Deferred bonus	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
DAI Zhihao	-	250	-	250
ZHANG Jianwei	-	250	-	250
LIN Lichun	-	250	-	250
SONG Junxiang	721	1,955	215	2,891
YUAN Songwen	149	676	108	933
	870	3,381	323	4,574

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

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

(All amounts expressed in RMB million unless otherwise specified)

12. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors (continued)

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 2014 and 2013.

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose remuneration was the highest for the years ended 31 December 2014 in the Group include one director (2013: no director) whose emoluments were reflected in the analysis presented in note 12.

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

	2014	**2013**
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	3	-
RMB4,000,001 to RMB5,000,000	-	2
RMB5,000,001 to RMB6,000,000	-	2
RMB6,000,001 to RMB7,000,000	-	1
RMB7,000,001 to RMB8,000,000	1	-
Total	4	5

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

(in RMB thousand)	**2014**	**2013**
Salaries, allowances and other short-term benefits	12,220	20,180
Contributions to defined contribution plans	730	1,280
Deferred bonus (1)	5,324	5,187
	18,274	26,647
The number of non-director individuals for the above remuneration	4	5

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

In 2014 and 2013, no emoluments were paid by the Group to any of these non-director individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

(All amounts expressed in RMB million unless otherwise specified)

14. INCOME TAX

(a) Income tax

	2014	2013
Current income tax	3,235	2,504
Deferred income tax (note 34)	20	15
	3,255	2,519

(b) Tax recorded in other comprehensive income/(loss)

	2014	2013
Deferred income tax (note 34)	3,617	(1,105)

(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:

	2014	2013
Profit before tax	14,500	11,914
Tax computed at the statutory tax rate	3,625	2,979
Adjustments to income tax in respect of previous periods	(146)	(60)
Income not subject to tax	(1,322)	(1,082)
Expenses not deductible for tax	1,067	637
Others	31	45
Tax expense at the Group's effective rate	3,255	2,519

(All amounts expressed in RMB million unless otherwise specified)

15. EARNINGS PER SHARE

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

	2014	2013
Consolidated net profit for the year attributable to equity holders of the parent	11,049	9,261
Weighted average number of ordinary shares in issue (million)	9,062	9,062
Basic earnings per share	RMB1.22	RMB1.02
Diluted earnings per share	RMB1.22	RMB1.02

The Company had no dilutive potential ordinary shares as at 31 December 2014 and 2013.

16. OTHER COMPREHENSIVE INCOME/(LOSS)

	2014	2013
Exchange differences on translation of foreign operations	1	(9)
Available-for-sale financial assets		
Gains/(losses) arising during the year	20,337	(4,702)
Reclassification adjustments for (gains) included in profit or loss	(6,216)	(1,129)
Fair value change on available-for-sale financial assets attributable to policyholders	(3,270)	66
Impairment charges reclassified to the income statement	3,672	1,321
	14,523	(4,444)
Income tax relating to available-for-sale financial assets	(3,617)	1,105
	10,906	(3,339)
Share of other comprehensive income in equity accounted investees	10	-
Other comprehensive income/(loss)	10,917	(3,348)

17. GOODWILL

Cost	
At 1 January 2013, 31 December 2013 and 2014	962
Impairment	
At 1 January 2013, 31 December 2013 and 2014	-
Carrying Value	
At 31 December 2013 and 2014	962

(All amounts expressed in RMB million unless otherwise specified)

18. PROPERTY AND EQUIPMENT

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2013	6,670	2,108	848	3,769	1,282	14,677
Additions	145	1,453	106	407	166	2,277
Transfer	1,616	(1,616)	-	-	-	-
Transfer to investment properties, net (note 19)	(40)	-	-	-	-	(40)
Acquisition of a subsidiary	1	-	-	4	-	5
Disposals	(17)	-	(66)	(159)	-	(242)
At 31 December 2013	8,375	1,945	888	4,021	1,448	16,677
Additions	100	2,677	98	459	224	3,558
Transfer	1,174	(1,174)	-	-	-	-
Transfer from investment properties, net (note 19)	6	-	-	-	-	6
Disposals	(25)	-	(63)	(138)	-	(226)
At 31 December 2014	9,630	3,448	923	4,342	1,672	20,015
Accumulated depreciation and impairment						
At 1 January 2013	(1,553)	-	(425)	(2,559)	(776)	(5,313)
Depreciation charge	(243)	-	(109)	(499)	(195)	(1,046)
Transfer to investment properties, net (note 19)	2	-	-	-	-	2
Acquisition of a subsidiary	-	-	-	(3)	-	(3)
Disposals	6	-	65	154	-	225
At 31 December 2013	(1,788)	-	(469)	(2,907)	(971)	(6,135)
Depreciation charge	(351)	-	(111)	(483)	(182)	(1,127)
Transfer from investment properties, net (note 19)	(1)	-	-	-	-	(1)
Disposals	11	-	60	137	-	208
At 31 December 2014	(2,129)	-	(520)	(3,253)	(1,153)	(7,055)
Net book value						
At 31 December 2013	6,587	1,945	419	1,114	477	10,542
At 31 December 2014	7,501	3,448	403	1,089	519	12,960

(All amounts expressed in RMB million unless otherwise specified)

18. PROPERTY AND EQUIPMENT (continued)

Company	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold Improvements	Total
Cost						
At 1 January 2013	422	76	10	493	188	1,189
Additions	-	597	1	30	(8)	620
Disposals	-	-	-	(13)	-	(13)
Transfer to investment properties, net (note 19)	(57)	-	-	-	-	(57)
At 31 December 2013	365	673	11	510	180	1,739
Additions	-	1,376	-	137	5	1,518
Disposals	-	-	-	(8)	-	(8)
Transfer to investment properties, net (note 19)	(24)	-	-	-	-	(24)
At 31 December 2014	341	2,049	11	639	185	3,225
Accumulated depreciation and impairment						
At 1 January 2013	(111)	-	(7)	(379)	(116)	(613)
Depreciation charge	(11)	-	(1)	(63)	(27)	(102)
Disposals	-	-	-	9	-	9
Transfer to investment properties, net (note 19)	2	-	-	-	-	2
At 31 December 2013	(120)	-	(8)	(433)	(143)	(704)
Depreciation charge	(11)	-	(1)	(43)	(24)	(79)
Disposals	-	-	-	8	-	8
Transfer to investment properties, net(note 19)	11	-	-	-	-	11
At 31 December 2014	(120)	-	(9)	(468)	(167)	(764)
Net book value						
At 31 December 2013	245	673	3	77	37	1,035
At 31 December 2014	221	2,049	2	171	18	2,461

(All amounts expressed in RMB million unless otherwise specified)

19. INVESTMENT PROPERTIES

	Group	Company
Cost		
At 1 January 2013	6,725	2,623
Acquisition of subsidiaries	623	-
Transfer from property and equipment, net	40	57
At 31 December 2013	7,388	2,680
Transfer (to)/from property and equipment, net	(6)	24
At 31 December 2014	7,382	2,704
Accumulated depreciation		
At 1 January 2013	(376)	(246)
Depreciation charge	(215)	(87)
Transfer from property and equipment, net	(2)	(2)
At 31 December 2013	(593)	(335)
Depreciation charge	(227)	(87)
Transfer to/(from) property and equipment, net	1	(11)
At 31 December 2014	(819)	(433)
Carrying amount		
At 31 December 2013	6,795	2,345
At 31 December 2014	6,563	2,271

The fair values of investment properties of the Group and the Company as at 31 December 2014 amounted to RMB8,456 million and RMB3,868 million (31 December 2013: RMB8,356 million and RMB3,721 million), respectively, which were estimated by the Company having regard to valuations performed by independent valuers. The Company leases part of its investment properties to CPIC Property, CPIC Life, CPIC Asset Management, CPIC Allianz Health and Changjiang Pension charges rentals based on the areas occupied by the respective entities. These properties are categorized as property and equipment of the Group in the consolidated balance sheet.

As at 31 December 2014, the investment property of the Group amounted to RMB599 million (31 December 2013:RMB614 million) was pledged as security for the Group's long-term borrowings with carrying value of RMB187 million (31 December 2013:RMB188 million).

(All amounts expressed in RMB million unless otherwise specified)

20. OTHER INTANGIBLE ASSETS

Group	Software
Cost	
At 1 January 2013	1,669
Additions	442
At 31 December 2013	2,111
Additions	318
At 31 December 2014	2,429
Accumulated amortization	
At 1 January 2013	(931)
Amortization	(273)
At 31 December 2013	(1,204)
Amortization	(339)
At 31 December 2014	(1,543)
Carrying amount	
At 31 December 2013	907
At 31 December 2014	886

21. PREPAID LAND LEASE PAYMENTS

	Group	**Company**
Cost		
At 1 January 2013	65	38
Additions	-	-
At 31 December 2013 and 31 December 2014	65	38
Accumulated amortization		
At 1 January 2013	(5)	(1)
Amortization	(1)	(1)
At 31 December 2013	(6)	(2)
Amortization	(1)	(1)
At 31 December 2014	(7)	(3)
Carrying amount		
At 31 December 2013	59	36
At 31 December 2014	58	35

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

(All amounts expressed in RMB million unless otherwise specified)

22. INVESTMENTS IN SUBSIDIARIES

Company	**31 December 2014**	**31 December 2013**
Unlisted shares, at cost	62,079	54,813

Particulars of the Company's subsidiaries as at 31 December 2014 are set out in note 5.

The amounts due from subsidiaries are disclosed in note 36 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. INTERESTS IN ASSOCIATES

	31 December 2014					
	Historical cost	At 1 January 2014	Additions	Share of profit	Other comprehensive income	At 31 December 2014
Anxin Agriculture Insurance Co., Ltd.(the "Anxin")	219	-	219	22	10	251
Taiji (Shanghai) InformationTechnology Co., Ltd.(the "Taiji")	2	-	2	-	-	2
	221	-	221	22	10	253

On 7 July 2014, CPIC Property signed the ownership transfer contract with Shanghai International Group and Shanghai State-owned Asset Management Co., Ltd. for transferring 171,669,200 shares of Anxin. After this transaction, the Company has an ownership percentage of 33.825 percent, which is held indirectly through CPIC Property. This provides CPIC Property for 34.34 percent of the voting rights in Anxin's. On 11 October 2014, the CIRC officially approved this transaction.

On 22 September 2014, CPIC Online Services and Zhonghe-Xintai(Fujian) Investment set up Taiji lasting 20 years with registered capital of RMB15 million. Among all, CPIC Online Services stands for 40 percent shares and its first capital contribution reaches RMB2.3 million.

Nature of investment in associates as at 31 December 2014

Name	Place of incorporation	Percentage of ownership interest		Percentage of voting power	Registered capital (RMB thousand)	Paid-up capital (RMB thousand)	Principal activity
		Direct	Indirect				
Anxin	Shanghai	-	33.83%	34.34%	500,000	500,000	Insurance
Taiji	Shanghai	-	40.00%	40.00%	15,000	4,600	Technology development and consulting, etc.

(All amounts expressed in RMB million unless otherwise specified)

23. INTERESTS IN ASSOCIATES (continued)

Summarised financial information for associates

	2014
Net profit for the year	87
Other comprehensive income for the year	26
Total comprehensive income for the year	113
Total comprehensive income attributable to the Group	32
Carrying amount of the Group's interest	253

24. INVESTMENT IN JOINT VENTURES

Group	**31 December 2014**	**31 December 2013**
Share of net assets	11	11

In November 2012, CPIC Property and a third party bid for the use right of the land located at Huangpu District, Shanghai. And in February 2013, both parties set up a project company named Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd. ("Binjiang-Xiangrui") as the owner of the land use right to this parcel of land and construction development subject. Binjiang-Xiangrui finally acquired the enterprise business license in March 2013.

Particulars of the joint venture as at 31 December 2014 are as follow:

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

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

	2014 (RMB thousand)	2013 (RMB thousand)
The joint venture's net loss:	(17)	(19)
The joint venture's other comprehensive income:	-	-

As at 31 December 2014, Binjiang-Xiangrui was still under construction and the net loss reaches RMB17,000 (31 December 2013:RMB19,000).

As at 31 December 2014, the Group's investment in joint ventures had no impairment. The Group received no cash dividend from Binjiang-Xiangrui.

Commitments related to investment in joint ventures are mentioned in Note 53.

(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 2014**	**31 December 2013**
Listed		
Debt investments		
- Government bonds	1,357	1,354
- Finance bonds	6,070	5,575
- Corporate bonds	12,573	9,665
	20,000	16,594
Unlisted		
Debt investments		
- Government bonds	70,384	50,222
- Finance bonds	109,053	110,275
- Corporate bonds	112,561	85,851
	291,998	246,348
	311,998	262,942

Company	**31 December 2014**	**31 December 2013**
Listed		
Debt investments		
- Corporate bonds	321	1,012
Unlisted		
Debt investments		
- Finance bonds	544	833
- Corporate bonds	100	100
	644	933
	965	1,945

(All amounts expressed in RMB million unless otherwise specified)

26. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

Group	**31 December 2014**	**31 December 2013**
Debt investments		
- Finance bonds	5,688	5,639
- Debt investment scheme	47,573	34,545
- Wealth management products	7,998	1,136
	61,259	41,320

Company	**31 December 2014**	**31 December 2013**
Debt investments		
- Wealth management products	1,130	-

As at 31 December 2014, CPIC Asset Management, a subsidiary of the Group, issued 54 debt investment schemes with a total value of RMB99.21 billion. Of these, the carrying amounts approximately RMB39.23 billion are recognized in the Group’s consolidated financial information(As at 31 December 2013, CPIC Asset Management issued 28 debt investment schemes with a total value of RMB63.70 billion. Of these, the carrying amounts approximately RMB30.87 billion are recognized in the Group’s consolidated financial information) As at 31 December 2014, Changjiang Pension, a subsidiary of the Group, issued 4 debt investment schemes with a total value of RMB5 billion. Of these, the carrying amounts approximately RMB40 million are recognized in the Group’s consolidated financial information(31 December 2013, None) Meanwhile, the Group also had investments in debt investment schemes launched by other insurance asset management companies with a value of approximately RMB8,304 million (31 December 2013, RMB3,679 million). The value guaranteed by third parties or pledge on debt investment schemes invested by the Group are RMB47.57 billion. For debt investment schemes launched by CPIC Asset Management and Changjiang Pension and invested by the Group, the Group did not provide any guarantees or financial support. The Group’s maximum exposure to loss in the debt investment schemes is limited to its carrying amounts.

27. RESTRICTED STATUTORY DEPOSITS

	31 December 2014	**31 December 2013**
At 31 December 2013	3,600	3,600
Movement	1,980	-
At 31 December 2014	5,580	3,600

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

(All amounts expressed in RMB million unless otherwise specified)

27. RESTRICTED STATUTORY DEPOSITS (continued)

According to CPIC Property's resolution of its first extraordinary stockholders' meeting in 2014, CPIC Property increased its registered capital by RMB1,470 million. After this addition, its capital stock has increased to RMB19,470 million shares. The capital verification of this injection was accomplished by the Shanghai Certified Public Accountants (the "SCPA") and was finally approved by the CIRC on 31 December 2014. Up to the end of 2014, the registration of industrial and commercial alteration was not finished and CPIC Property still did not deposit the restricted statutory deposits for the injection part.

According to CPIC Life's resolution of its first extraordinary stockholders' meeting in 2014, CPIC Property increased its registered capital by RMB820 million. After this addition, its capital stock has increased to RMB8,420 million shares. The capital verification of this injection was accomplished by the SCPA and was finally approved by the CIRC on 31 December 2014. Up to the end of 2014, the registration of industrial and commercial alteration was not finished and CPIC Life still did not deposit the restricted statutory deposits for the injection part.

	As at 31 December 2014		
	Amount	Storage	Period
CPIC Property			
Bank of Communications	818	Term deposit	5 years
Industrial and Commercial Bank of China	100	Term deposit	5 years
China Construction Bank	100	Term deposit	5 years
China Minsheng Bank	240	Term deposit	5 years
China Merchants Bank	642	Term deposit	5 years
Shanghai Pudong Development Bank	1,000	Term deposit	5 years
China Everbright Bank	500	Term deposit	5 years
Evergrowing Bank	200	Term deposit	5 years
Subtotal	3,600		
CPIC Life			
Bank of Communications	680	Term deposit	5 years
China Minsheng Bank	340	Term deposit	5 years
Bank of China	500	Term deposit	5 years and 6 months
Subtotal	1,520		
Changjiang Pension			
Bank of Communications	30	Term deposit	5 years
China Minsheng Bank	150	Term deposit	5 years and 1 month
Bank of China	80	Term deposit	5 years and 1 month
	260		
CPIC Allianz Health			
China Construction Bank	30	Term deposit	5 years
Bank of Communications	170	Term deposit	5 years and 1 month
Subtotal	200		
Total	5,580		

(All amounts expressed in RMB million unless otherwise specified)

27. RESTRICTED STATUTORY DEPOSITS (continued)

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

28. TERM DEPOSITS

Group	**31 December 2014**	**31 December 2013**
1 month to 3 months (including 3 months)	5,581	1,330
3 months to 1 year (including 1 year)	22,367	3,007
1 to 2 years (including 2 years)	47,180	25,910
2 to 3 years (including 3 years)	45,160	47,980
3 to 4 years (including 4 years)	20,950	45,000
4 to 5 years (including 5 years)	24,184	20,950
More than 5 years	140	140
	165,562	144,317

Company	**31 December 2014**	**31 December 2013**
1 month to 3 months (including 3 months)	2,086	9
3 months to 1 year (including 1 year)	274	2,898
1 to 2 years (including 2 years)	1,500	2,000
2 to 3 years (including 3 years)	-	1,500
	3,860	6,407

(All amounts expressed in RMB million unless otherwise specified)

29. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Group	**31 December 2014**	**31 December 2013**
Listed		
Equity investments		
- Equity securities	24,886	30,130
- Investment funds	6,609	8,508
- Wealth management products	1,000	-
Debt investments		
- Government bonds	19	10
- Finance bonds	1,492	1,063
- Corporate bonds	11,844	18,892
- Wealth management products	1,384	540
	47,234	59,143
Unlisted		
Equity investments		
- Investment funds	25,078	24,370
- Wealth management products	6,471	1,815
- Other equity investments	10,354	8,576
Debt investments		
- Government bonds	89	108
- Finance bonds	10,590	12,423
- Corporate bonds	66,717	68,970
- Wealth management products	68	84
	119,367	116,346
	166,601	175,489

Company	**31 December 2014**	**31 December 2013**
Listed		
Equity investments		
- Equity securities	375	637
- Investment funds	811	853
Debt investments		
- Finance bonds	957	826
- Corporate bonds	602	1,270
- Wealth management products	50	-
	2,795	3,586
Unlisted		
Equity investments		
- Investment funds	1,716	1,787
Debt investments		
- Finance bonds	499	484
- Corporate bonds	10,520	10,670
	12,735	12,941
	15,530	16,527

(All amounts expressed in RMB million unless otherwise specified)

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Group	**31 December 2014**	**31 December 2013**
Listed		
Equity investments		
- Equity securities	4,160	1,071
- Investment funds	180	148
Debt investments		
- Government bonds	86	7
- Finance bonds	441	3,171
- Corporate bonds	11,317	29
	16,184	4,426
Unlisted		
Equity investments		
- Investment funds	1,540	500
- Wealth management products	40	-
	1,580	500
	17,764	4,926

Company	**31 December 2014**	**31 December 2013**
Listed		
Equity investments		
- Investment funds	10	6
Debt investments		
- Government bonds	8	7
- Finance bonds	-	22
- Corporate bonds	2	6
	20	41

31. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Group	**31 December 2014**	**31 December 2013**
Securities - bonds		
Inter-bank market	2,034	1,494
Stock exchange	788	900
	2,822	2,394

Company	**31 December 2014**	**31 December 2013**
Securities - bonds		
Inter-bank market	100	100

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

(All amounts expressed in RMB million unless otherwise specified)

32. INTEREST RECEIVABLES

Group	31 December 2014	31 December 2013
Interest receivables from deposits	6,146	5,067
Interest receivables from debt investments	8,779	6,680
Interest receivables from loans	305	255
Interest receivables from securities purchased under agreements to resell	3	2
	15,233	12,004
Less: Bad debt provision	(1)	(1)
	15,232	12,003

33. REINSURANCE ASSETS

Group	31 December 2014	31 December 2013
Reinsurers’ share of insurance contracts (note 40)	17,167	17,388

34. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

Group	2014	2013
Net deferred income tax assets, at beginning of year	2,157	1,109
Acquisition of a subsidiary	-	(42)
Recognized in profit or loss (note 14(a))	(20)	(15)
Recognized in other comprehensive income (note 14(b))	(3,617)	1,105
Net deferred income tax (liabilities)/assets, at end of year	(1,480)	2,157

(All amounts expressed in RMB million unless otherwise specified)

34. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Group	31 December 2014	31 December 2013
Insurance contract liabilities	347	133
Impairment of assets	257	494
Commissions and handling fees	235	209
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	(2,116)	1,733
Fair value adjustments arising from acquisition of a subsidiary	(848)	(877)
Others	645	465
Net deferred income tax (liabilities)/assets	(1,480)	2,157
Represented by:		
Deferred tax assets	148	3,178
Deferred tax liabilities	(1,628)	(1,021)

35. INSURANCE RECEIVABLES

Group	31 December 2014	31 December 2013
Insurance receivables	8,694	7,982
Provision for impairment of insurance receivables	(337)	(219)
	8,357	7,763

An aged analysis of the insurance receivables is as follows:

Group	31 December 2014	31 December 2013
Within 3 months (including 3 months)	6,472	6,027
Over 3 months and within 1 year (including 1 year)	1,172	1,155
Over 1 year	713	581
	8,357	7,763

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

35. 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 2014**	**31 December 2013**
Insurance receivables that are individually determined to be impaired	109	193
Related provision for impairment	(57)	(193)
	52	-

36. OTHER ASSETS

Group	**31 December 2014**	**31 December 2013**
Due from a related-party (1)	1,080	1,034
Tax receivable other than income tax	1,293	1,008
Receivable from securities clearance	2,789	205
Due from agents	441	166
Co-insurance receivable	96	107
Others	1,745	1,412
	7,444	3,932

Company	**31 December 2014**	**31 December 2013**
Due from subsidiaries	138	162
Construction pre-payments	8	61
Others	35	116
	181	339

(1) As at 31 December 2014, the payments made by the Group on behalf of Binjiang-Xiangrui for the purchase of land and related taxes and expenses amounted to approximately RMB1,080 million (31 December 2013, RMB1,034 million).

(All amounts expressed in RMB million unless otherwise specified)

37. CASH AND SHORT-TERM TIME DEPOSITS

Group	**31 December 2014**	**31 December 2013**
Cash at banks and on hand	7,819	8,432
Time deposits with original maturity of no more than three months	2,803	7,697
Other monetary assets	598	432
	11,220	16,561

Company	**31 December 2014**	**31 December 2013**
Cash at banks and on hand	271	367
Time deposits with original maturity of no more than three months	17	2,091
Other monetary assets	101	304
	389	2,762

The Group's bank balances denominated in RMB amounted to RMB10,585 million as at 31 December 2014 (31 December 2013: RMB12,523 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.

As at 31 December 2014, RMB454 million in the Group's other monetary assets are restricted to meet the regulation requirement of the minimum settlement deposits (31 December 2013, RMB49 million).

38. ISSUED CAPITAL

Group and Company	**31 December 2014**	**31 December 2013**
Number of shares issued and fully paid at RMB1 each (million)	9,062	9,062

(All amounts expressed in RMB million unless otherwise specified)

39. RESERVES AND RETAINED PROFITS

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

(a) Capital reserves

Capital reserves mainly represents share premiums from issuance of shares and the deemed disposal of an equity interest in CPIC Life to certain foreign investors in December 2005, and the subsequent repurchase of the 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 reserves (the "SSR")

According to the PRC Company Law and the articles of association of the Company and its subsidiaries in the PRC, the Company and its subsidiaries are required to set aside 10% of their net profit (after offsetting the accumulated losses incurred in previous years) determined under 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, RMB5,630 million as at 31 December 2014 (31 December 2013: RMB4,605 million) represents the Company's share of its subsidiaries' surplus reserve fund.

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

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

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

(c) General reserves

In accordance with the relevant regulations, general reserves 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 as capital injection.

Of the Group's reserves, RMB5,539 million as at 31 December 2014 (31 December 2013: RMB4,544 million) represents the Company's share of its subsidiaries' general reserves.

(All amounts expressed in RMB million unless otherwise specified)

39. RESERVES AND RETAINED PROFITS (continued)

(d) Other reserves

The investment revaluation reserve records the fair value changes of available-for-sale financial assets. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries incorporated outside 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 7th term of board of directors held on 27 March 2015, a final dividend of approximately RMB4,531 million (equivalent to RMB0.5 per share (including tax)) was proposed after the appropriation of statutory surplus reserves and is subject to the approval of the forthcoming annual general meeting.

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

Company	Capital reserves	Surplus Reserves	Available-for-sale investment revaluation reserves	Total	Retained Profits
At 1 January 2013	66,164	2,394	(135)	68,423	8,543
Total comprehensive income for the year	-	-	(410)	(410)	3,917
Dividend declared	-	-	-	-	(3,172)
Appropriations to surplus reserves	-	391	-	391	(391)
At 31 December 2013	66,164	2,785	(545)	68,404	8,897
At 1 January 2014	66,164	2,785	(545)	68,404	8,897
Total comprehensive income for the year	-	-	797	797	4,854
Dividend declared	-	-	-	-	(3,625)
Appropriations to surplus reserves	-	485	-	485	(485)
At 31 December 2014	66,164	3,270	252	69,686	9,641

Dividends from subsidiaries amounting to RMB4,005 million were included in the Company's net profit for 2014 (2013: RMB3,533 million).

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES

Group

	31 December 2014		
	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
Long-term life insurance contracts	493,905	(6,873)	487,032
Short-term life insurance contracts			
- Unearned premiums	1,868	(11)	1,857
- Claim reserves	1,316	(11)	1,305
	3,184	(22)	3,162
Property and casualty insurance contracts			
- Unearned premiums	37,322	(4,133)	33,189
- Claim reserves	30,232	(6,139)	24,093
	67,554	(10,272)	57,282
	564,643	(17,167)	547,476
Incurred but not reported claim reserves	5,164	(877)	4,287

Group

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

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES (continued)

(a) Long-term life insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
At 1 January 2013	385,283	(5,706)	379,577
Valuation premiums	89,454	(1,418)	88,036
Liabilities released for payments on benefits and claims	(28,917)	497	(28,420)
Other movements	(3,896)	280	(3,616)
At 31 December 2013	441,924	(6,347)	435,577
Valuation premiums	92,150	(1,363)	90,787
Liabilities released for payments on benefits and claims	(40,748)	503	(40,245)
Other movements	579	334	913
At 31 December 2014	493,905	(6,873)	487,032

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
At 1 January 2013	1,654	(57)	1,597
Premiums written	5,647	(187)	5,460
Premiums earned	(5,422)	189	(5,233)
At 31 December 2013	1,879	(55)	1,824
Premiums written	6,542	(61)	6,481
Premiums earned	(6,553)	105	(6,448)
At 31 December 2014	1,868	(11)	1,857

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
At 1 January 2013	737	(96)	641
Claims incurred	1,852	(3)	1,849
Claims paid	(1,631)	67	(1,564)
At 31 December 2013	958	(32)	926
Claims incurred	2,607	(3)	2,604
Claims paid	(2,249)	24	(2,225)
At 31 December 2014	1,316	(11)	1,305

(All amounts expressed in RMB million unless otherwise specified)

40. INSURANCE CONTRACT LIABILITIES (continued)

(c) Property and casualty insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
At 1 January 2013	29,610	(3,637)	25,973
Premiums written	81,822	(13,690)	68,132
Premiums earned	(78,014)	11,654	(66,360)
At 31 December 2013	33,418	(5,673)	27,745
Premiums written	93,113	(12,013)	81,100
Premiums earned	(89,209)	13,553	(75,656)
At 31 December 2014	37,322	(4,133)	33,189

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 33)	Net
At 1 January 2013	21,603	(4,625)	16,978
Claims incurred	50,796	(6,988)	43,808
Claims paid	(48,042)	6,332	(41,710)
At 31 December 2013	24,357	(5,281)	19,076
Claims incurred	60,334	(8,906)	51,428
Claims paid	(54,459)	8,048	(46,411)
At 31 December 2014	30,232	(6,139)	24,093

41. INVESTMENT CONTRACT LIABILITIES

Group	
At 1 January 2013	41,754
Deposits received	3,355
Deposits withdrawn	(12,595)
Fees deducted	(187)
Interest credited	1,924
Others	192
At 31 December 2013	34,443
Deposits received	5,259
Deposits withdrawn	(6,199)
Fees deducted	(164)
Interest credited	1,374
Others	949
At 31 December 2014	35,662

(All amounts expressed in RMB million unless otherwise specified)

42. SUBORDINATED DEBTS

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

On 20 August 2012, CPIC Life issued a 10-year subordinated debt with a total face value of RMB7.5 billion. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 4.58% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 6.58% and would remain unchanged for the remaining term.

On 5 March 2014, CPIC Property issued a 10-year subordinated debt with a total face value of RMB4 billion. CPIC Property has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 5.9% per annum, payable annually in arrears. If CPIC property does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.9% and would remain unchanged for the remaining term.

	31 December 2013	Issuance	Premium amortization	Redemption	31 December 2014
CPIC Life	15,500	-	-	-	15,500
CPIC Property	-	4,000	(4)	-	3,996
	15,500	4,000	(4)	-	19,496

43. LONG-TERM BORROWINGS

	31 December 2014	31 December 2013
Bank loans - secured	187	188

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

Lending Bank	Commencement	Maturity	Currency	Interest rate model	Interest rate(%)	31 December 2014
DBS Bank (China) Co., Ltd.	2012	2015	RMB	To be adjusted based on the benchmark interest rate of next period	6.48%	187

Details of the security of the afore-mentioned long-term borrowing are included in note 19.

(All amounts expressed in RMB million unless otherwise specified)

44. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Group	**31 December 2014**	**31 December 2013**
Bonds		
Inter-bank market	22,415	24,061
Stock exchange	4,493	1,138
	26,908	25,199

As at 31 December 2014, bond investments of approximately RMB27,610 million (31 December 2013: RMB27,743 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.

45. OTHER LIABILITIES

Group	**31 December 2014**	**31 December 2013**
Annuity and other insurance payables	13,590	10,883
Salary and staff welfare payable	2,472	1,962
Payables to non-controlling interests of consolidated structured entities	2,206	-
Commission and brokerage payable	2,199	1,857
Payables for securities purchased but not settled	1,587	123
Tax payable other than income tax	1,398	1,009
Accrued expenses	581	490
Co-insurance payable	464	625
Insurance guarantee fund	298	284
Payables for construction and purchase of office buildings	254	213
Others	3,164	2,406
	28,213	19,852

Company	**31 December 2014**	**31 December 2013**
Payables for purchase of office buildings	252	55
Payables for purchase of property and equipment	176	30
Salary and staff welfare payable	167	152
Others	194	169
	789	406

(All amounts expressed in RMB million unless otherwise specified)

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

(a) Long-term life insurance contracts

Key assumptions

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

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

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

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 2014			
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact on equity	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(7,152)	7,152	-1.45%
	-25 basis points	7,751	(7,751)	1.57%
Mortality rates	+10%	557	(557)	0.11%
	-10%	(522)	522	-0.11%
Morbidity rates	+10%	2,069	(2,069)	0.42%
	-10%	(2,108)	2,108	-0.43%
Surrender rates	+10%	(321)	321	-0.06%
	-10%	403	(403)	0.08%
Expenses	+10%	2,824	(2,824)	0.57%
	-10%	(2,824)	2,824	-0.57%
Policy dividend	+5%	7,556	(7,556)	1.53%

(All amounts expressed in RMB million unless otherwise specified)

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

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

Sensitivities (continued)

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

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

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

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

Key assumptions

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

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

(All amounts expressed in RMB million unless otherwise specified)

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

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

Sensitivities

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

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2014 by RMB1,205 million and RMB65 million (31 December 2013: RMB954 million and RMB46 million), respectively.

Claim development tables

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

Gross property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
	2010	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	24,635	33,232	39,674	49,007	55,276	
One year later	24,251	32,574	41,169	51,154		
Two years later	24,222	31,753	41,592			
Three years later	23,846	31,996				
Four years later	24,009					
Current estimate of cumulative claims	24,009	31,996	41,592	51,154	55,276	204,027
Cumulative payments to date	(23,792)	(31,669)	(40,258)	(46,126)	(32,614)	(174,459)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						664
Total gross claim reserves included in the consolidated balance sheet						30,232

(All amounts expressed in RMB million unless otherwise specified)

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

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

Claim development tables (continued)

Net property and casualty insurance claim reserves:

	Property and casualty insurance (Accident year)					
	2010	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	19,768	27,311	33,427	41,726	46,272	
One year later	19,565	26,960	34,653	43,646		
Two years later	19,632	26,400	35,378			
Three years later	19,406	26,676				
Four years later	19,519					
Current estimate of cumulative claims	19,519	26,676	35,378	43,646	46,272	171,491
Cumulative payments to date	(19,401)	(26,478)	(34,563)	(39,882)	(27,721)	(148,045)
Liability in respect of prior years, unallocated loss adjustment expenses, assumed business, discount and risk adjustment margin						647
Total net claim reserves included in the consolidated balance sheet						24,093

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2010	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	1,197	1,423	1,500	1,612	1,939	
One year later	1,177	1,419	1,549	1,633		
Two years later	1,175	1,413	1,525			
Three years later	1,174	1,393				
Four years later	1,163					
Current estimate of cumulative claims	1,163	1,393	1,525	1,633	1,939	7,653
Cumulative payments to date	(1,162)	(1,381)	(1,492)	(1,530)	(1,137)	(6,702)
Risk adjustment and others						365
Total gross claim reserves included in the consolidated balance sheet						1,316

(All amounts expressed in RMB million unless otherwise specified)

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

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

Claim development tables (continued)

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
	2010	**2011**	**2012**	**2013**	**2014**	**Total**
Estimate of ultimate claim cost as of:						
End of current year	901	1,091	1,288	1,553	1,913	
One year later	885	1,073	1,348	1,579		
Two years later	859	1,087	1,333			
Three years later	880	1,065				
Four years later	872					
Current estimate of cumulative claims	872	1,065	1,333	1,579	1,913	6,762
Cumulative payments to date	(872)	(1,056)	(1,291)	(1,466)	(1,137)	(5,822)
Risk adjustment and others						365
Total net claim reserves included in the consolidated balance sheet						1,305

47. 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.

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(a) Insurance risk (continued)

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.

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:

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

- 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 set-up guidelines, 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.

(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 2014			
	RMB	**USD**	**HKD**	**Total**
Held-to-maturity financial assets	311,832	158	8	311,998
Investments classified as loans and receivables	61,259	-	-	61,259
Term deposits	164,138	583	841	165,562
Available-for-sale financial assets	166,347	218	36	166,601
Financial assets at fair value through profit or loss	17,764	-	-	17,764
Reinsurance assets	17,153	-	14	17,167
Cash and short-term time deposits	10,585	538	97	11,220
Others	50,197	1,044	67	51,308
	799,275	2,541	1,063	802,879
Insurance contract liabilities	564,554	-	89	564,643
Investment contract liabilities	35,662	-	-	35,662
Policyholders' deposits	76	-	-	76
Subordinated debts	19,496	-	-	19,496
Long-term borrowings	187	-	-	187
Securities sold under agreements to repurchase	26,908	-	-	26,908
Others	42,101	498	143	42,742
	688,984	498	232	689,714

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December 2013			
	RMB	**USD**	**HKD**	**Total**
Held-to-maturity financial assets	262,767	167	8	262,942
Investments classified as loans and receivables	41,320	-	-	41,320
Term deposits	141,494	-	2,823	144,317
Available-for-sale financial assets	174,333	216	940	175,489
Financial assets at fair value through profit or loss	4,926	-	-	4,926
Reinsurance assets	17,347	-	41	17,388
Cash and short-term time deposits	12,523	790	3,248	16,561
Others	36,669	1,080	40	37,789
	691,379	2,253	7,100	700,732
Insurance contract liabilities	502,464	-	72	502,536
Investment contract liabilities	34,443	-	-	34,443
Policyholders’ deposits	77	-	-	77
Subordinated debts	15,500	-	-	15,500
Long-term borrowings	188	-	-	188
Securities sold under agreements to repurchase	25,199	-	-	25,199
Others	35,796	638	36	36,470
	613,667	638	108	614,413

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 2014**	
		Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	146	147
USD and HKD	- 5%	(146)	(147)

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

(All amounts expressed in RMB million unless otherwise specified)

47. 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 2014					
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Held-to-maturity financial assets	4,861	22,585	29,565	254,987	-	311,998
Investments classified as loans and receivables	20,874	8,660	11,613	12,014	8,098	61,259
Restricted statutory deposits	50	3,798	1,602	-	130	5,580
Term deposits	27,868	84,290	45,134	-	8,270	165,562
Available-for-sale financial assets	20,520	21,318	23,380	26,985	-	92,203
Financial assets at fair value through profit or loss	501	2,187	3,067	6,089	-	11,844
Securities purchased under agreements to resell	2,822	-	-	-	-	2,822
Policy loans	12,253	-		-	-	12,253
Deposits with original maturity of no more than three months	2,803	-	-	-	8,417	11,220
Financial liabilities:						
Investment contract liabilities	35,662	-	-	-	-	35,662
Policyholders' deposits	76	-	-	-	-	76
Subordinated debts	-	15,500	3,996	-	-	19,496
Long-term borrowings	187	-	-	-	-	187
Securities sold under agreements to repurchase	26,908	-	-	-	-	26,908

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

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

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

Sensitivities

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

(All amounts expressed in RMB million unless otherwise specified)

47. 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 2014	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	(84)	(899)
-50 basis points	86	925

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

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 2014	
Change in RMB interest rate	Impact on profit before tax	Impact on equity
+50 basis points	124	124
-50 basis points	(124)	(124)

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

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

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

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

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

As at 31 December 2014, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market was RMB1,067 million (31 December 2013: RMB1,853 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, policy loans and investments classified as loans and receivables.

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

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

(All amounts expressed in RMB million unless otherwise specified)

47. 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 carrying amount of financial assets included on the consolidated balance sheet represents the maximum credit risk exposure at the reporting date without taking account of the effect of mitigation through any collateral held or other credit enhancements.

	As at 31 December 2014						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
Held-to-maturity financial assets	311,998	-	-	-	-	-	311,998
Investments classified as loans and receivables	61,259	-	-	-	-	-	61,259
Term deposits	165,562	-	-	-	-	-	165,562
Available-for-sale financial assets	92,203	-	-	-	-	-	92,203
Financial assets at fair value through profit or loss	11,844	-	-	-	-	-	11,844
Interest receivables	15,232	-	-	-	-	-	15,232
Reinsurance assets	17,167	-	-	-	-	-	17,167
Insurance receivables	5,336	-	-	-	-	3,021	8,357
Cash and short-term time deposits	11,220	-	-	-	-	-	11,220
Others	27,319	-	-	-	-	400	27,719
Total	719,140	-	-	-	-	3,421	722,561

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Credit risk (continued)

	As at 31 December 2013						
	Not due and not impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired		
Held-to-maturity financial assets	262,942	-	-	-	-	-	262,942
Investments classified as loans and receivables	41,320	-	-	-	-	-	41,320
Term deposits	144,317	-	-	-	-	-	144,317
Available-for-sale financial assets	102,090	-	-	-	-	-	102,090
Financial assets at fair value through profit or loss	3,207	-	-	-	-	-	3,207
Interest receivables	12,003						12,003
Reinsurance assets	17,388	-	-	-	-	-	17,388
Insurance receivables	5,350	-	-	-	-	2,413	7,763
Cash and short-term time deposits	16,561	-	-	-	-	-	16,561
Others	17,779	-	-	-	-	244	18,023
Total	622,957	-	-	-	-	2,657	625,614

Liquidity risk

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

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

(All amounts expressed in RMB million unless otherwise specified)

47. 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 2014					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	20,490	111,170	443,268	-	574,928
Investments classified as loans and receivables	-	7,807	48,778	20,275	-	76,860
Restricted statutory deposits	-	464	5,943	-	-	6,407
Term deposits	-	36,281	154,781	160	-	191,222
Available-for-sale financial assets	-	30,261	58,900	32,035	66,378	187,574
Financial assets at fair value through profit or loss	-	1,164	7,528	6,657	5,920	21,269
Securities purchased under agreements to resell	-	2,828	-	-	-	2,828
Insurance receivables	1,664	6,847	153	30	-	8,694
Cash and short-term time deposits	8,417	2,804	-	-	-	11,221
Others	918	17,878	1,091	-	-	19,887
Total	10,999	126,824	388,344	502,425	72,298	1,100,890
Liabilities:						
Insurance contract liabilities	-	81,412	97,354	385,877	-	564,643
Investment contract liabilities	105	2,769	2,277	30,511	-	35,662
Policyholders' deposits	-	76	-	-	-	76
Subordinated debts	-	1,020	21,571	-	-	22,591
Long-term borrowings	-	199	-	-	-	199
Securities sold under agreements to repurchase	-	26,973	-	-	-	26,973
Others	30,724	11,337	281	14	20	42,376
Total	30,829	123,786	121,483	416,402	20	692,520

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2013					
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Held-to-maturity financial assets	-	17,492	82,899	379,228	-	479,619
Investments classified as loans and receivables	-	3,971	26,863	22,017	-	52,851
Restricted statutory deposits	-	43	4,381	-	-	4,424
Term deposits	-	12,604	158,942	163	-	171,709
Available-for-sale financial assets	-	35,093	64,796	33,296	69,534	202,719
Financial assets at fair value through profit or loss	-	39	2,249	1,125	1,719	5,132
Securities purchased under agreements to resell	-	2,408	-	-	-	2,408
Insurance receivables	1,136	6,343	474	29	-	7,982
Cash and short-term time deposits	8,864	7,697	-	-	-	16,561
Others	668	10,773	1,055	2	-	12,498
Total	10,668	96,463	341,659	435,860	71,253	955,903
Liabilities:						
Insurance contract liabilities	-	53,778	80,208	368,550	-	502,536
Investment contract liabilities	-	2,381	2,489	29,573	-	34,443
Policyholders' deposits	66	11	-	-	-	77
Subordinated debts	-	784	17,410	-	-	18,194
Long-term borrowings	-	14	200	-	-	214
Securities sold under agreements to repurchase	-	25,237	-	-	-	25,237
Others	25,010	10,717	550	33	-	36,310
Total	25,076	92,922	100,857	398,156	-	617,011

(All amounts expressed in RMB million unless otherwise specified)

47. 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 2014		
	Current	Non-current	Total
Assets:			
Held-to-maturity financial assets	4,862	307,136	311,998
Investments classified as loans and receivables	4,631	56,628	61,259
Term deposits	27,448	138,114	165,562
Available-for-sale financial assets	91,953	74,648	166,601
Financial assets at fair value through profit or loss	6,422	11,342	17,764
Cash and short-term time deposits	11,220	-	11,220
Others	18,230	1,091	19,321
Total assets	164,766	588,959	753,725
Liabilities:			
Insurance contract liabilities	81,412	483,231	564,643
Investment contract liabilities	2,874	32,788	35,662
Policyholders’ deposits	76	-	76
Subordinated debts	-	19,496	19,496
· Long-term borrowings	-	187	187
Securities sold under agreements to repurchase	26,908	-	26,908
Others	42,073	295	42,368
Total liabilities	153,343	535,997	689,340

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

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(c) Operational risk

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

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

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

(d) Mismatching risk of assets and liabilities

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

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

(e) Capital management risks

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

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

(All amounts expressed in RMB million unless otherwise specified)

47. RISK MANAGEMENT (continued)

(e) Capital management risks (continued)

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

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

Group	**31 December 2014**	**31 December 2013**
Actual solvency margin	103,293	90,081
Minimum solvency margin	36,842	31,849
Surplus	66,451	58,232
Solvency margin ratio	280%	283%

CPIC Property	**31 December 2014**	**31 December 2013**
Actual solvency margin	21,461	16,441
Minimum solvency margin	12,106	10,136
Surplus	9,355	6,305
Solvency margin ratio	177%	162%

CPIC Life	**31 December 2014**	**31 December 2013**
Actual solvency margin	53,747	41,436
Minimum solvency margin	24,611	21,651
Surplus	29,136	19,785
Solvency margin ratio	218%	191%

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

48 Structured entities

The Group uses structured entities in the normal course of business for a number of purposes, for example, structured transactions for institutions, to provide finance to public and private section infrastructure projects, and to generate fees from managing assets on behalf of third-party investors. These structured entities are financed through the contracts. Refer to Note 2.2(3) for the Group's consolidation consideration related to structured entities.

(All amounts expressed in RMB million unless otherwise specified)

48. Structured entities (continued)

The following table shows the total assets of the various types of unconsolidated structured entities and the amount of funding provided by the Group to these unconsolidated structured entities. The table also shows the Group's maximum exposure to the unconsolidated structured entities representing the Group's maximum possible risk exposure that could occur as a result of the Group's arrangements with structured entities. The maximum exposure is contingent in nature and approximates the sum of funding provided by the Group.

As at 31 December 2014, the size of unconsolidated structured entities and Group's funding and maximum exposure are shown below:

	31 December 2014				
	Size	Funding provided by the Group	Group's maximum exposure	Carrying amount of Group's investment	Interest held by Group
Entrusted management business by third parties	14,197	-	-	-	Management fee
Asset-backed securitization managed by third parties	5,270	1,453	1,452	1,452	Investment income
Cash management products managed by affiliated parties	13,850	76	76	76	Investment income and management fee
Debt investment schemes and asset backed plans managed by affiliated parties	106,309	41,455	41,450	41,450	Investment income and management fee
Debt investment schemes and asset backed plans managed by third parties	Note 1	12,995	12,993	12,993	Investment income
Trust products managed by third parties	Note 1	6,129	6,128	6,128	Investment income
Bank wealth management products managed by third parties	Note 1	6,922	6,935	6,935	Investment income
Asset management plans managed by third parties	Note 1	1,000	1,000	1,000	Investment income
Net asset value management products managed by affiliated parties	13,220	201	201	201	Investment income and management fee
Net asset value management products managed by third parties	Note 1	120	121	121	Investment income
Total		70,351	70,356	70,356	

Note 1: The structured entities are sponsored by third party financial institutions and the information related to size of these structured entities were not publicly available.

The Group's investments in unconsolidated structured entities are disclosed in wealth management products under financial assets at fair value through profit or loss, wealth management products and other equity investments under available-for-sale financial assets, debt investment scheme and wealth management products under investments classified as loans and receivables.

(All amounts expressed in RMB million unless otherwise specified)

49. 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)).

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 debts, long-term borrowings, etc.

<u>Fair value of financial assets and liabilities not carried at fair value</u>

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 debts whose fair values are not presented in the consolidated balance sheet.

	As at 31 December 2014	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	311,998	317,417
Investments classified as loans and receivables	61,259	60,929
Financial liabilities:		
Subordinated debts	19,496	19,985

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

50. FAIR VALUE MEASUREMENT

Determination of fair value and fair value hierarchy

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

The levels of the fair value hierarchy are as follows:

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

The level of fair value calculation is determined by the lowest level input with material significant in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities. Debt securities traded among Chinese interbank market are classified as Level 2 when they are valued at recent quoted price from Chinese interbank market or from valuation service providers. Substantially most financial instruments classified within Level 2 of the fair value hierarchy are debt investments denominated in RMB. Fair value of debt investments denominated in RMB is determined based upon the valuation results by the China Central Depository & Clearing Co., Ltd. All significant inputs are observable in the market.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement, and valuation methodologies such as discounted cash flow models and other similar techniques. The Group's valuation team may choose to apply internally developed valuation method to the assets or liabilities being measured, determine the main inputs for valuation, and analyse the change of the valuation and report it to management. Key inputs involved in internal valuation services are not based on observable market data. They reflect assumptions made by management based on judgements and experiences.

(All amounts expressed in RMB million unless otherwise specified)

50. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

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

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

	As at 31 December 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	3,948	212	-	4,160
- Investment funds	1,720	-	-	1,720
- Debt securities	10,453	1,391	-	11,844
- Others	-	40	-	40
	16,121	1,643	-	17,764
Available-for-sale financial assets				
- Equity securities	20,282	4,604	-	24,886
- Investment funds	30,631	1,056	-	31,687
- Debt securities	11,036	79,715	-	90,751
- Others	-	8,923	10,354	19,277
	61,949	94,298	10,354	166,601
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 49)	-	5,858	55,071	60,929
Held-to-maturity financial assets (Note 49)	20,212	297,205	-	317,417
Investment properties(Note 19)	-	-	8,456	8,456
Liabilities for which fair values are disclosed				
Subordinated debts (Note 49)	-	-	19,985	19,985

(All amounts expressed in RMB million unless otherwise specified)

50. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value				
Financial assets at fair value through profit or loss				
- Equity securities	1,071	-	-	1,071
- Investment funds	648	-	-	648
- Debt securities	3,207	-	-	3,207
	4,926	-	-	4,926
Available-for-sale financial assets				
- Equity securities	30,130	-	-	30,130
- Investment funds	32,878	-	-	32,878
- Debt securities	17,209	84,257	-	101,466
- Others	-	4,489	6,526	11,015
	80,217	88,746	6,526	175,489
Assets for which fair values are disclosed				
Investments classified as loans and receivables (Note 49)	-	6,069	34,545	40,614
Held-to-maturity financial assets (Note 49)	9,353	227,623	-	236,976
Investment properties(Note 19)	-	-	8,356	8,356
Liabilities for which fair values are disclosed				
Subordinated debts (Note 49)	-	-	15,103	15,103

In 2014, due to changes in availability of quoted prices (unadjusted) in active markets, the Group transferred certain debt securities between Level 1 and Level 2. As at 31 December 2014, the Group transferred the debt securities with a carrying amount of RMB2,127 million from Level 1 to Level 2 and RMB8,102 million from Level 2 to Level 1. As at 31 December 2013, the Group also transferred the debt securities with a carrying amount of RMB8,334 million from Level 1 to Level 2 and RMB200 million from Level 2 to Level 1.

(All amounts expressed in RMB million unless otherwise specified)

50. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

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

	As at 31 December 2014			
	Beginning of year	Purchases	Net unrealised gain recognized in other comprehensive income	End of year
Available-for-sale financial assets				
- Other equity investments	6,526	2,943	885	10,354

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

Valuation techniques

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

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

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

(All amounts expressed in RMB million unless otherwise specified)

51. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

	2014	2013
Profit before tax	14,500	11,914
Investment income	(41,428)	(30,972)
Foreign currency (income)/losses	(40)	280
Finance costs	2,683	2,335
Charge/(reversal) of impairment losses on insurance receivables and other assets, net	128	(58)
Depreciation of property and equipment	1,127	1,046
Depreciation of investment properties	227	215
Amortization of other intangible assets	339	273
Amortization of prepaid land lease payments	1	1
Amortization of other assets	20	25
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(38)	(3)
Charge/(reversal) of provision for lawsuits	2	(4)
	(22,479)	(14,948)
Decrease/(Increase) in reinsurance assets	221	(3,267)
(Increase)/decrease in insurance receivables	(594)	467
(Increase)/decrease in other assets	(2,882)	1,405
Change in insurance contract liabilities	62,107	62,705
Increase in other operating liabilities	6,148	875
Cash generated from operating activities	42,521	47,237

52. RELATED PARTY TRANSACTIONS

The Group had the following major transactions with related parties:

(a) Sale of insurance contracts

	2014	2013
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	38	54

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

(b) Claims paid

	2014	2013
Parent companies of equity holders who individually own more than 5% of equity interests of the Company	-	4

(c) Transactions of asset management products

	2014	2013
Associates of the Company	148	-

(All amounts expressed in RMB million unless otherwise specified)

52. RELATED PARTY TRANSACTIONS (continued)

(d) Dividends paid

	2014	**2013**
Equity holders who individually own more than 5% of equity interests of the Company	1,236	1,079

(e) Capital injections to the Company's subsidiaries

	2014	**2013**
Equity holders who individually own more than 5% of equity interests of the Company	61	-

(f) Compensation of key management personnel

	2014	**2013**
Salaries, allowances and other short-term benefits	29	45
Deferred bonus (1)	9	9
Total compensation of key management personnel	38	54

(1) This represents the amount under the Group's deferred bonus plans mentioned in note 11(2).

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

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

	2014	**2013**
Payments made on behalf of Binjiang-Xiangrui for the purchase of land, construction fees and etc	46	1,034

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

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

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

In 2013 and 2014, the Group had certain transactions with some government-related entities primarily related to insurance, investment and other activities (including, but not limited to, issuing insurance policies, provision of asset management or other services, and the sale, purchase, issuance and redemption of bonds or equity instruments).

(All amounts expressed in RMB million unless otherwise specified)

52. RELATED PARTY TRANSACTIONS (continued)

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

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.

53. COMMITMENTS

(a) Capital commitments

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

		31 December 2014	**31 December 2013**
Contracted, but not provided for	(1)(2)	841	2,440
Authorized, but not contracted for	(1)(2)	1,344	798
		2,185	3,238

Major projects with capital commitments are as follows:

(1) The Company resolved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone and the expected total capital expenditure is approximately RMB2 billion. As at 31 December 2014, the cumulative amount incurred by the Company amounted to RMB755 million. Of the balance, RMB212 million was contracted and provided for, RMB276 million was disclosed as a capital commitment contracted but not provided for and RMB757 million was disclosed as a capital commitment authorized but not contracted for.

(2) In November 2012, CPIC Property and a third party bid for the use right of the land located at Huangpu District, Shanghai. And in February 2013, both parties set up a project company named Shanghai Binjiang-Xiangrui Investment and Construction Co., Ltd. ("Binjiang-Xiangrui") as the owner of the land use right to this parcel of land and construction development subject. Total investment of this project approximated RMB2 billion. As at 31 December 2014, the cumulative amount incurred by the Company amounted to RMB1,080 million. Of the balance, RMB333 million was disclosed as a capital commitment contracted but not provided for and RMB587 million was disclosed as a capital commitment authorized but not contracted for.

(All amounts expressed in RMB million unless otherwise specified)

53. COMMITMENTS (continued)

(b) Operating lease commitments

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

	31 December 2014	**31 December 2013**
Within 1 year (including 1 year)	666	600
1 to 2 years (including 2 years)	453	434
2 to 3 years (including 3 years)	306	272
3 to 5 years (including 5 years)	289	277
More than 5 years	170	387
	1,884	1,970

(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 2014	**31 December 2013**
Within 1 year (including 1 year)	288	404
1 to 2 years (including 2 years)	159	255
2 to 3 years (including 3 years)	88	133
3 to 5 years (including 5 years)	13	40
More than 5 years	5	6
	553	838

54. 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 2014, 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.

(All amounts expressed in RMB million unless otherwise specified)

55. POST BALANCE SHEET EVENTS

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

56. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved and authorized for issue by the Company's directors on 27 March 2015.