BNC BANCORP
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FOR IMMEDIATE RELEASE

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PNFP REPORTS DILUTED EARNINGS PER SHARE OF $0.82 FOR 1Q 2017
Excluding merger-related charges, diluted EPS was $0.83 for 1Q 2017

NASHVILLE, TN, April 17, 2017 – Pinnacle Financial Partners, Inc. (Nasdaq/NGS: PNFP) reported net income per diluted common share of $0.82 for the quarter ended March 31, 2017, compared to net income per diluted common share of $0.68 for the quarter ended March 31, 2016, an increase of 20.6 percent. Excluding pre-tax merger-related charges of $672,000 and $1.8 million for the three months ended March 31, 2017 and 2016, respectively, net income per diluted common share was $0.83 and $0.71, respectively, an increase of 16.9 percent.

"The first quarter of 2017 was a busy quarter for our firm, and one that will serve as the foundation for continued growth for many years to come," said M. Terry Turner, Pinnacle's president and chief executive officer. "In January, we announced the proposed merger of our firm with BNC Bancorp (BNC), expanding our presence into the Carolinas and Virginia. We are excited to have already obtained the bank regulatory approvals to merge our two firms and are now focused on securing the required shareholder approvals. We continue to anticipate a late second quarter or early third quarter 2017 merger of our two firms. Additionally, soon after the announcement of the proposed merger, we issued 3.2 million common shares in a public offering, which reduced earnings per share for the quarter but positions the combined firm for many years of future growth. Both we and BNC have experienced positive reaction from our clients in response to our proposed merger, and once the transaction is consummated, our firm will be doing business in many of the Southeast's most admired banking markets."

GROWING THE CORE EARNINGS CAPACITY OF THE FIRM:

- Revenues for the quarter ended March 31, 2017 were $119.1 million, an increase of $19.4 million, or 19.4 percent, from the quarter ended March 31, 2016.
- Loans at March 31, 2017 were a record $8.642 billion, an increase of $192.1 million from Dec. 31, 2016 and $1.814 billion from March 31, 2016, reflecting year-over-year growth of 26.6 percent. Annualized linked-quarter loan growth approximated 9.1 percent when comparing balances as of March 31, 2017 to balances as of Dec. 31, 2016.
- Average deposit balances for the quarter ended March 31, 2017 were a record $9.099 billion, an increase of $308.3 million from Dec. 31, 2016 and $2.062 billion from March 31, 2016, reflecting year-over-year growth of 29.3 percent.

"In the first quarter of 2016, our net loan growth was approximately $284.7 million, $169.2 million of which was acquired from another financial institution in connection with the hiring of several commercial lenders in Memphis," Turner said. "This resulted in net organic loan growth of $115.5 million in the first quarter of last year, compared to $192.1 million in the first quarter of 2017, an increase of 66.3 percent. Also, deposits increased by $521.3 million in the first quarter of 2017, making the first quarter of 2017 an exceptional quarter for deposit growth for our firm. Earlier today, BNC also reported strong linked-quarter loan and deposit growth during the first quarter of 2017. Client retention as well as client growth remains strong in both franchises, and we could not be more excited about the future opportunities for our combined firm."

FOCUSING ON PROFITABILITY:

- Return on average assets was 1.41 percent for the first quarter of 2017, compared to 1.30 percent for the fourth quarter of 2016 and 1.27 percent for the same quarter last year.
  - Excluding merger-related charges in each respective period, return on average assets was 1.42 percent for the first quarter of 2017 compared to 1.37 percent and 1.32 percent for the fourth quarter of 2016 and the first quarter of 2016, respectively.
- First quarter 2017 return on average common equity amounted to 9.70 percent, compared to 9.61 percent for the fourth quarter of 2016 and 9.47 percent for the same quarter last year. First quarter 2017 return on average tangible common equity amounted to 14.74 percent, compared to 15.49 percent for the fourth quarter of 2016 and 15.04 percent for the same quarter last year.
  - Excluding merger-related charges in each respective period, return on average tangible common equity amounted to 14.89 percent for the first quarter of 2017, compared to 16.34 percent for the fourth quarter of 2016 and 15.64 percent for the first quarter of 2016.

"We continue to operate our firm at a high level of profitability and are pleased with our first quarter metrics," said Harold R. Carpenter, Pinnacle's chief financial officer. "The first quarter is usually a slower growth quarter for our firm, given we traditionally grant merit raises to our associates early in the year and because there are fewer days in the quarter, which negatively impacts our net interest income and several fee category run rates.

"BNC's results will obviously impact our profitability metrics once the merger occurs. That said, once the technology conversions are accomplished we will begin to realize the full earnings potential of the combined firm. During the first quarter of 2017, our technology professionals, working with BNC, modified our technology conversion plan for the transaction. Our plan is to convert Pinnacle's client accounts to BNC's core system during the fourth quarter of 2017 and then combine BNC's client data with Pinnacle's client data in the first quarter of 2018. Our belief is that this conversion plan significantly reduces integration risk and is a prudent way to balance near term expense with longer term benefits as our technology platform should serve the combined firm for many years of future growth."

OTHER HIGHLIGHTS:

- Revenues
  - Revenue per fully-diluted share was $2.46 for the quarter ended March 31, 2017, compared to $2.61 for the fourth quarter of 2016 and $2.44 for the first quarter of 2016. The aforementioned capital raise negatively impacted revenue per fully-diluted share by approximately $0.12 for the quarter ended March 31, 2017.
  - Net interest income for the quarter ended March 31, 2017 was $88.8 million, compared to $89.4 million for the fourth quarter of 2016 and $73.9 million for the first quarter of 2016.
    - The firm's net interest margin was 3.60 percent for the quarter ended March 31, 2017, compared to 3.72 percent last quarter and 3.78 percent for the quarter ended March 31, 2016.
  - Noninterest income for the quarter ended March 31, 2017 was $30.4 million, compared to $30.7 million for the fourth quarter of 2016 and $25.9 million for the first quarter of 2016.
    - Net gains from the sale of mortgage loans were $4.2 million for the quarter ended March 31, 2017, compared to $2.9 million for the fourth quarter of 2016 and $3.6 million for the quarter ended March 31, 2016, resulting in a year-over-year growth rate of 16.5 percent.
    - Wealth management revenues, which include investment, trust and insurance services, were $6.4 million for the quarter ended March 31, 2017, compared to $6.2 million for the fourth quarter of 2016 and $5.6 million for the

quarter ended March 31, 2016, resulting in a year-over-year growth rate of 13.4 percent.

- Income from the firm's investment in Bankers Healthcare Group, Inc. (BHG) was $7.8 million for the quarter ended March 31, 2017, compared to $8.1 million for the quarter ended Dec. 31, 2016 and $5.1 million for the first quarter last year.

"Our net interest margin decreased from 3.72 percent during the fourth quarter of 2016 to 3.60 percent in the first quarter of 2017," Carpenter said. "During the first quarter of 2017, loan discount accretion for fair value adjustments required by purchase accounting contributed approximately $5.0 million to our net interest income, compared to $7.8 million during the fourth quarter of 2016. We anticipate that purchase accounting will contribute between 0.10 percent to 0.20 percent to our net interest margin in the second quarter of 2017, exclusive of any impact of BNC's fair value adjustments.

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"The December 2016 and March 2017 Fed funds increases had a positive impact on our results in the first quarter of 2017 and partially offset the headwinds from reduced levels of discount accretion. Our balance sheet remains in a solid asset sensitive position with the March 2017 rate increase potentially providing an additional $1.8 million in net interest income in the second quarter of 2017. As to fee income, BHG posted a solid quarter, and we remain confident that they will achieve 12 to 15 percent growth in 2017, which translates to 20 percent growth in our noninterest income from BHG in 2017."

- Noninterest expense
  - o Noninterest expense for the quarter ended March 31, 2017 was $62.1 million, compared to $62.8 million in the fourth quarter of 2016 and $54.1 million in the first quarter last year.
    - § Salaries and employee benefits were $38.4 million in the first quarter of 2017, compared to $38.0 million in the fourth quarter of 2016 and $32.5 million in the first quarter of last year, reflecting a year-over-year increase of 17.9 percent, largely driven by an increase of 143 FTEs as well as annual merit raises awarded in the first quarter of 2017.
    - § Pre-tax merger-related charges were approximately $672,000 during the quarter ended March 31, 2017, compared to $1.8 million for the quarter ended March 31, 2016. Pre-tax merger related charges during the first quarter of 2017 included costs associated with our proposed merger with BNC.
    - § The efficiency ratio for the first quarter of 2017 decreased to 52.1 percent for the first quarter of 2017, compared to 52.2 percent for the fourth quarter of 2016. The ratio of noninterest expenses to average assets decreased to 2.20 percent for the first quarter of 2017 from 2.26 percent in the fourth quarter of 2016.
      - Excluding merger-related charges and other real estate owned (ORE) expense, the efficiency ratio was 51.3 percent for the first quarter of 2017 compared to 49.6 percent for the fourth quarter of 2016, and the ratio of noninterest expense to average assets was 2.17 percent compared to 2.14 percent between the first quarter of 2017 and the fourth quarter of 2016, respectively.

"Our noninterest expense to average assets ratio for the first quarter of 2017 is within our stated long-term goals of 2.10 percent and 2.30 percent," Carpenter said. "Excluding merger-related charges, we believe we will be able to maintain our expense base within those goals. That's due primarily to the operating leverage that has been created by both our rapid organic growth and high-quality investments and acquisitions."

- Asset quality
  - o Nonperforming assets decreased to 0.36 percent of total loans and ORE at March 31, 2017, compared to 0.40 percent at Dec. 31, 2016 and 0.70 percent at March 31, 2016. Nonperforming assets decreased to $31.3 million at March 31, 2017, compared to $33.7 million at Dec. 31, 2016 and $47.9 million at March 31, 2016.
  - o The allowance for loan losses represented 0.68 percent of total loans at March 31, 2017, compared to 0.70 percent at Dec. 31, 2016 and 0.91 percent at March 31, 2016.
    - § The ratio of the allowance for loan losses to nonperforming loans was 232.9 percent at March 31, 2017, compared to 213.9 percent at Dec. 31, 2016 and 146.4 percent at March 31, 2016.
    - § Net charge-offs were $4.3 million for each of the quarters ended March 31, 2017 and Dec. 31, 2016, compared to $7.1 million for the quarter ended March 31, 2016. Annualized net charge-offs as a percentage of average loans for the quarter ended March 31, 2017 were 0.20 percent, compared to 0.21 percent for the fourth quarter of 2016 and 0.42 percent for the first quarter of 2016.
    - § Provision for loan losses was $3.7 million in the first quarter of 2017, compared to $3.0 million in the fourth quarter of 2016 and $3.9 million in the first quarter of 2016.

"Overall, asset quality for our firm remains strong," Carpenter said. "During the first quarter, we continued to reduce our investment in non-prime consumer auto loans. Net charge-offs from the non-prime consumer auto portfolio were $2.2 million during the first quarter of 2017, compared to $3.6 million of net charge-offs in the fourth quarter of 2016. We have reduced portfolio balances in this portfolio from $66.9 million at Dec. 31, 2015 to $22.9 million at March 31, 2017 and anticipate continued reductions in this portfolio over the next several quarters."

- Other Highlights

- o In addition to the aforementioned pre-tax merger-related charges of $672,000 incurred during the first quarter of 2017, two other significant matters impacted the comparability of first quarter 2017 results to previous periods.
  - § In January 2017, the firm issued 3.2 million shares of common stock. Cash proceeds were approximately $192.1 million from the issuance, net of offering costs.
  - § On Jan. 1, 2017, Pinnacle adopted FASB Accounting Standards Update (ASU) 2016-09, Stock Compensation Improvements to Employee Share-Based Payment Activity, which represented a change in accounting for the tax effects related to vesting of common shares and the exercise of stock options previously granted to the firm's employees through its various equity compensation plans. This change resulted in a reduction in first quarter 2017 tax expense of $3.8 million.

"To increase our capital levels in connection with the anticipated merger with BNC, we issued 3.2 million common shares in late January," Carpenter said. "We were very pleased with market demand for the shares, which we believe is an indicator of the market's positive reaction to this transaction and the confidence the market has in the combined franchise to deliver continued growth in the years to come. The additional shares did increase our share count, thus negatively impacting our fully-diluted earnings per share results for the first quarter of 2017 by approximately $0.04. "In addition, our results for the quarter were impacted by the tax impact associated with equity compensation vesting. Previously these amounts were a component of our firm's paid in capital. With the required adoption of the new accounting standard, the tax impact of these activities is reflected in tax expense during the quarter when the underlying equity compensation vests or the stock option is exercised. Much of our equity compensation vesting usually occurs in the first quarter. Should our share price continue to trade within recent ranges, we believe the tax benefit for restricted stock lapses and stock options expiring in 2017 will approximate $1.0 million for the remaining nine months of the year, which should offset our anticipated effective tax rate of 33 percent for this year."

WEBCAST AND CONFERENCE CALL INFORMATION

Pinnacle will host a webcast and conference call at 8:30 a.m. (CDT) on April 18, 2017 to discuss first quarter 2017 results and other matters. To access the call for audio only, please call 1-877-602-7944. For the presentation and streaming audio, please access the webcast on the investor relations page of Pinnacle's website at www.pnfp.com.
For those unable to participate in the webcast, it will be archived on the investor relations page of Pinnacle's website at www.pnfp.com for 90 days following the presentation.
Pinnacle Financial Partners provides a full range of banking, investment, trust, mortgage and insurance products and services designed for businesses and their owners and individuals interested in a comprehensive relationship with their financial institution. The firm earned a place on Fortune's 2017 list of the 100 Best Companies to Work For in the U.S., and the American Banker recognized Pinnacle as the sixth best bank to work for in the country in 2016.
The firm began operations in a single downtown Nashville location in October 2000 and has since grown to approximately $11.7 billion in assets at March 31, 2017. As the second-largest bank holding company headquartered in Tennessee, Pinnacle operates in the state's four largest markets, Nashville, Memphis, Knoxville and Chattanooga, as well as several surrounding counties.
Additional information concerning Pinnacle, which is included in the NASDAQ Financial-100 Index, can be accessed at www.pnfp.com.
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Forward-Looking Statements

All statements, other than statements of historical fact, included in this press release, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to: (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the inability of Pinnacle Financial, or entities in which it has significant investments, like BHG, to maintain the historical growth rate of its, or such entities', loan portfolio; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions in the national or local economies including the Nashville-Davidson-Murfreesboro-Franklin MSA, the Knoxville MSA, the Chattanooga, TN-GA MSA and the Memphis, TN-MS-AR MSA, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates on loans or deposits; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) a merger or acquisition, like Pinnacle Financial's proposed merger with BNC; (xii) risks of expansion into new geographic or product markets; (xiii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiv) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Bank), to retain financial advisors or otherwise to attract customers from other financial institutions; (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels; (xvii) risks associated with litigation, including the applicability of insurance coverage; (xviii) the risk of successful integration of the businesses Pinnacle Financial has recently acquired with its business; (xix) approval of the declaration of any dividend by Pinnacle Financial's board of directors; (xx) the vulnerability of Pinnacle Bank's network and online banking portals to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches; (xxi) the possibility of increased compliance costs as a result of increased regulatory oversight, including oversight of companies in which Pinnacle Financial or Pinnacle Bank have significant investments, like BHG, and the development of additional banking products for Pinnacle Bank's corporate and consumer clients; (xxii) the risks associated with Pinnacle Financial and Pinnacle Bank being a minority investor in BHG, including the risk that the owners of a majority of the equity interests in BHG decide to sell the company if not prohibited from doing so by the terms of our agreement with them; (xxiii) the possibility that the incremental cost and/or decreased revenues associated with exceeding $10 billion in assets will exceed current estimates; (xxiv) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, like BHG, including regulatory or legislative developments; (xxv) the risk that the cost savings and any revenue synergies from Pinnacle Financial's proposed merger with BNC may not be realized or take longer than anticipated to be realized; (xxvi) disruption from Pinnacle Financial's proposed merger with BNC with customers, suppliers, employee or other business partners relationships; (xxvii) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement between Pinnacle Financial and BNC; (xxviii) the risk of successful integration of Pinnacle Financial's and BNC's businesses; (xxix) the failure to obtain the necessary approvals by Pinnacle Financial and BNC shareholders; (xxx) the amount of the costs, fees, expenses and charges related to Pinnacle Financial's proposed merger with BNC; (xxxi) reputational risk and the reaction of the parties' customers, suppliers, employees or other business partners to Pinnacle Financial's proposed merger with BNC; (xxxii) the failure of the closing conditions with respect to Pinnacle Financial's proposed merger with BNC to be satisfied, or any unexpected delay in closing the proposed merger; (xxxiii) the risk that the integration of Pinnacle Financial's and BNC's operations will be materially delayed or will be more costly or difficult than expected; (xxxiv) the possibility that Pinnacle Financial's proposed merger with BNC may be more expensive to complete than anticipated, including as a result of unexpected factors or events; (xxxv) the dilution caused by Pinnacle Financial's issuance of additional shares of its common stock in its proposed merger with BNC; and (xxxvi) general competitive, economic, political and market conditions. Additional factors which could affect the forward looking statements can be found in Pinnacle Financial's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, or BNC's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, in each case filed with the SEC and available on the SEC's website at http://www.sec.gov. Pinnacle Financial and BNC disclaim any obligation to update or revise any forward-looking statements contained in this press release, which speak only as of the date hereof, whether as a result of new information, future events or otherwise.

Non-GAAP Financial Matters

This release contains certain non-GAAP financial measures, including, without limitation, net income, earnings per diluted share, efficiency ratio, core net interest margin, noninterest expense and the ratio of noninterest expense to average assets and noninterest expense to the sum of net interest income and noninterest income, in each case excluding the impact of expenses related to other real estate owned, gains or losses on sale of investments, FHLB prepayments and other matters for the accounting periods presented. This release also includes non-GAAP financial measures which exclude expenses associated with Pinnacle Bank's mergers with CapitalMark Bank & Trust, Magna Bank, Avenue Financial Holdings, Inc. and BNC, as well as Pinnacle Financial's and its bank subsidiary's investments in BHG. This release may also contain certain other non-GAAP capital ratios and performance measures. These non-GAAP financial measures exclude the impact of goodwill and core deposit intangibles associated with Pinnacle Financial's acquisitions of Avenue, which Pinnacle Financial acquired on July 1, 2016, Magna Bank which Pinnacle Bank acquired on September 1, 2015, CapitalMark Bank & Trust which Pinnacle Bank acquired on July 31, 2015, Mid-America Bancshares, Inc. which Pinnacle Financial acquired on November 30, 2007, Cavalry Bancorp, Inc., which Pinnacle Financial acquired on March 15, 2006 and other acquisitions which collectively are less material to the non-GAAP measure. The presentation of the non-GAAP financial information is not intended to be considered in isolation or as a substitute for any measure prepared in accordance with GAAP. Because non-GAAP financial measures presented in this release are not measurements determined in accordance with GAAP and are susceptible to varying calculations, these non-GAAP financial measures, as presented, may not be comparable to other similarly titled measures presented by other companies.

Pinnacle Financial believes that these non-GAAP financial measures facilitate making period-to-period comparisons and are meaningful indications of its operating performance. In addition, because intangible assets such as goodwill and the core deposit intangible, and the other items excluded each vary extensively from company to company, Pinnacle Financial believes that the presentation of this information allows investors to more easily compare Pinnacle Financial's results to the results of other companies. Pinnacle Financial's management utilizes this non-GAAP financial information to compare Pinnacle Financial's operating performance for 2017 versus certain periods in 2016 and to
internally prepared projections.

Additional Information About the Proposed Transaction and Where to Find It

Investors and security holders are urged to carefully review and consider each of Pinnacle Financial's and BNC's public filings with the SEC, including but not limited to their Annual Reports on Form 10-K, their proxy statements, their Current Reports on Form 8-K and their Quarterly Reports on Form 10-Q.

The documents filed by Pinnacle Financial with the SEC may be obtained free of charge at Pinnacle Financial's website at www.pnfp.com, under the heading "About Pinnacle" and the subheading "Investor Relations," or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from Pinnacle Financial by requesting them in writing to Pinnacle Financial Partners, Inc., 150 Third Avenue South, Suite 900, Nashville, Tennessee 37201, Attention: Investor Relations, or by telephone at (615) 744-3700.

The documents filed by BNC with the SEC may be obtained free of charge at BNC's website at www.bncbanking.com under the "Investor Relations" section, or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from BNC by requesting them in writing to BNC Bancorp, 3980 Premier Drive, Suite 210, High Point, North Carolina 27265, Attention: Investor Relations, or by telephone at (336) 869-9200.

In connection with the proposed transaction, Pinnacle Financial has filed a registration statement on Form S-4 with the SEC which includes a preliminary joint proxy statement of Pinnacle Financial and BNC and a preliminary prospectus of Pinnacle Financial, and each party will file other documents regarding the proposed transaction with the SEC. Before making any voting or investment decision, investors and security holders of Pinnacle Financial and BNC are urged to carefully read the entire registration statement and the definitive joint proxy statement/prospectus, when they become available, as well as any amendments or supplements to these documents and any other relevant documents filed with the SEC, because they will contain important information about the proposed transaction. A definitive joint proxy statement/prospectus will be sent to the shareholders of each institution seeking the required shareholder approvals. Investors and security holders will be able to obtain the registration statement and the joint proxy statement/prospectus free of charge from the SEC's website or from Pinnacle Financial or BNC as described in the paragraphs above.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Participants in the Solicitation

Pinnacle Financial, BNC and certain of their directors and executive officers may be deemed participants in the solicitation of proxies from Pinnacle Financial's and BNC's shareholders in connection with the proposed transaction. Information about the directors and executive officers of Pinnacle Financial and their ownership of Pinnacle Financial common stock is set forth in the definitive proxy statement for Pinnacle Financial's 2017 annual meeting of shareholders, as previously filed with the SEC on March 9, 2017, and other documents subsequently filed by Pinnacle Financial with the SEC. Information about the directors and executive officers of BNC and their ownership of BNC's common stock is set forth in Amendment No. 1 to BNC's 2016 Annual Report on Form 10-K, as previously filed with the SEC on March 24, 2017, and other documents subsequently filed by BNC with the SEC. Shareholders may obtain additional information regarding the interests of such participants by reading the registration statement and the definitive joint proxy statement/prospectus. Free copies of these documents may be obtained as described in the paragraphs above.

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS – UNAUDITED

	March 31, 2017	December 31, 2016	March 31, 2016
ASSETS			
Cash and noninterest-bearing due from banks	$95,215,622	$84,732,291	$77,778,562
Interest-bearing due from banks	94,775,935	97,529,713	304,031,806
Federal funds sold and other	2,682,574	1,383,416	767,305
Cash and cash equivalents	192,674,131	183,645,420	382,577,673
Securities available-for-sale, at fair value	1,579,776,402	1,298,546,056	1,017,329,867
Securities held-to-maturity (fair value of $25,035,844 , $25,233,254 and $31,521,474 March 31, 2017, December 31, 2016 and March 31, 2016, respectively)	24,997,568	25,251,316	31,089,333
Residential mortgage loans held-for-sale	70,597,985	47,710,120	35,437,491
Commercial loans held-for-sale	15,354,496	22,587,971	10,504,481
Loans	8,642,032,280	8,449,924,736	6,827,929,582
Less allowance for loan losses	(58,349,769)	(58,980,475)	(62,239,279)
Loans, net	8,583,682,511	8,390,944,261	6,765,690,303
Premises and equipment, net	97,003,955	88,904,145	78,771,705
Equity method investment	210,732,581	205,359,844	203,007,435
Accrued interest receivables	29,568,023	28,234,826	25,168,584
Goodwill	551,546,341	551,593,796	431,840,600
Core deposit and other intangible assets	13,907,909	15,104,038	9,667,282
Other real estate owned	6,234,962	6,089,804	4,687,379
Other assets	348,524,131	330,651,002	265,615,499
Total assets	$11,724,600,995	$11,194,622,599	$9,261,387,632
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	$2,508,679,583	$2,399,191,152	$2,026,550,350
Interest-bearing	1,970,312,733	1,808,331,784	1,427,213,569
Savings and money market accounts	3,938,368,793	3,714,930,351	2,958,363,723
Time	863,235,880	836,853,761	668,084,583
Total deposits	9,280,596,989	8,759,307,048	7,080,212,225
Securities sold under agreements to repurchase	71,157,282	85,706,558	62,801,494
Federal Funds Purchased	50,000,000	-	-
Federal Home Loan Bank advances	181,264,257	406,304,187	616,289,980
Subordinated debt and other borrowings	350,848,829	350,768,050	209,751,241
Accrued interest payable	5,655,284	5,573,377	2,540,401
Other liabilities	62,002,877	90,267,267	61,012,450
Total liabilities	10,001,525,518	9,697,926,487	8,032,607,791
Stockholders' equity:			
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-	-

Common stock, par value $1.00; 90,000,000 shares authorized; 49,789,649 shares, 46,359,377 shares, and 41,994,955 shares, issued and outstanding at March 31, 2017, December 31, 2016, and March 31, 2016, respectively	49,789,649	46,359,377	41,994,955
Additional paid-in capital	1,274,762,698	1,083,490,728	884,015,506
Retained earnings	413,700,739	381,072,505	300,746,837
Accumulated other comprehensive (loss) income, net of taxes	(15,177,609)	(14,226,498)	2,022,543
Stockholders' equity	1,723,075,477	1,496,696,112	1,228,779,841
Total liabilities and stockholders' equity	$11,724,600,995	$11,194,622,599	$9,261,387,632

This information is preliminary and based on company data available at the time of the presentation.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME – UNAUDITED

	Three Months Ended March 31, 2017	2016
Interest income:		
Loans, including fees	$93,217,947	$74,404,204
Securities		
Taxable	6,433,088	4,466,834
Tax-exempt	1,677,581	1,493,757
Federal funds sold and other	814,317	609,587
Total interest income	102,142,933	80,974,382
Interest expense:		
Deposits	8,118,914	4,915,563
Securities sold under agreements to repurchase	49,766	48,050
Federal Home Loan Bank advances and other borrowings	5,207,380	2,108,092
Total interest expense	13,376,060	7,071,705
Net interest income	88,766,873	73,902,677
Provision for loan losses	3,651,022	3,893,570
Net interest income after provision for loan losses	85,115,851	70,009,107
Noninterest income:		
Service charges on deposit accounts	3,855,483	3,442,684
Investment services	2,821,834	2,345,600
Insurance sales commissions	1,858,890	1,705,859
Gains on mortgage loans sold, net	4,154,952	3,567,551
Investment gains on sales, net	-	-
Trust fees	1,705,279	1,580,612
Income from equity method investment	7,822,737	5,147,524
Other noninterest income	8,162,419	8,065,880
Total noninterest income	30,381,594	25,855,710
Noninterest expense:		
Salaries and employee benefits	38,352,184	32,516,856
Equipment and occupancy	9,674,658	8,130,464
Other real estate, net	251,973	112,272
Marketing and other business development	1,879,206	1,263,361
Postage and supplies	1,196,445	957,087
Amortization of intangibles	1,196,129	873,215
Merger related expenses	672,016	1,829,472
Other noninterest expense	8,830,765	8,380,969
Total noninterest expense	62,053,376	54,063,696
Income before income taxes	53,444,069	41,801,121
Income tax expense	13,791,022	13,835,857
Net income	$39,653,047	$27,965,264
Per share information:		
Basic net income per common share	$0.83	$0.70

Diluted net income per common share	$0.82	$0.68
Weighted average shares outstanding:		
Basic	48,022,342	40,082,805
Diluted	48,517,920	40,847,027

This information is preliminary and based on company data available at the time of the presentation.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
SELECTED QUARTERLY FINANCIAL DATA – UNAUDITED

(dollars in thousands)	March 2017	December 2016	September 2016	June 2016	March 2016	December 2015
Balance sheet data, at quarter end:						
Commercial real estate - mortgage loans	$3,181,584	3,193,496	2,991,940	2,467,219	2,340,720	2,275,483
Consumer real estate - mortgage loans	1,196,375	1,185,917	1,185,966	1,068,620	1,042,369	1,046,517
Construction and land development loans	1,015,127	912,673	930,230	816,681	764,079	747,697
Commercial and industrial loans	2,980,840	2,891,710	2,873,643	2,492,016	2,434,656	2,228,542
Consumer and other	268,106	266,129	259,241	246,866	246,106	244,996
Total loans	8,642,032	8,449,925	8,241,020	7,091,402	6,827,930	6,543,235
Allowance for loan losses	(58,350)	(58,980)	(60,249)	(61,412)	(62,239)	(65,432)
Securities	1,604,774	1,323,299	1,250,357	1,137,733	1,048,419	966,442
Total assets	11,724,601	11,194,623	10,978,390	9,735,668	9,261,387	8,714,543
Noninterest-bearing deposits	2,508,680	2,399,191	2,369,225	2,013,847	2,026,550	1,889,865
Total deposits	9,280,597	8,759,307	8,670,146	7,292,826	7,080,212	6,971,414
Securities sold under agreements to repurchase	71,157	85,707	84,317	73,317	62,801	79,084
FHLB advances	181,264	406,304	382,338	783,240	616,290	300,305
Subordinated debt and other borrowings	350,849	350,768	262,507	229,714	209,751	141,606
Total stockholders' equity	1,723,075	1,496,696	1,475,644	1,262,154	1,228,780	1,155,611
Balance sheet data, quarterly averages:						
Total loans	$8,558,267	8,357,201	8,232,963	6,997,592	6,742,054	6,457,870
Securities	1,440,917	1,265,096	1,232,973	1,064,060	993,675	1,002,291
Total earning assets	10,261,974	9,884,701	9,794,094	8,362,657	8,018,596	7,759,053
Total assets	11,421,654	11,037,555	10,883,547	9,305,941	8,851,978	8,565,341
Noninterest-bearing deposits	2,434,875	2,445,157	2,304,533	2,003,523	1,960,083	1,948,703
Total deposits	9,099,472	8,791,206	8,454,424	7,093,349	7,037,014	6,786,931
Securities sold under agreements to repurchase	79,681	82,415	87,067	65,121	69,129	72,854
FHLB advances	212,951	307,039	583,724	653,750	383,131	376,512
Subordinated debt and other borrowings	355,082	319,790	266,934	225,240	162,575	142,660
Total stockholders' equity	1,657,072	1,493,684	1,442,440	1,247,762	1,188,153	1,153,681
Statement of operations data, for the three months ended:						
Interest income	$102,143	101,493	97,380	83,762	80,974	77,797
Interest expense	13,376	12,080	10,745	8,718	7,072	6,322
Net interest income	88,767	89,413	86,635	75,044	73,902	71,475
Provision for loan losses	3,651	3,046	6,108	5,280	3,894	5,459

Net interest income after provision for loan losses	85,116	86,367	80,527	69,764	70,008	66,016
Noninterest income	30,382	30,743	31,692	32,713	25,856	26,608
Noninterest expense	62,054	62,765	63,526	55,931	54,064	52,191
Income before taxes	53,444	54,345	48,693	46,546	41,800	40,433
Income tax expense	13,791	18,248	16,316	15,759	13,836	13,578
Net income	$ 39,653	36,097	32,377	30,787	27,964	26,855
Profitability and other ratios:						
Return on avg. assets (1)	1.41 %	1.30 %	1.18 %	1.33 %	1.27 %	1.24 %
Return on avg. equity (1)	9.70 %	9.61 %	8.93 %	9.92 %	9.47 %	9.24 %
Return on avg. tangible common equity (1)	14.74 %	15.49 %	14.47 %	15.34 %	15.04 %	14.97 %
Dividend payout ratio (18)	18.67 %	19.31 %	19.93 %	20.90 %	21.62 %	18.97 %
Net interest margin (1) (2)	3.60 %	3.72 %	3.60 %	3.72 %	3.78 %	3.73 %
Noninterest income to total revenue (3)	25.50 %	25.59 %	26.78 %	30.36 %	25.92 %	27.13 %
Noninterest income to avg. assets (1)	1.08 %	1.11 %	1.16 %	1.41 %	1.17 %	1.23 %
Noninterest exp. to avg. assets (1)	2.20 %	2.26 %	2.32 %	2.42 %	2.46 %	2.42 %
Noninterest expense (excluding ORE expenses, and merger-related charges) to avg. assets (1)	2.17 %	2.14 %	2.11 %	2.37 %	2.37 %	2.30 %
Efficiency ratio (4)	52.08 %	52.24 %	53.69 %	51.90 %	54.20 %	53.21 %
Avg. loans to average deposits	94.05 %	95.06 %	97.38 %	98.65 %	95.81 %	95.15 %
Securities to total assets	13.69 %	11.82 %	11.39 %	11.69 %	11.32 %	11.10 %

This information is preliminary and based on company data available at the time of the presentation.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
ANALYSIS OF INTEREST INCOME AND EXPENSE, RATES AND YIELDS-UNAUDITED

(dollars in thousands)	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Average Balances	Interest	Rates/ Yields		Average Balances	Interest	Rates/ Yields	
Interest-earning assets								
Loans [1]	$8,558,267	$93,218	4.49	%	$6,742,054	$74,404	4.49	%
Securities								
Taxable	1,202,806	6,433	2.17	%	810,913	4,467	2.22	%
Tax-exempt [2]	238,111	1,678	3.83	%	182,762	1,494	4.40	%
Federal funds sold and other	262,790	814	1.26	%	282,867	609	0.87	%
Total interest-earning assets	10,261,974	$102,143	4.06	%	8,018,596	$80,974	4.09	%
Nonearning assets								
Intangible assets	566,221				440,466			
Other nonearning assets	593,459				392,916			
Total assets	$11,421,654				$8,851,978			
Interest-bearing liabilities								
Interest-bearing deposits:								
Interest checking	$1,918,327	$1,724	0.36	%	$1,404,963	$932	0.27	%
Savings and money market	3,900,321	4,609	0.48	%	2,997,586	2,952	0.40	%
Time	845,949	1,786	0.86	%	674,382	1,031	0.61	%
Total interest-bearing deposits	6,664,597	8,119	0.49	%	5,076,931	4,915	0.39	%
Securities sold under agreements to repurchase	79,681	50	0.25	%	69,129	48	0.28	%
Federal Home Loan Bank advances	212,951	904	1.72	%	383,131	536	0.56	%
Subordinated debt and other borrowings	355,082	4,303	4.92	%	162,575	1,573	3.89	%
Total interest-bearing liabilities	7,312,311	13,376	0.74	%	5,691,766	7,072	0.50	%
Noninterest-bearing deposits	2,434,875	-	-		1,960,083	-	-	
Total deposits and interest-bearing liabilities	9,747,186	$13,376	0.56	%	7,651,849	$7,072	0.37	%
Other liabilities	17,396				11,976			
Stockholders' equity	1,657,072				1,188,153			
Total liabilities and stockholders' equity	$11,421,654				$8,851,978			
Net interest income		$88,767				$73,902		
Net interest spread [3]			3.32	%			3.59	%
Net interest margin [4]			3.60	%			3.78	%

(1) Average balances of nonperforming loans are included in the above amounts.
(2) Yields computed on tax-exempt instruments on a tax equivalent basis.
(3) Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the quarter ended March 31, 2017 would have been 3.51% compared to a net interest spread of 3.72% for the quarter ended March 31, 2016.
(4) Net interest margin is the result of annualized net interest income calculated on a tax equivalent basis divided by average interest-earning assets for the period.

This information is preliminary and based on company data available at the time of the presentation.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
SELECTED QUARTERLY FINANCIAL DATA – UNAUDITED

(dollars in thousands)	March 2017	December 2016	September 2016	June 2016	March 2016	December 2015
Asset quality information and ratios:						

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Consolidated Cash Flow Statement

For the year ended December 31, 2004

	2004	2003
	RMB million	*RMB million*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss)	**7,171**	(1,428)
Adjustments for non-cash items:		
Changes in minority interests	**52**	(15)
Net realised and unrealised loss/(gain) on investments	**1,298**	(1,115)
Amortisation of deferred acquisition costs	**6,263**	5,023
Other impairments	**3**	93
Profit from investments in associated companies		(16)
Interest credited to policyholder contract deposits	**4,320**	7,260
Investment contract policy fees	**(5,194)**	(6,097)
Depreciation and amortisation	**778**	1,186
Revaluation of investment properties		181
Amortisation of fixed maturities premiums and discounts	**(120)**	101
Loss/(gain) on disposal of fixed assets	**5**	(69)
Deferred income tax	**2,201**	1,041
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	**(13,478)**	(11,806)
Reinsurance assets	**(300)**	326
Accrued investment income	**(2,209)**	(184)
Receivables and payables	**(1,357)**	361
Reserves for claims and claim adjustment expenses	**401**	(65)
Unearned premium reserves	**(170)**	547
Future life policyholder benefits	**33,154**	43,066
Statutory insurance levy	**96**	120
Net cash inflow from operating activities	**32,914**	38,510

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CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and maturities:		
Fixed maturity securities	**21,805**	36,507
Equity securities	**7,934**	4,514
Fixed assets	**67**	263
Purchases:		
Fixed maturity securities	**(105,051)**	(71,540)
Equity securities	**(13,005)**	(13,575)
Fixed assets	**(970)**	(2,242)
Term deposits, net	**(38,306)**	(75,724)
Securities purchased under agreements to resell	**13,723**	13,854
Proceeds from investment in securities sold under agreements to repurchase, net	**(6,448)**	2,846
Other (mainly policy loans), net	**(275)**	(69)
Net cash outflow from investing activities	**(120,526)**	(105,166)

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	2004	2003
	RMB million	*RMB million*
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution from minority shareholders		320
Proceeds from shares issued		24,710
Deposits accepted on investment contracts	**88,736**	91,343
Withdrawals from investment contracts	**(16,523)**	(13,329)
Repayment of bank borrowings		(2)
Cash and cash equivalents retained by CLIC upon the consummation of the Restructuring (note 2(a))		(8,299)
Net cash inflow from financing activities	**72,213**	94,743
Net (decrease)/increase in cash and cash equivalents	**(15,399)**	28,087
Cash and cash equivalents		
Beginning of year	**42,616**	14,529
End of year	**27,217**	42,616
Supplemental cash flow information		
Income tax paid	**168**	8
Interest paid		7

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Notes to the Financial Statements

For the year ended December 31, 2004

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

China Life Insurance Company Limited (the Company) was established in the People s Republic of China (China or PRC) on June 30, 2003 as a joint stock company with limited liability as part of a group Restructuring of China Life Insurance (Group) Company (formerly China Life Insurance Company) (CLIC) and its subsidiaries (the Restructuring). The Company and its subsidiaries, and prior to September 30, 2003, CLIC and its subsidiaries, are hereinafter collectively referred to as the Group . The Group s principal activity is the writing of life insurance business, providing life, annuities, accident and health insurance products in China.

Pursuant to the Restructuring, CLIC transferred to the Company (1) all long-term insurance policies (policies having a term of more than one year from the date of issuance) issued on or after June 10, 1999, having policy terms approved by or filed with the China Insurance Regulatory Commission (the CIRC) on or after June 10, 1999 and either (i) recorded as a long-term insurance policy as of June 30, 2003 in a database attached to the restructuring agreement as an annex or (ii) having policy terms for group supplemental medical insurance (fund type), (2) stand-alone short-term policies (policies having a term of one year or less from the date of issuance) issued on or after June 10, 1999 and (3) all riders supplemental to the policies described in clauses (1) and (2) above. These policies are referred to as the transferred policies . All other insurance policies were retained by CLIC. These policies are referred to as the non-transferred policies . The Company issued 20,000 million Domestic Shares in exchange for various liabilities related to the life insurance business of the transferred policies and certain assets (collectively the Transferred Business). CLIC retained (i) various liabilities related to the life insurance business of non-transferred policies and certain assets, (ii) equity interests in all subsidiaries and associated companies, (iii) all non-core businesses, and (iv) the ownership of certain assets and liabilities including certain office buildings, bank balances, investments in fixed maturity securities and equity securities, borrowings, claims, contingent and tax liabilities (collectively the Non-transferred Business). On September 30, 2003, CLIC and the Company signed a binding restructuring agreement that identified all specific assets and liabilities to be transferred to the Company from CLIC.

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2 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and non-trading and trading investments are stated at fair value. The principal accounting policies adopted are set out below:

(a) Basis of preparation

The consummation of the Restructuring occurred for accounting purposes on September 30, 2003, which is the date on which the Company and CLIC signed the legally binding restructuring agreement that identified all specific assets and liabilities to be transferred to the Company from CLIC.

Prior to the consummation of the Restructuring, the Transferred Business and Non-transferred Business have been historically under common management from a number of significant aspects, such as policy design, distribution, plan servicing, asset management, accounting and financing. Therefore, the Company s consolidated financial statements for the year up to the date of the consummation of the Restructuring reflect the consolidated financial results of the business of CLIC and its subsidiaries (including both the Transferred Business and Non-transferred Business). Accordingly, the Company s consolidated financial statements for the year ended December 31, 2003 included the results of the Transferred Business and Non-transferred Business up to September 30, 2003, the consummation date of the Restructuring and the results of the Transferred Business from October 1, 2003 to December 31, 2003. The consolidated financial statements for the year ended December 31, 2004 include the results of the Transferred Business only.

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Upon the consummation date of the Restructuring, the Non-transferred Business, consisting of an excess of liabilities over assets, retained by CLIC was derecognised and reflected in the Company s financial statements as a capital contribution on such date. This presentation is considered appropriate as CLIC wholly owns the Transferred Business transferred to the Company before and immediately after the Restructuring. The assets and liabilities retained by CLIC are as follows:

	RMB million
ASSETS	
Investments	123,774
Accrued investment income	1,507
Premiums receivables	1,249
Property, plant and equipment, net of accumulated depreciation	6,966
Other	7,653
Total assets	141,149
Liabilities	
Future life policyholder benefits	266,046
Policyholder contract deposits and other funds	80,243
Annuity and other insurance balances payable	8,935
Other liabilities	2,003
Statutory insurance fund	1,124
Total liabilities	358,351
Minority interests	150
Net liabilities relating to Non-transferred Business retained by CLIC	(217,352)

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries made up to December 31. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal, as appropriate. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group s share of its net assets together with any unamortised goodwill or negative goodwill and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

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In the Company s balance sheet the investment in subsidiary is stated at cost less provision for impairment losses. The result of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss accounts include the Group s share of the results of associated companies for the year, and the consolidated balance sheets include the Group s share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) Revenue recognition

Premiums

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognised as revenue when due from the policyholders. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recorded as income when due with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Premiums from the sale of accident and health insurance products are recorded when written and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Amounts collected as premiums from investment type contracts are reported as deposits. Revenue from these contracts consists of policy fees charged against the deposit amount for the cost of insurance, administration fees and gains on surrenders during the year. Policy benefits and claims that are charged to expenses include benefit claims incurred in the year in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Turnover of the Group represents gross written premiums and policy fees.

Net investment income

Net investment income is accrued for interest from term deposits, cash and cash equivalents, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from equity securities, rental income from investment property and share of profits/losses from investment in associates less investment expenses. Net investment income is

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recorded on an accrual basis and recognised on a time proportion basis, taking into account the principal amount outstanding and the interest rate applicable.

(d) Deferred policy acquisition costs

The costs of acquiring new and renewal business including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new and renewal business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Future investment income is taken into account in assessing recoverability.

Deferred policy acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts are amortised over the expected life of the contracts based on a constant rate of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit periods. Deviations of actual results from estimated experience are reflected in the profit and loss accounts.

(e) Insurance losses and reserves

Reserves for claims and claim adjustment expenses

These represent liabilities for claims arising under short duration accident and health insurance contracts. Claims and claim adjustment expenses are charged to the profit and loss accounts as incurred. Unpaid claims and claim adjustment expense reserves represent the accumulation of estimates for ultimate losses and include provisions for claims incurred but not yet reported. The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgements. The Group does not discount its claims reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in results of operations in the period in which estimates are changed.

Future life policyholder benefits, policyholder contract deposits and other funds

These represent liabilities for estimated future policyholder benefit liability for traditional life insurance policies and non-investment-linked investment contracts.

Future life policyholder benefits for traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses, withdrawals, and investment return including a margin for adverse deviation. The assumptions are established at policy issue and remain unchanged except where premium deficiency occurs.

Policyholder contract deposits represent the accumulation of premium received less charges.

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The policyholders share of unrealised gains or losses in respect of assets held by the Group, which may be paid to profit participating policyholders in the future under the policy terms in respect of assets, is included in liabilities for future life policyholder s benefits.

(f) Reinsurance

The Group cedes 10% (2003: 15%) insurance premiums and risk from short duration accident and health contracts to China Reinsurance (Group) Company under relevant statutory reinsurance regulation of the PRC and cedes insurance and premiums risk from other contracts in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. The Group may assume reinsurance business incidental to their normal business. Such business is not significant to the Group s operations.

Reinsurance assets include the balances due under reinsurance contracts from both insurance and reinsurance companies for paid and unpaid claims and claim adjustment expenses, ceded unearned premiums, ceded future life policy benefits and funds held under reinsurance treaties. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance is recorded gross in the balance sheet unless a right of offset exists. The Group evaluates the financial strength of potential reinsurers and continually monitors the financial conditions of reinsurers.

Reinsurance contracts are contracts under which the Group has assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurers.

(g) Investments in securities

Held-to-maturity securities

Fixed maturities classified as held-to-maturity are those which the Group has the ability and positive intent to hold to maturity.

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account.

Non-trading securities

Investments other than trading or held-to-maturity are defined as non-trading and are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is recognised in the profit and loss account.

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Investment impairment

Held-to-maturity securities and non-trading securities are adjusted for impairments, where there are declines in value that are considered to be other than temporary. In evaluating whether a decline in value is other than temporary, the Group considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value; (3) the financial condition of and near-term prospects of the issuer; and (4) the Group s ability and intent to hold the investment for a period of time to allow for a recovery of value. When decline in value is considered other than temporary, held-to-maturity securities and non-trading securities are written down to their net realised value and the charge is recorded in Net realised investment gain/(loss) on investments in the period the impairment is recognized.

Trading securities

Fixed maturities and liquidity securities which the Group buy with the intention to resell in the near term are classified as trading and are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm s length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings.

The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the consolidated profit and loss accounts. Any subsequent increases are credited to the consolidated profit and loss accounts up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the asset revaluation reserve to the profit and loss accounts.

(i) Policy loans

Policy loans originated by the Group are carried at amortised cost, net of provision for impairment in value. Impairment loss on policy loans is generally measured based on the present value of expected future cash flows discounted at the instrument s effective interest rate, except where the value of the asset is collateral dependent, in which case the fair value of the underlying collateral is used. Interest income on impaired assets is recognised based on the original effective rate of interest.

(j) 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 secured loans. Securities purchased under agreements to resell are recorded at their cost plus accrued interest at the balance sheet date, which approximates fair value. The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. Sales or transfers of the securities are not permitted by the respective stock exchanges on which they are listed while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the stock exchanges which are the custodians.

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(k) Transactions in foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(l) Term deposits

Term deposits include both traditional bank deposits and structured deposits. Term deposits have fixed maturity dates and are stated at amortised cost.

(m) Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less, which approximates fair value.

(n) Securities sold with agreements to repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within 180 days from the transaction date. The Group may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase are recorded at their cost plus accrued interest at the balance sheet date. It is the Group s policy to maintain effective control over securities sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated balance sheets.

(o) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss, except for certain assets acquired prior to January 1, 1997. These assets were acquired as a result of the prior restructuring in 1996 of People s Insurance Company of China (PICC), a state-owned enterprise. The restructuring created CLIC s predecessor as a specialized life insurance subsidiary of PICC. CLIC is unable to obtain historical cost information for assets which were transferred to CLIC in that restructuring. Accordingly, these assets are stated at deemed costs less accumulated depreciation. Deemed cost is determined on the basis of a valuation performed as of January 1, 2000.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, interest costs on borrowings to finance the acquisition, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Assets under construction represent buildings under construction and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for use.

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Depreciation

Depreciation is computed on a straight-line basis to write down the cost of each asset to their residual value over their estimated useful lives as follows:

	Estimated useful lives
Buildings	30 to 35 years
Leasehold improvements	Over the remaining term of the lease
Office equipment, furniture and fixtures	5 to 10 years
Motor vehicles	4 to 8 years

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Impairment and gain or loss on sale

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset s net selling price and value in use.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(p) Deferred taxation

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

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

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

(q) Employee benefits

Pension benefits

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Termination and early retirement benefits

Termination benefits are payable whenever an employee s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognised termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value using incremental borrowing rates available to the Group.

Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group s liability in respect of these funds is limited to the contributions payable in each year.

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(s) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised in the balance sheet but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably measured, it will then be recognised as a provision.

(t) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. In accordance with the Group s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. All assets and operations of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Details of the segment information are presented in note 3.

(u) Business risks and uncertainties

The development of liabilities for future policy benefits for the Group s products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and future expectations of mortality, morbidity, expense, persistency, and investment assumptions. Actual results could differ materially from those estimates. Management monitors actual experience and, if circumstances warrant, revises its assumptions and the related future policy benefit estimates.

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The Group s investments are primarily comprised of fixed maturity securities, equity securities, and securities purchased under agreements to resell. The investment strategy developed by the Group requires management to make estimates and assumptions regarding prevailing interest rates, economic conditions. Such estimates are primarily based on historical experience and future expectations of interest rate and economic conditions. Significant changes in prevailing interest rates and economic conditions may adversely affect the timing and amount of cash flows on such investments and their related values. In addition, the value of these investments is often derived from an appraisal, an estimate or opinion of value. A significant decline in the fair value of these investments could have an adverse effect on the Group s financial condition.

The Group s activities are with policyholders located in the PRC. Note 4 discusses the types of securities that the Group invests in. Note 3 discusses the types of insurance products that the Group offers. The Group does not have any significant concentrations to any one industry or policyholder.

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(v) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (new HKFRSs) which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs.

With respect to the adoption of HKFRS 4 Insurance Contracts , substantially all of the Group s existing products are insurance contracts or financial instruments with a discretionary participation feature as defined in HKFRS4; and therefore, the Group will continue its accounting policies and does not expect a significant impact on the Group s results and financial position as a result of adopting HKFRS4.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

3 SEGMENT INFORMATION

(a) Business segments

The Group has the following main business segments:

(i) *Individual life insurance business*

Individual life insurance business relates primarily to the sale of life insurance contracts to individuals and comprises participation life insurance business and traditional life insurance business. Participation life insurance business relates primarily to the sale of participating products, which provides the policyholder with a participation in the profits arising from the invested assets relating to the policy. Traditional life insurance business relates primarily to the sale of non-participating products and annuities policies, which provides guaranteed benefits to the insured without a participation in the profits.

(ii) *Group life insurance business*

Group life insurance business relates primarily to the sale of life insurance contracts to group entities and comprises participation life insurance business and traditional life insurance business described as above.

(iii) *Accident and health insurance business*

The accident and health insurance business relates primarily to the sale of accident and health insurance and accident products.

(iv) *Corporate and other*

Corporate and other business relates primarily to income and expenses in respect of the provision of the services to CLIC described in note 21 and unallocated income taxes.

(b) Basis of allocating net investment income and administrative and other operating expenses

Net investment income is allocated among segments in proportion to the respective segments average statutory policyholder reserve and claims provision at the beginning and end of the year.

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Administrative and other operating expenses are allocated among segments in proportion to the expense loadings of products in the respective segments.

	For the year ended December 31, 2004				
	Individual life	Group life	Accident & health	Corporate & other	Total
			(RMB million)		
Revenues					
Gross written premiums and policy fees	54,909	742	10,606		66,257
Gross written premiums	50,113	344			
Term	183	28			
Whole	19,629	316			
Endowment	26,511				
Annuity	3,790				
Policy fees	4,796	398			
Net premiums earned and policy fees	54,902	742	9,364		65,008
Net investment income	9,986	1,137	194		11,317
Net realised losses on investments	(209)	(24)	(4)		(237)
Net unrealised losses on trading securities	(936)	(107)	(18)		(1,061)
Other income				1,779	1,779
Segment revenues	63,743	1,748	9,536	1,779	76,806
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(6,422)	(394)			(6,816)
Accident and health claims and claim adjustment expenses			(6,418)		(6,418)
Increase in future life policyholder benefits	(33,013)	(141)			(33,154)
Interest credited to policyholder contract deposits	(3,678)	(642)			(4,320)
Policyholder dividends and participation in profits	(1,909)	(139)			(2,048)
Amortization of deferred policy acquisition costs	(5,888)	(197)	(178)		(6,263)
Underwriting and policy acquisition costs	(1,038)	(13)	(421)		(1,472)
Administrative expenses	(3,241)	(510)	(1,231)	(1,603)	(6,585)
Other operating expenses	(51)	(8)	(20)	(52)	(131)
Statutory insurance levy			(96)		(96)
Segment benefits, claims and expenses	(55,240)	(2,044)	(8,364)	(1,655)	(67,303)
Segment results	8,503	(296)	1,172	124	9,503
Income tax expenses				(2,280)	(2,280)
Minority interests				(52)	(52)
Net profit/(loss)	8,503	(296)	1,172	(2,208)	7,171
Unrealised loss charged to equity	(2,715)	(309)	(53)		(3,077)

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	As at December 31, 2004				
	Individual life	Group life	Accident & health	Corporate & other	Total
			(RMB million)		
Assets					
Investments	330,800	37,676	6,414		374,890
Deferred policy acquisition costs	31,466	1,054	267		32,787
Accrued investment income	4,486	511	87		5,084
Segment assets	366,752	39,241	6,768		412,761
Unallocated					
Property, plant and equipment, net					12,250
Other assets					8,660
Total					433,671
Liabilities					
Future life policyholder benefits	116,024	1,277			117,301
Policyholder contract deposits and other funds	190,791	35,205			225,996
Unearned premium reserves			5,212		5,212
Reserves for claims and claim adjustment expenses			1,215		1,215
Segment liabilities	306,815	36,482	6,427		349,724
Unallocated					
Other liabilities					17,045
Total					366,769

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	For the year ended December 31, 2003				
	Individual life	Group life	Accident & health	Corporate & other	Total
	(RMB million)				
Revenues					
Gross written premiums and policy fees	58,541	588	10,205		69,334
Gross written premiums	52,773	260			
Term	293	8			
Whole	25,821	252			
Endowment	17,819				
Annuity	8,840				
Policy fees	5,768	328			
Net premiums earned and policy fees	58,541	588	8,087		67,216
Net investment income	8,472	1,190	163		9,825
Net realised gains on investments	748	108	12		868
Net unrealised gains on trading securities	207	36	4		247
Other income				727	727
Segment revenues	67,968	1,922	8,266	727	78,883
Benefits, claims and expenses					
Insurance benefits and claims					
Life insurance death and other benefits	(7,744)	(826)			(8,570)
Accident and health claims and claim adjustment expenses			(4,882)		(4,882)
Increase in future life policyholder benefits	(43,203)	119			(43,084)
Interest credited to policyholder contract deposits	(5,029)	(2,231)			(7,260)
Policyholder dividends and participation in profits	(1,152)	(55)			(1,207)
Amortization of deferred policy acquisition costs	(4,873)	(47)	(103)		(5,023)
Underwriting and policy acquisition costs	(882)	(8)	(404)		(1,294)
Administrative expenses	(5,047)	(131)	(1,347)	(337)	(6,862)
Other operating expenses	(246)	(6)	(65)	(555)	(872)
Interest expenses on bank borrowings				(7)	(7)
Statutory insurance levy			(85)		(85)
Segment benefits, claims and expenses	(68,176)	(3,185)	(6,886)	(899)	(79,146)
Segment results	(208)	(1,263)	1,380	(172)	(263)
Income tax expenses				(1,180)	(1,180)
Minority interests				15	15
Net profit/(loss)	(208)	(1,263)	1,380	(1,337)	(1,428)
Unrealised loss charged to equity	(2,356)	(331)	(45)		(2,732)

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	As at December 31, 2003				
	Individual life	Group life	Accident & health	Corporate & other	Total
			(RMB million)		
Assets					
Investments	237,416	35,160	6,672		279,248
Deferred policy acquisition costs	24,131	559	178		24,868
Accrued investment income	2,444	362	69		2,875
Segment assets	263,991	36,081	6,919		306,991
Unallocated					
Property, plant and equipment, net					12,008
Other assets					9,721
Total					328,720
Liabilities					
Future life policyholder benefits	81,658	1,060			82,718
Policyholder contract deposits and other funds	135,090	19,641			154,731
Unearned premium reserves			5,382		5,382
Securities sold under agreements to repurchase	5,482	812	154		6,448
Reserves for claims and claim adjustment expenses			814		814
Segment liabilities	222,230	21,513	6,350		250,093
Unallocated					
Other liabilities					15,871
Total					265,964

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4 INVESTMENTS

4.1 Investment results

	Note	**2004**	2003
		RMB million	*RMB million*
Net investment income			
Fixed maturity securities		**3,720**	2,793
Equity securities		**646**	312
Term deposits and cash and cash equivalents		**6,744**	5,543
Investment properties			58
Investment in associated companies			16
Policy loans		**11**	4
Securities purchased under agreements to resell		**253**	1,121
Other investments			10
Subtotal		**11,374**	9,857
Securities sold under agreements to repurchase		**(10)**	(7)
Investment expense		**(47)**	(25)
Total		**11,317**	9,825
Net realised (loss)/gain:			
Fixed maturity securities			
Gross realised gains		**18**	661
Gross realised losses		**(15)**	(104)
Impairment	*(i)*	**(320)**	(7)
Subtotal		**(317)**	550
Equity securities			
Gross realised gains		**97**	458
Gross realised losses		**(17)**	(140)
Impairment			
Subtotal		**80**	318
Total		**(237)**	868
Net unrealised (loss)/gain on trading securities			
Fixed maturity securities		**11**	
Equity securities		**(1,072)**	247
Total		**(1,061)**	247

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Note:

(i) As of December 31, 2004, the carrying value of government bonds plus the related accrued interest entrusted with Min Fa Security Limited Company (Min Fa Security) for custody by the Company totalled RMB412 million. The government bonds entrusted in Min Fa Security are for custodian purposes only and not a part of an asset management arrangement. In order to centralize the control over these bonds, the Company has asked Min Fa Security to transfer the custodian. Min Fa Security was unable to execute the transfer and it became known that Min Fa Security is in financial difficulty. Subsequently, the China Securities and Regulatory Commission announced on October 18, 2004 that from close of business on October 18, 2004, the assets of Min Fa Security have been put into the custody of and are being operated by China Oriental Asset Management Corporation (China Oriental). The Company has registered its claim against Min Fa Security in January 2005.

As a result, the Company has made a provision of RMB320 million. The Company continues to take all of the above necessary steps to safeguard the Company s rights over the bonds. As of the issue date of the financial statements, except for the bonds with Min Fa Security, all other fixed maturity and equity securities are entrusted with China Life Assets Management Company Limited (AMC), the subsidiary of the Company.

4.2 Non-trading securities

	Cost or amortised cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
	RMB million	*RMB million*	*RMB million*	*RMB million*
Group				
As at December 31, 2004				
Fixed maturity securities				
Government bonds	**43,871**	**109**	**(4,368)**	**39,612**
Government agency bonds	**26,645**	**231**	**(438)**	**26,438**
Corporate bonds	**4,292**	**3**	**(554)**	**3,741**
Subtotal	**74,808**	**343**	**(5,360)**	**69,791**
Equity securities				
Funds	**13,243**	**22**	**(668)**	**12,597**
Total	**88,051**	**365**	**(6,028)**	**82,388**

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	Cost or amortised cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
	RMB million	*RMB million*	*RMB million*	*RMB million*
Group				
As at December 31, 2003				
Fixed maturity securities				
Government bonds	40,449	424	(1,396)	39,477
Government agency bonds	27,234	39	(456)	26,817
Corporate bonds	4,508	10	(208)	4,310
Subtotal	72,191	473	(2,060)	70,604
Equity securities				
Funds	5,422	135	(7)	5,550
Total	77,613	608	(2,067)	76,154

	Group			
Fixed maturity securities maturity schedule	**Amortised cost**		**Estimated fair value**	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**1,145**	1,652	**1,147**	1,642
After one year but within five years	**20,477**	12,949	**20,235**	13,087
After five years but within ten years	**32,923**	36,874	**30,797**	36,460
After ten years	**20,263**	20,716	**17,612**	19,415
Total	**74,808**	72,191	**69,791**	70,604

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4 INVESTMENTS *(continued)*

4.2 Non-trading securities *(continued)*

	Cost or amortised cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
	RMB million	*RMB million*	*RMB million*	*RMB million*
Company				
As at December 31, 2004				
Fixed maturity securities				
Government bonds	**43,587**	**109**	**(4,368)**	**39,328**
Government agency bonds	**26,645**	**231**	**(438)**	**26,438**
Corporate bonds	**4,292**	**3**	**(554)**	**3,741**
Subtotal	**74,524**	**343**	**(5,360)**	**69,507**
Equity securities				
Funds	**13,243**	**22**	**(668)**	**12,597**
Total	**87,767**	**365**	**(6,028)**	**82,104**

	Cost or amortised cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
	RMB million	*RMB million*	*RMB million*	*RMB million*
Company				
As at December 31, 2003				
Fixed maturity securities				
Government bonds	40,449	424	(1,396)	39,477
Government agency bonds	27,234	39	(456)	26,817
Corporate bonds	4,508	10	(208)	4,310
Subtotal	72,191	473	(2,060)	70,604
Equity securities				
Funds	5,422	135	(7)	5,550
Total	77,613	608	(2,067)	76,154

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4 **INVESTMENTS** *(continued)*

4.2 **Non-trading securities** *(continued)*

Fixed maturity securities maturity schedule	Company			
	Amortised cost		Estimated fair value	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**1,145**	1,652	**1,147**	1,642
After one year but within five years	**20,477**	12,949	**20,235**	13,087
After five years but within ten years	**32,639**	36,874	**30,513**	36,460
After ten years	**20,263**	20,716	**17,612**	19,415
Total	**74,524**	72,191	**69,507**	70,604

The proceeds from sales of non-trading securities and the gross realised gains and losses for the years ended December 31, 2004 and 2003 were as follows:

	Group	
	2004	2003
	RMB million	*RMB million*
Proceeds from sales of non-trading securities	**26,160**	40,339
Gross realised gains	**127**	919
Gross realised losses	**(32)**	(118)

4.3 **Equity securities**

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Funds	**17,271**	10,718	**17,271**	10,718
Total	**17,271**	10,718	**17,271**	10,718

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4 INVESTMENTS *(continued)*

4.4 Held-to-maturity securities

	Cost or amortised cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
	RMB million	*RMB million*	*RMB million*	*RMB million*
Group and Company				
As at December 31, 2004				
Fixed maturity securities				
Government bonds	**52,512**	**68**	**(146)**	**52,434**
Government agency bonds	**24,377**	**214**	**(87)**	**24,504**
Corporate bonds	**2,714**	**86**	**(18)**	**2,782**
Total	**79,603**	**368**	**(251)**	**79,720**

Fixed maturity securities maturity schedule	Group and Company			
	Amortised cost		Estimated fair value	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	*RMB million*	*RMB million*
Maturing:				
After one year but within five years	**31,010**		**30,948**	
After five years but within ten years	**42,832**		**43,071**	
After ten years	**5,761**		**5,701**	
Total	**79,603**		**79,720**	

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4 **INVESTMENTS** *(continued)*

4.5 Listed and unlisted investments at carrying value

	2004	2003
	RMB million	*RMB million*
Group		
Listed fixed maturity securities in PRC		
Government bonds	**45,232**	30,378
Government agency bonds		
Corporate bonds	**2,954**	3,510
Subtotal	**48,186**	33,888
Unlisted fixed maturity securities		
Government bonds	**47,732**	9,098
Government agency bonds	**31,380**	26,835
Corporate bonds	**3,501**	783
Subordinated debt	**19,435**	
Subtotal	**102,048**	36,716
Listed equity securities in PRC		
Funds	**4,674**	5,168
Unlisted equity securities		
Funds	**12,597**	5,550
Total	**167,505**	81,322

As of December 31, 2004, the amount of unlisted fixed maturity securities, contracted in the over-the-counter market, is RMB84,025 million. (2003: RMB36,329 million).

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4 **INVESTMENTS** *(continued)*

4.5 Listed and unlisted investments at carrying value *(continued)*

	2004	2003
	RMB million	*RMB million*
Company		
Listed fixed maturity securities in PRC		
Government bonds	**44,948**	30,378
Government agency bonds		
Corporate bonds	**2,954**	3,510
Subtotal	**47,902**	33,888
Unlisted fixed maturity securities		
Government bonds	**47,732**	9,098
Government agency bonds	**31,380**	26,835
Corporate bonds	**3,501**	783
Subordinated debt	**19,435**	
Subtotal	**102,048**	36,716
Listed equity securities in PRC		
Funds	**4,674**	5,168
Unlisted equity securities		
Funds	**12,597**	5,550
Total	**167,221**	81,322

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4 INVESTMENTS *(continued)*

4.6 Term deposits

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year	**7,805**	2,349	**7,805**	2,349
After one year but within five years	**146,293**	121,443	**146,293**	121,443
After five years but within ten years	**17,503**	12,400	**17,503**	12,400
After ten years	**3,897**	1,000	**3,897**	1,000
Total	**175,498**	137,192	**175,498**	137,192

Included in term deposits are structured deposits of RMB4,800 million (2003: Nil). The interest rate on these deposits fluctuates based on changes in interest rate indexes. The Group uses structured deposits primarily to enhance the returns on investments. Structured deposits are stated at amortized cost at the balance sheet date.

4.7 Statutory deposits restricted

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within one year		600		600
After one year but within five years	**4,000**	3,400	**4,000**	3,400
Total	**4,000**	4,000	**4,000**	4,000

Insurance companies in China are required to deposit an amount equal to 20% of their registered capital with a bank designated by the CIRC. These funds may not be used for any purpose, other than to pay off debts during a liquidation proceeding. The restricted deposits at December 31, 2004 and 2003 correspond to RMB20,000 million share capital at the time the Company was established (see note 1). The additional share capital raised from the initial public offering in December 2003 was subject to statutory verification, which was completed in March 2005. The additional statutory deposit of RMB1,353 million will be made in 2005.

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4 INVESTMENTS *(continued)*

4.8 Securities purchased under agreements to resell

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Maturing:				
Within 30 days	**79**	3,672	**79**	3,672
After 30 days but within 90 days	**200**	5,229	**200**	5,229
Over 90 days		5,101		5,101
Total	**279**	14,002	**279**	14,002

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm s length transaction, rather than in forced or liquidation sale. The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash and cash equivalents, term deposits (excluding structured deposits), and securities purchased or sold under agreements to resell or repurchase: the carrying amounts of these assets in the balance sheet approximate fair values.

Structured deposits: the market for structured deposits is not active, the Company establishes fair value by using discounted cash flow analysis and option pricing models as the valuation technique. The Company uses the USD swap rate, the benchmark rate, to determine the fair value of financial instruments. Due to the complexity of the structured deposits, significant judgement and estimates are involved in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances.

Fixed maturity securities: fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either prices observed in recent transactions or values obtained from quoted market prices of comparable investments.

Equity securities: fair values are based on quoted market prices.

Policy loans: the carrying values for policy loans approximate fair value.

Policyholder contract deposits and other funds: fair values are calculated by discounted cash flow projections using current market interest rates.

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5 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	Total fair value	
	2004	2003
	RMB million	*RMB million*
Fixed maturity securities	**150,351**	70,604
Equity securities	**17,271**	10,718
Term deposits (excluding structured deposits)	**170,698**	137,192
Structured deposits	**4,789**	
Securities purchased under agreements to resell	**279**	14,002
Policy loans	**391**	116
Cash and cash equivalents	**27,217**	42,616
Policyholder contract deposits and other funds	**(204,205)**	(132,998)
Securities sold under agreements to repurchase		(6,448)

	Total carrying value	
	2004	2003
	RMB million	*RMB million*
Fixed maturity securities	**150,234**	70,604
Equity securities	**17,271**	10,718
Term deposits (excluding structured deposits)	**170,698**	137,192
Structured deposits	**4,800**	
Securities purchased under agreements to resell	**279**	14,002
Policy loans	**391**	116
Cash and cash equivalents	**27,217**	42,616
Policyholder contract deposits and other funds	**(225,996)**	(154,731)
Securities sold under agreements to repurchase		(6,448)

The Group s activities expose it to a variety of financial risks, including the effects of changes in fixed maturities and equity market prices, and interest rates. The Group s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by a designated department under policies approved by management. The responsible department identifies, evaluates and hedges financial risks in close co-operation with the Group s operating units. The management provides written principles for overall risk management, as well as written policies covering specific areas, such as managing interest rate risk, credit risk, and liquidity risk.

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5 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Many of the Group s insurance policies offer guaranteed returns to policyholders. These guarantees expose the Group to interest rate risk. Interest rate risk is normally controlled through matching such liabilities with suitable assets. The limited availability of matching assets and the current regulatory constraints in the PRC mean that the Group can only mitigate interest rate risk to a certain extent. If the regulatory constraints are eased, the Group expects to be able to take action to further mitigate the risk.

Market risk

The Group s investments include mainly securities investment funds and bonds. Among these, the prices of listed securities investment funds and bonds are determined by market forces. The Group s policy is to hold an appropriately diversified investment portfolio as permitted by laws and regulations to reduce the risk of concentration in one specific industry or company. The Group also actively monitors the market prices of the securities.

Credit risk

Credit risk is the risk that one party to a financial transaction or the issuer of a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Group obtains collateral in the form of rights to cash, securities, property and equipment.

Liquidity risk

Liquidity risk is the risk that the Group will not have access to sufficient funds to meet its liabilities as they become due. In the normal course of business, the Group attempts to match the maturity of invested assets to the maturity of insurance liabilities.

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6 DEFERRED POLICY ACQUISITION COSTS

	Group	
	2004	2003
	RMB million	*RMB million*
Gross		
At January 1	**25,164**	18,411
Acquisition costs deferred	**13,672**	11,818
Amortisation charged to income	**(6,559)**	(5,350)
Unrealised losses on investments	**704**	285
At December 31	**32,981**	25,164
Ceded		
At January 1	**(296)**	(327)
Acquisition costs deferred	**(194)**	(296)
Amortisation charged to income	**296**	327
At December 31	**(194)**	(296)
Net		
At January 1	**24,868**	18,084
Acquisition costs deferred	**13,478**	11,522
Amortisation charged to income	**(6,263)**	(5,023)
Unrealised losses on investments	**704**	285
At December 31	**32,787**	24,868

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6 DEFERRED POLICY ACQUISITION COSTS *(continued)*

	Company	
	2004	2003
	RMB million	*RMB million*
Gross		
At January 1 (2004)/July 1 (2003)	**25,164**	21,599
Acquisition costs deferred	**13,672**	5,839
Amortisation charged to income	**(6,559)**	(2,534)
Unrealised losses on investments	**704**	260
At December 31	**32,981**	25,164
Ceded		
At January 1 (2004)/July 1 (2003)	**(296)**	(317)
Acquisition costs deferred	**(194)**	(138)
Amortisation charged to income	**296**	159
At December 31	**(194)**	(296)
Net		
At January 1 (2004)/July 1 (2003)	**24,868**	21,282
Acquisition costs deferred	**13,478**	5,701
Amortisation charged to income	**(6,263)**	(2,375)
Unrealised losses on investments	**704**	260
At December 31	**32,787**	24,868

7 REINSURANCE ASSETS

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Ceded unearned premiums	**571**	807	**571**	807
Claims recoverable from reinsurers	**136**	122	**136**	122
Due from reinsurance companies	**590**	68	**590**	68
Total	**1,297**	997	**1,297**	997

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8 PROPERTY, PLANT AND EQUIPMENT

Group

	2004						2003
	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Assets under construction	Leasehold improvements	Total	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cost or deemed cost							
At January 1	**11,018**	**1,868**	**1,689**	**1,101**	**153**	**15,829**	23,337
Additions	**48**	**443**	**77**	**477**	**18**	**1,063**	2,285
Disposals	**(164)**	**(15)**	**(44)**		**(45)**	**(268)**	(715)
Revaluation							(181)
Derecognition *(see note 2(a))*							(8,897)
Transfer upon completion	**767**	**8**		**(775)**			
At December 31	**11,669**	**2,304**	**1,722**	**803**	**126**	**16,624**	15,829
Accumulated depreciation and impairment							
At January 1	**(1,674)**	**(992)**	**(1,100)**		**(55)**	**(3,821)**	(4,880)
Charges for the year	**(208)**	**(311)**	**(155)**		**(72)**	**(746)**	(1,144)
Impairment loss	**(3)**					**(3)**	(93)
Disposals	**97**	**14**	**41**		**44**	**196**	365
Derecognition *(note 2(a))*							1,931
At December 31	**(1,788)**	**(1,289)**	**(1,214)**		**(83)**	**(4,374)**	(3,821)
Net book value							
At December 31, 2004	**9,881**	**1,015**	**508**	**803**	**43**	**12,250**	
At December 31, 2003	9,344	876	589	1,101	98	12,008	

As at December 31, 2004, the Company was in the process of effecting transfer of title from CLIC of certain properties, with a total net book value at that date of RMB404 million. The Company is entitled to the full use of these assets under the agreements with CLIC, even though the necessary governmental registrations or approvals have not been obtained. The Company is not aware of any known legal impediments to effect such transfer.

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8 **PROPERTY, PLANT AND EQUIPMENT** *(continued)*

Company

	2004						2003
	Buildings	**Office equipment, furniture and fixtures**	**Motor vehicles**	**Assets under construction**	**Leasehold improvements**	**Total**	Total
	RMB million	***RMB million***	***RMB million***	***RMB million***	***RMB million***	***RMB million***	*RMB million*
Cost or deemed cost							
At January 1 (2004)/July 1 (2003)	**11,018**	**1,864**	**1,689**	**1,101**	**153**	**15,825**	15,161
Additions	**48**	**442**	**75**	**477**	**18**	**1,060**	820
Disposals	**(164)**	**(15)**	**(44)**		**(45)**	**(268)**	(156)
Transfer upon completion	**767**	**8**		**(775)**			
At December 31	**11,669**	**2,299**	**1,720**	**803**	**126**	**16,617**	15,825
Accumulated depreciation and impairment							
At January 1 (2004)/July 1 (2003)	**(1,674)**	**(992)**	**(1,100)**		**(55)**	**(3,821)**	(3,522)
Charges for the year	**(208)**	**(309)**	**(155)**		**(72)**	**(744)**	(404)
Impairment loss	**(3)**					**(3)**	
Disposals	**97**	**14**	**41**		**44**	**196**	105
At December 31	**(1,788)**	**(1,287)**	**(1,214)**		**(83)**	**(4,372)**	(3,821)
Net book value							
At December 31, 2004	**9,881**	**1,012**	**506**	**803**	**43**	**12,245**	
At December 31, 2003	9,344	872	589	1,101	98	12,004	

9 **ACCRUED INVESTMENT INCOME**

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Accrued interest income				

Term deposits	**2,843**	1,940	**2,843**	1,940
Fixed maturities	**2,203**	901	**2,199**	901
Others	**38**	34	**38**	34
Total	**5,084**	2,875	**5,080**	2,875

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10 PREMIUMS RECEIVABLES

The aging of premiums receivable is within 2 months.

11 OTHER

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Receivable for fund units redeemed	**1,500**	4,784	**1,500**	4,784
Due from CLIC	**1,387**	742	**1,379**	742
Deposits	**113**	150	**113**	150
Long-term deferred expenses	**65**	32	**65**	32
Advances	**34**	31	**34**	31
Others	**352**	184	**339**	177
Total	**3,451**	5,923	**3,430**	5,916

12 BENEFITS, CLAIMS AND EXPENSES

	Gross	Ceded	Net
	RMB million	***RMB million***	***RMB million***
For the year ended December 31, 2004			
Accident and health claims and claim adjustment expenses	**7,469**	**(1,051)**	**6,418**
Life insurance death and other benefits	**6,816**		**6,816**
Increase in future life policyholder benefits	**33,154**		**33,154**
Total insurance benefits and claims	**47,439**	**(1,051)**	**46,388**
For the year ended December 31, 2003			
Accident and health claims and claim adjustment expenses	5,744	(862)	4,882
Life insurance death and other benefits	8,570		8,570
Increase in future life policyholder benefits	43,084		43,084
Total insurance benefits and claims	57,398	(862)	56,536

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13 INSURANCE RESERVES

Long duration contract liabilities arising from traditional life products include, depending on contract type, policyholder account balances or the present value of future benefits less present value of valuation premiums. Short duration contract liabilities relate to accident and health products of one year duration or less.

The liabilities for future life policyholder benefits have been established based on the provisions of Statement of Financial Accounting Standards No. 60 Accounting and Reporting by Insurance Enterprises . In accordance with the provisions of this standard, the present value of estimated future policy benefits less the present value of estimated future net premiums to be collected from policyholders are accrued when premium revenue is recognised. Currently, there is no specific standard under HK GAAP on the determination of future policyholder benefits. We have based our accounting policy on the US standard. These estimates are based on the following assumptions:

(i) Interest rates are based on estimates of future yields on the Company s investments. In determining its interest rate assumptions, the Company considers past investment experience, the current and future mix of its investment portfolio and trends in yields. Assumed interest rates in future years reflect increased investment in higher yielding securities, including corporate bonds, longer duration securities and equity securities. The discount rates and provision for adverse deviation used are as follows:

Policies issued	Discount rate	Provision for adverse deviation
Prior to 2003	3.8%-5.0%	0.25%-0.5%
2003	3.65%-5.0%	0.25%-0.5%
2004	3.7%-5.17%	0.25%-0.5%

(ii) Mortality and morbidity rates, varying by age of the insured, and lapse rates, varying by contract type, are based upon expected experience at date of contract issue plus, where applicable, a margin for adverse deviation.

In setting the mortality assumption, mortality experience was compared to and expressed as a percentage of the CL series of life table. These tables were compiled by the People s Insurance Company of China in 1994 and 1995 and issued by the People s Bank of China, the principal regulatory authority at the time. The tables are based on policy samples drawn from 43 subsidiaries and mortality experience of these sample policies during the period January 1, 1990 to December 31, 1993 were studied. Currently all life insurance companies in China are required to use these tables for product pricing.

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13 INSURANCE RESERVES *(continued)*

(iii) The assumption for policy administration expenses has been based on expected unit costs plus, where applicable, a margin for adverse deviation. Unit costs have been based on an analysis of actual experience. The per-policy costs include a fixed per-policy expense and a variable per-policy expense based on the estimated expense rates of premiums used as follows:

	Individual life	Group life
Prior to 2003	2%	2%
2003	1.75%	1.75%
2004	1.65%-2.55%	1.65%

Contracts in loss recognition use best-estimate assumptions of investment returns, mortality, lapse and policy administration expenses, without provision for adverse deviation. Mortality, morbidity, lapse and policy administration costs assumptions are the same as for policies issued since June 1999, except that there is no provision for adverse deviation. A level 3.8% interest rate comprised the best estimate of future investment returns on this business. All contracts in loss recognition were retained by CLIC pursuant to the Restructuring.

Policyholder account balances for investment-type contracts are equal to the policy account values. Account values consist of an accumulation of gross premium payments less loadings for expenses, mortality and profit plus credited interest less withdrawals and other exits, based on the provisions of Statement of Financial Accounting Standards No. 97 Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for the Realised Gains and Losses from the Sale of Investments .

The amount of policyholder dividends to be paid is determined annually. Policyholder dividends include life policyholder s share of net income and unrealised appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholder benefits and policyholder contract deposits vary according to the type of contract. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

Participating policies for the year ended December 31, 2004 represented approximately 47% and 47% of gross and net life insurance premiums and policy fees, respectively (2003: 44% and 44%). The net investment income and realised gains related to participating business for the year ended 2004 is RMB7,329 million (2003: RMB4,175 million).

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13 INSURANCE RESERVES *(continued)*

Reserves for claims and claim adjustment expenses were as follows:

	Group	
	2004	2003
	RMB million	*RMB million*
At January 1		
Net reserves for claims and claim adjustment expenses	**692**	703
Add: Reinsurance recoverable	**122**	176
Gross reserves for claims and claim adjustment expenses	**814**	879
Gross claims and claim adjustment expenses incurred	**7,469**	5,744
Gross claims and claim adjustment expenses paid	**(7,068)**	(5,809)
At December 31		
Gross reserves for claims and claim adjustment expenses	**1,215**	814
Less: Reinsurance recoverable	**(136)**	(122)
Net reserves for claims and claim adjustment expenses	**1,079**	692

	Company	
	2004	2003
	RMB million	*RMB million*
At January 1 (2004)/July 1 (2003)		
Net reserves for claims and claim adjustment expenses	**692**	703
Add: Reinsurance recoverable	**122**	176
Gross reserves for claims and claim adjustment expenses	**814**	879
Gross claims and claim adjustment expenses incurred	**7,469**	5,744
Gross claims and claim adjustment expenses paid	**(7,068)**	(5,809)
At December 31		
Gross reserves for claims and claim adjustment expenses	**1,215**	814
Less: Reinsurance recoverable	**(136)**	(122)
Net reserves for claims and claim adjustment expenses	**1,079**	692

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13 INSURANCE RESERVES *(continued)*

Claims paid and incurred, and the ratios of claims incurred to net accident and health premiums were as follows:

	2004	2003
	RMB million	*RMB million*
Claims incurred net	**6,418**	4,882
Claims incurred ratio	**69%**	60%
Claims and claim adjustment expenses		

	2004
	RMB million
Notified claims	**467**
Incurred but not reported	**347**
Total at beginning of year-Gross	**814**
Cash paid for claims settled in year	
Cash paid for current year claims	**(5,961)**
Cash paid for prior year claims	**(1,107)**
Claims incurred in 2004	
Claims arising in 2004	**7,132**
Claims arising prior to 2004	**337**
Total at end of year Gross	**1,215**
Notified claims	**651**
Incurred but not reported	**564**
Total at end of year Gross	**1,215**

14 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Liabilities are due within thirty days from the balance sheet date. The carrying values of fixed maturity securities pledged as collateral are as follows:

	Group		**Company**	
	2004	*2003*	**2004**	*2003*
	RMB million	*RMB million*	***RMB million***	*RMB million*
Fixed maturities pledged		6,448		6,448

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15 OTHER LIABILITIES

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Reserve for commission and expenses	**958**	1,071	**958**	1,071
Staff welfare payable	**864**	672	**862**	672
Salary payable	**658**	726	**645**	726
Agent deposits	**478**	486	**478**	486
Payable for investment purchased	**291**		**291**	
Payable to constructors	**217**	124	**217**	124
Advance from employees	**208**	57	**208**	57
Tax payable	**197**	375	**170**	375
Regulatory fee payable	**107**	88	**107**	88
Trade union outlays and education outlays payable	**86**	77	**86**	85
Insurance payable	**67**	15	**67**	15
Payable to State Social Security Fund *(a)*		2,472		2,472
Others	**829**	728	**848**	708
Total	**4,960**	6,891	**4,937**	6,879

(a) As part of the initial public offering of the Company s shares, CLIC also sold some of its holdings in the Company to public investors. The proceeds from CLIC s sale, net of listing expenses amounting to RMB2,472 million was remitted to the Company and is payable to the State Social Security Fund in accordance with rules issued by the State Council in June 2001. The amount was settled in November 2004.

16 STATUTORY INSURANCE FUND

According to the PRC Financial Regulations for Insurance Companies , insurance companies are required to provide for the insurance guarantee fund at 1% of the net premiums of general insurance, accident insurance, short-term health insurance and reinsurance. No additional insurance guarantee fund will be provided once it reaches 6% of total assets.

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17 PROFIT/(LOSS) BEFORE INCOME TAX EXPENSES AND MINORITY INTERESTS

Profit/(loss) before taxation is stated after charging the following:

	2004	**2003**
	RMB million	*RMB million*
Staff costs		
Wages and salary	**2,827**	2,879
Housing benefits	**199**	139
Contribution to the defined contribution pension plan	**295**	122
Depreciation owned property, plant and equipment	**746**	1,144
Loss on disposal of property, plant and equipment	**5**	124
Deficit on revaluation of investment properties		181
Auditors remuneration	**32**	17

18 TAXATION

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	RMB million	*RMB million*
Current taxation Enterprises income tax	**79**	139
Deferred taxation	**2,201**	1,041
Taxation charges	**2,280**	1,180

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18 TAXATION *(continued)*

(b) The reconciliation between the Group s effective tax rate and the statutory tax rate of 33% in the PRC is as follows:

	2004	2003
	RMB million	*RMB million*
Profit/(loss) before income tax expenses and minority interests	**9,503**	(263)
Tax computed at the statutory tax rate of 33%	**3,136**	(87)
Non-taxable income	**(923)**	(183)
Expenses not deductible for tax purposes	**67**	628
Unrecognised deferred tax assets		822
Income taxes at effective tax rate	**2,280**	1,180

Non-taxable income includes mainly interest income from government bonds. Expenses not deductible for tax purposes include mainly commission, brokerage and donation expenses in excess of deductible amounts.

(c) At December 31, 2004, deferred income taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33%.

The movement on the deferred income tax liabilities account is as follows:

	Group	
	2004	2003
	RMB million	*RMB million*
At January 1	**3,686**	
Deferred taxation charged to profit and loss account	**2,201**	1,041
Taxation charged to equity		
change in unrealised losses of non-trading securities, deferred policy acquisition costs, and future life policyholder benefits	**(1,516)**	(594)
arising from the Restructuring		3,239
At December 31	**4,371**	3,686

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18 TAXATION *(continued)*

(d) The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	**Future policyholder benefits and policyholder contract deposit and other funds**	**Revaluation surplus**	**Unearned premium reserve**	**Unrealised loss**	**Total**
	RMB million	***RMB million***	***RMB million***	***RMB million***	***RMB million***
At January 1, 2003					
(Charged)/credited to profit and loss account	168	(6)	142		304
Charged to equity	3,344	540	(25)	469	4,328
At December 31, 2003	3,512	534	117	469	4,632
At January 1, 2004	3,512	534	117	469	4,632
(Charged)/credited to profit and loss account	63	(18)	(174)		(129)
Charged to equity	348			1,400	1,748
At December 31, 2004	3,923	516	(57)	1,869	6,251

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18 TAXATION *(continued)*

(d) The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows: *(continued)*

Deferred tax liabilities	**Deferred policy acquisition costs**	**Others**	**Total**
	RMB million	***RMB million***	***RMB million***
At January 1, 2003			
Charged to profit and loss account	(1,097)	(248)	(1,345)
Charged to equity	(7,109)	136	(6,973)
At December 31, 2003	(8,206)	(112)	(8,318)
At January 1, 2004	(8,206)	(112)	(8,318)
Charged to profit and loss account	(2,381)	309	(2,072)
Charged to equity	(232)		(232)
At December 31, 2004	(10,819)	197	(10,622)

	2004	2003
	RMB million	*RMB million*
Deferred tax assets	**6,251**	4,632
Deferred tax liabilities	**(10,622)**	(8,318)
	(4,371)	(3,686)

19 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB7,093 million (2003: RMB2,752 million).

20 EARNINGS/(LOSSES) PER SHARE

There is no difference between basic and diluted earnings/(losses) per share. The basic and diluted earnings per share for the year ended December 31, 2004 is based on the weighted average number of 26,764,705,000 (2003: 20,249,798,526) ordinary shares in issue during the year.

For the purpose of earnings/(losses) per share computations, the Company s issuance of 20,000 million shares to CLIC is given retroactive treatment and considered outstanding for 2003.

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21 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarizes the names of significant related parties and nature of relationship with the company as of December 31, 2004:

Significant related party	Relationship with the Company
China Life Insurance (Group) Company (CLIC)	The ultimate holding Company
China Life Assets Management Company Limited (AMC)	A subsidiary of the Company
Zhongbaoxin Real Estate Development Co., Ltd.	A subsidiary of the ultimate holding company

(b) Transactions with CLIC and AMC

The following table summarises significant recurring transactions carried out by the Group with CLIC and AMC for the year ended December 31, 2004.

	Note	**2004**	2003
		RMB million	*RMB million*
Transaction with CLIC			
Policy management fee income receivable from CLIC	*(i)*	**1,667**	953
Asset management fee receivable from CLIC	*(ii)*	**73**	26
Non-performing assets management fee receivable from CLIC	*(iii)*	**13**	
Property leasing expense payable to CLIC	*(iv)*	**335**	169
Transaction with AMC			
Asset Management fee expense paid to AMC by the Company	*(ii)*	**139**	8

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21 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with CLIC and AMC *(continued)*

Note:

(i) As part of the Restructuring, CLIC transferred its entire branch services network to the Company. CLIC and the Company have entered into a Policy Management Agreement on September 30, 2003 to engage the Company to provide policy administration services to CLIC relating to the non-transferred policies. The Company, as a service provider, does not acquire any rights or assume any obligations as an insurer under the non-transferred policies. In consideration of the services provided under the agreement, CLIC will pay the Company a service fee based on the estimated cost of providing the services, to which a profit margin is added. The service fee is equal to, for each semi-annual payment period, the sum of (1) the number of non-transferred policies in force that were within their policy term as of the last day of the period, multiplied by RMB8 and (2) 2.5% of the actual premiums and deposits in respect of such policies collected during the period.

(ii) On November 30, 2003, CLIC and the Company separately entered into asset management agreements with China Life Insurance Asset Management Company Limited (AMC), the Company s 60% owned subsidiary. The terms of the two agreements are the same. Under the agreement, AMC agreed to invest and manage assets entrusted to it by CLIC and the Company on a discretionary basis, subject to the investment guidelines and instructions given by them. In consideration of its services provided under the agreement, CLIC and the Company agreed to pay AMC a monthly service fee.

The monthly service fee is calculated on a monthly basis, by multiplying the average of net asset value of the assets in each such category under management at the end of any given month and the end of the previous month by the applicable annual rate for that month set forth in the agreement. It was determined based on the analysis of the cost of providing the service, market practice and the size and composition of the asset pool to be managed.

If the average investment rate of return for the assets managed for a particular year exceeds the investment rate of return, as previously agreed, by at least ten basis points, AMC will be entitled to an annual performance bonus, the amount of which shall not exceed 50% of the annual service fees for that year. If the average investment rate of return is less than the investment rate of return, as agreed, by at least ten basis points, AMC will be required to rebate a portion of its fee, the amount of which shall not exceed 25% of the annual service fees for that year.

Under a separate agreement signed by CLIC and the Company on September 30, 2003, the Company agreed to invest and manage the assets entrusted to it by CLIC for the period prior to the establishment of AMC on November 30, 2003. Under the agreement, the scope of service to be provided by the Company and the calculation basis of the monthly service are the same as the agreement signed between CLIC and AMC as mentioned above.

(iii) The Group assisted CLIC to realise in cash certain non-performing assets of CLIC and as a result, received in 2004 a fee of RMB13 million, being approximately 7% of cash realised by CLIC.

(iv) The Company has entered into a property leasing agreement with CLIC on September 30, 2003, pursuant to which CLIC agreed to lease to the Company some of its owned and leased buildings. The annual rent payable by the Company to CLIC in relation to the CLIC owned properties is determined by reference to market rent or, the costs incurred by CLIC in holding and maintaining the properties, plus a margin of approximately 5%. The annual rent payable by the Company to CLIC in relation to the CLIC leased properties is determined by reference to the rent payable under the head lease plus the actual costs incurred by CLIC arising in connection with the subletting of the properties. The Company has directly paid the relevant rental expenses raised from CLIC leased properties to the third-party instead of the Group.

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21 SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(c) Amounts due from/to CLIC

The following table summarises the resulting balance due from and to CLIC and its subsidiaries. The balance is non-interest bearing, unsecured and has no fixed repayment terms.

	2004	2003
	RMB million	*RMB million*
Due from CLIC	**1,387**	1,668
Due to CLIC	**(52)**	(926)
Other liabilities due to Zhongbaoxin Real Estate Development Co., Ltd.	**(35)**	(112)

22 SHARE CAPITAL

	Registered, issued and fully paid ordinary shares of RMB1 each	
	No. of shares	*RMB million*
At June 30, 2003*(a)*	20,000,000,000	20,000
Issue of shares*(b)*	6,764,705,000	6,765
At December 31, 2003	26,764,705,000	26,765
At December 31, 2004	26,764,705,000	26,765

(a) On June 30, 2003, 20,000,000,000 shares of RMB1 each were allotted and issued to CLIC for the transfer of the Transferred Business from CLIC to the Company. (see note 1)

(b) Pursuant to the board resolution passed on September 10, 2003, the Company completed its initial public offering as follows:

(i) Issued an aggregate of 5,882,353,000 shares of RMB1 each including an offering of 4,731,937,000 shares at HK$3.59 per share on the Stock Exchange of Hong Kong Limited (HKSE) (excluding the brokerage fee and HKSE transaction levy) and an offering of 28,760,400 American Depositary Shares (ADSs , each representing 40 shares) at US$18.68 on the New York Stock Exchange Inc., on December 18, 2003; and

(ii) Issued 882,352,000 shares of RMB1 each at HK$3.625 per share by way of a placing among professional and institutional investors on December 22, 2003, upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned initial public offering of shares, net of direct listing expenses amounted to approximately RMB24,707 million. The resulting share premium amounted to approximately RMB17,942 million.

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23 RESERVES

	Additional paid in capital	Unrealised gain/(loss)	Statutory common reserve fund	Statutory common welfare fund	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
The Group					
At January 1, 2003	113	1,317			1,430
Issue of shares	19,328				19,328
Share issue expenses	(1,386)				(1,386)
Unrealised loss, net of tax		(2,732)			(2,732)
Appropriation to statutory reserve			27	26	53
Capital contribution by CLIC	16,721	637			17,358
At December 31, 2003	34,776	(778)	27	26	34,051
Unrealised loss, net of tax		(3,077)			(3,077)
Appropriation to statutory reserve			299	300	599
At December 31, 2004	34,776	(3,855)	326	326	31,573
The Company					
At July 1, 2003	15,755	1,778			17,533
Issue of shares	19,328				19,328
Share issue expenses	(1,386)				(1,386)
Unrealised loss, net of tax		(2,556)			(2,556)
Appropriation to statutory reserve			27	26	53
At December 31, 2003	33,697	(778)	27	26	32,972
Unrealised loss, net of tax		(3,077)			(3,077)
Appropriation to statutory reserve			292	292	584
At December 31, 2004	33,697	(3,855)	319	318	30,479

Under Chinese law, dividends may be paid only out of distributable profits. Distributable profits means the Group s after-tax profits as determined under PRC GAAP or Hong Kong GAAP, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The amount of distributable retained earnings based on the above is RMB2,547 million for the year ended December 31, 2004.

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24 CONTINGENCIES

The following is a summary of the significant contingent liabilities:

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Pending lawsuits	**22**	45	**22**	45

(a) The nine putative class action lawsuits filed in the United States District Court for the Southern District of New York against the Group and certain of its officers and directors between March 16, 2004 and May 14, 2004 has been ordered to be consolidated and restyled In re China Life Insurance Company Limited Securities Litigation, No. 04 CV 2112 (TPG). Plaintiffs filed a consolidated amended complaint on January 19, 2005, which names the Group, Wang Xianzhang, Miao Fuchun and Wu Yan as defendants. The consolidated amended complaint alleges that the defendants named therein violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. The Group has engaged U.S. counsel to contest vigorously on behalf of the Group. The defendants jointly moved to dismiss the consolidated amended complaint on March 21, 2005. The likelihood of an unfavourable outcome is still uncertain. No provision has been made with respect to these lawsuits.

(b) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the probability of loss is remote.

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25 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Contracted but not provided for	**290**	239	**290**	239

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancelable operating leases:

	Group		Company	
	2004	2003	**2004**	2003
	RMB million	*RMB million*	***RMB million***	*RMB million*
Land and buildings				
Not later than one year	338	335	338	335
Later than one year but not later than five years	4	670	4	670
Later than five years				

The operating lease payments charged to the profit and loss account for the year ended December 31, 2004 was RMB400 million (2003: RMB299 million).

26 INVESTMENT IN SUBSIDIARY

Company

	2004	**2003**
	RMB million	*RMB million*
Unlisted investment at cost	**480**	480

Name	Place of incorporation and operation	Principal activities	Percentage of equity interest held
China Life Insurance Assets Management Co., Ltd.	People s Republic of China, November 23, 2003	Asset management	60%

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27 DIRECTORS , SUPERVISORS AND SENIOR MANAGEMENT S REMUNERATION

(a) Directors emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004	2003
	RMB	*RMB*
Fees	**440,000**	163,224
Other emoluments for executive directors		
Basic salaries, housing allowances and other allowances and benefits in kind	2,050,000	901,726

Directors fees disclosed above include RMB440,000 (2003: 163,224) paid to independent non-executive directors.

In addition to the directors emoluments disclosed above, certain directors of the Company receive emoluments from CLIC, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to CLIC.

No directors of the Company waived any remuneration during the year ended December 31, 2004.

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil-RMB1,000,000	**8**	4
RMB1,000,000-RMB1,500,000	**1**	

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27 DIRECTORS , SUPERVISORS AND SENIOR MANAGEMENT S REMUNERATION *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2003: two) directors whose emoluments are reflected in the analysis presented above.

Details of remuneration of the remaining three (2003: three) highest paid individuals are as follows:

	2004	2003
	RMB	*RMB*
Fees		
Basic salaries, housing allowances, and other allowances and benefits in kind	**2,670,000**	1,232,513
	2,670,000	1,232,513

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil-RMB1,000,000	**3**	3

No emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

28 ULTIMATE HOLDING COMPANY

The directors regard China Life Insurance (Group) Company, a company incorporated in the PRC, as being the ultimate holding company.

29 APPROVAL OF FINANCIAL INFORMATION

The financial information was approved by the board of directors on April 18, 2005.

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Supplementary Information for ADS Holders

RECONCILIATION OF HK GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

(a) The consolidated financial statements of the Group have been prepared in accordance with HK GAAP, which differs in certain significant respects from US GAAP. Differences between HK GAAP and US GAAP, which may have significant impacts on consolidated net profit/(loss) and consolidated shareholders equity, are described below.

The effect on net profit/(loss) of significant differences between HK GAAP and US GAAP for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
	RMB million	*RMB million*
Net profit/(loss) under HK GAAP	**7,171**	(1,428)
US GAAP adjustments		
Depreciation of investment properties		(40)
Deficit on revaluation of investment properties		181
Net profit/(loss) under US GAAP	**7,171**	(1,287)

There are no differences between HK GAAP and US GAAP that had an effect on Shareholders equity as at December 31, 2004 and 2003.

Investment Properties

Under HK GAAP, investment properties are valued on an open market value basis. Under US GAAP, investment properties are stated at historical cost less accumulated depreciation and accumulated impairment loss. Cost of investment properties, less residual value, is depreciated using a straight-line method over its estimated useful life.

During 2003, there was a deficit on revaluation of investment properties totalling RMB181 million charged to the consolidated profit and loss account under HK GAAP. As at September 30, 2003, all investment properties were retained by CLIC and derecognised from the Group s consolidated balance sheet as a result of the Restructuring. The accumulated depreciation and revaluation deficit related to the investment properties were also retained by CLIC and no longer constituted a GAAP difference to the Group s consolidated profit and loss accounts for the year ended December 31, 2004 and shareholders equity as at December 31, 2004 and 2003.

Property, Plant, and Equipment

Certain property, plant and equipment on hand as of January 1, 2000 have been valued at fair values rather than at historical cost less depreciation, which is required by US GAAP. The Group has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1997, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance of the Group at January 1, 2000 have been carried forward as the deemed cost.

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RECONCILIATION OF HK GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) *(continued)*

(b) Accumulated other comprehensive income/(loss) represents the cumulative gains and losses on items that are not reflected in earnings. The balances and activities for the years ended December 31, 2004 and 2003 are as follows:

	As at December 31	
	2004	2003
	RMB million	*RMB million*
Changes in net unrealised gain/(loss) on investment securities:		
Net unrealised losses arising during the period	**(4,332)**	(3,457)
Reclassification adjustment for gain/(loss) included in net earnings/(losses)	**91**	(154)
Sub-total	**(4,241)**	(3,611)
Adjustments for:		
Deferred policy acquisition costs and future life policyholder benefits	**(352)**	285
Sub-total	**(4,593)**	(3,326)
Income tax effect there of	**1,516**	594
Total other comprehensive loss	**(3,077)**	(2,732)

(c) Statutory Information

	As at December 31	
	2004	2003
	RMB million	*RMB million*
Statutory capital and surplus	**54,456**	50,948
Minimum statutory capital and surplus necessary to satisfy regulatory requirement	**17,264**	12,906
Solvency adequacy ratio	**315%**	395%

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RECONCILIATION OF HK GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) *(continued)*

(c) Statutory Information *(continued)*

According to Article 2003.1 issued by the CIRC, all insurance companies have to report their statutory capital and surplus (i.e. solvency margin) to the CIRC at the end of each fiscal year. The solvency adequacy ratio is computed by dividing the actual solvency margin by the minimum solvency margin. CIRC will closely monitor those insurance companies with solvency adequacy ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends.

(d) Disclosures about investments in an unrealised loss position

		As at December 31, 2004			
		Less than 6 months	**More than 6 months but less than 12 months**	**More than 12 months**	**Total**
		RMB million	*RMB million*	*RMB million*	*RMB million*
Fixed maturity securities					
Government bonds	Fair value	**8,113**	**4,250**	**21,122**	**33,485**
	Unrealised losses	**(626)**	**(327)**	**(3,415)**	**(4,368)**
Government agency bonds	Fair value	**12,390**	**5,149**	**2,312**	**19,851**
	Unrealised losses	**(213)**	**(148)**	**(77)**	**(438)**
Corporate bonds	Fair value	**514**	**384**	**2,739**	**3,637**
	Unrealised losses	**(19)**	**(67)**	**(468)**	**(554)**
Equity securities	Fair value	**7,802**	**2,726**		**10,528**
	Unrealised losses	**(291)**	**(377)**		**(668)**
Total temporarily impaired securities	Fair value	**28,819**	**12,509**	**26,173**	**67,501**
	Unrealised losses	**(1,149)**	**(919)**	**(3,960)**	**(6,028)**

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RECONCILIATION OF HK GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) *(continued)*

(d) Disclosures about investments in an unrealised loss position *(continued)*

		As at December 31, 2003			
		Less than 6 months	More than 6 months but less than 12 months	More than 12 months	Total
		RMB million	*RMB million*	*RMB million*	*RMB million*
Fixed maturity securities					
Government bonds	Fair value	24,353	2,061		26,414
	Unrealised losses	(1,281)	(115)		(1,396)
Government agency bonds	Fair value	20,371	77		20,448
	Unrealised losses	(451)	(5)		(456)
Corporate bonds	Fair value	3,392	159		3,551
	Unrealised losses	(203)	(5)		(208)
Equity securities	Fair value	895	421		1,316
	Unrealised losses	(5)	(2)		(7)
Total temporarily impaired securities	Fair value	49,011	2,718		51,729
	Unrealised losses	(1,940)	(127)		(2,067)

Non-trading securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2004 was greater than their fair value, resulting in an unrealised loss. Unrealised gains and losses in respect of investments designated as trading have been included in net income and have been excluded from the above table. Unrealised losses are largely due to interest rate fluctuations. Based on a review of these investment holdings, it is believed that the contractual terms of these non-trading securities will be met. A total of 105 fixed maturity securities positions (47 equity securities positions) were in an unrealised loss position at December 31, 2004 of which 58 (39 equity securities positions) were in a continuous loss position for less than 6 months, 25 positions for more than 6 months but less than 12 months (8 equity securities positions) and 40 positions for more than 12 months (no equity securities position).

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RECONCILIATION OF HK GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) *(continued)*

(e) The movement on the deferred income tax balance is as follows:

	At January 1, 2003	Deferred taxation charged/ (credited) to profit and loss account	Arising from Restructuring	Change in unrealised gains/losses of non-trading securities	At December 31, 2003
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Tax value of loss carried forward	10,082	822	(10,904)		
Future life policyholder benefits and policyholder contract deposits and other funds	47,041	1,736	(45,265)		3,512
Provision for assets impairment	1,708	331	(2,039)		
Others	1,366	(58)	(657)	469	1,120
	60,197	2,831	(58,865)	469	4,632
Less: valuation allowance	(53,801)	(1,640)	55,441		
Deferred income tax assets	6,396	1,191	(3,424)	469	4,632
Deferred policy acquisition costs	(5,945)	(2,166)		(95)	(8,206)
Others	(451)	(66)	185	220	(112)
Deferred income tax liabilities	(6,396)	(2,232)	185	125	(8,318)
Net deferred income tax liabilities		(1,041)	(3,239)	594	(3,686)

Net deferred income tax assets of RMB3,239 million were retained by CLIC on September 30, 2003 and were charged to the shareholders equity as part of the Restructuring.

(f) Recently issued accounting standards

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on the guidance provided in EITF Issue 03-1, The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments, as applicable to debt and equity securities that are within the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and equity securities that are accounted for using the cost method specified in APB No. 18, The Equity Method of Accounting for Investments in Common Stock. The new guidance was scheduled to become effective for reporting periods beginning after June 15, 2004. In September 2004, however, the FASB delayed the effective date and is expected to issue finalized guidance in 2005. Pending a final resolution by the FASB, the Group, as required, will continue to apply existing authoritative literature with respect to the recognition of losses related to the other-than-temporary impairment of securities. In the absence of such final resolution, the Group is unable to determine the impact, if any, that the impairment provisions of EITF Issue 03-1 will have on the Group s consolidated financial statements.

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