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PICC

中国人民保险集团股份有限公司

THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1339)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the "Board") of The People's Insurance Company (Group) of China Limited (the "Company") announces the following audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the previous year, which should be read in conjunction with the following management discussion and analysis:

FINANCIAL STATEMENTS AND MATERIAL NOTES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

(in RMB million)	*Notes*	**2017**	2016
Gross written premiums	*5*	**476,447**	439,874
Less: Premiums ceded to reinsurers	*5*	**(27,870)**	(32,749)
Net written premiums	*5*	**448,577**	407,125
Change in unearned premium reserves	*5*	**(13,600)**	(10,255)
Net earned premiums		**434,977**	396,870
Reinsurance commission income		**8,803**	10,519
Investment income	*6*	**36,476**	33,075
Other income		**3,519**	2,859
TOTAL INCOME		**483,775**	443,323
Life insurance death and other benefits paid		**119,406**	113,583
Claims incurred		**221,042**	203,236
Changes in long-term life insurance contract liabilities		**(5,508)**	5,633
Policyholder dividends		**2,661**	3,538
Claims and policyholder's benefits		**337,601**	325,990
Less: claims and policyholders' benefits ceded to reinsurers		**(18,760)**	(24,237)
Net claims and policyholders' benefits		**318,841**	301,753
Handling charges and commissions	*4*	**68,094**	53,664
Finance costs		**5,569**	4,333
Exchange losses/(gains)		**668**	(688)
Other operating and administrative expenses		**71,648**	69,328
TOTAL BENEFITS, CLAIMS AND EXPENSES		**464,820**	428,390
Share of profits and losses of associates and joint ventures		**12,674**	10,386
Loss on deemed disposal of an associate		**(798)**	–
PROFIT BEFORE TAX	*7*	**30,831**	25,319
Income tax expense	*8*	**(7,780)**	(4,638)
PROFIT FOR THE YEAR		**23,051**	20,681
Attributable to:			
Equity holders of the Company		**16,099**	14,245
Non-controlling interests		**6,952**	6,436
		23,051	20,681
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic (in RMB)	*9*	**0.38**	0.34

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(in RMB million)	**2017**	2016
PROFIT FOR THE YEAR	**23,051**	20,681
OTHER COMPREHENSIVE EXPENSE		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
– Fair value losses	**(164)**	(6,598)
– Reclassification of gains to profit or loss on disposals	**(4,431)**	(876)
– Impairment losses	**887**	1,162
Income tax effect	**765**	1,573
	(2,943)	(4,739)
Net gains/(losses) on cash flow hedges	**3**	(5)
Income tax effect	**2**	1
	5	(4)
Share of other comprehensive (expense)/income of associates and joint ventures	**(1,425)**	165
Exchange differences arising on translation of foreign operations	**(77)**	73
NET OTHER COMPREHENSIVE EXPENSE MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**(4,440)**	(4,505)
Items that will not be reclassified to profit or loss:		
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	**335**	332
Income tax effect	**(84)**	(83)
	251	249
Actuarial (losses)/gains on pension benefit obligation	**(232)**	41
Share of other comprehensive income/(expense) of associates and joint ventures	**113**	(66)
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	**132**	224
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	**(4,308)**	(4,281)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**18,743**	16,400
Attributable to:		
– Equity holders of the Company	**12,865**	11,102
– Non-controlling interests	**5,878**	5,298
	18,743	16,400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

(in RMB million)	*Notes*	**31 December 2017**	31 December 2016
ASSETS			
Cash and cash equivalents		**72,819**	46,729
Derivative financial assets		**–**	3
Debt securities		**313,261**	240,531
Equity securities, mutual funds and trust schemes		**115,013**	150,550
Insurance receivables, net	*11*	**41,518**	34,339
Reinsurance assets		**28,206**	31,019
Term deposits		**70,706**	91,884
Restricted statutory deposits		**11,311**	9,911
Investments classified as loans and receivables		**157,715**	168,778
Investments in associates and joint ventures	*12*	**97,740**	85,834
Investment properties		**12,155**	10,695
Property and equipment		**24,281**	24,113
Intangible assets		**1,494**	1,197
Prepaid land premiums		**3,649**	3,825
Deferred tax assets		**9,645**	5,965
Other assets		**28,393**	26,776
TOTAL ASSETS		**987,906**	932,149
LIABILITIES			
Securities sold under agreements to repurchase		**41,226**	33,066
Payables to reinsurers		**18,737**	19,302
Income tax payable		**4,462**	2,756
Bonds payable		**49,801**	46,084
Insurance contract liabilities		**557,011**	538,513
Investment contract liabilities for policyholders		**45,880**	38,370
Policyholder dividends payable		**5,205**	7,064
Pension benefit obligation		**2,899**	2,800
Deferred tax liabilities		**834**	752
Other liabilities		**74,970**	72,448
TOTAL LIABILITIES		**801,025**	761,155

(in RMB million)	*Notes*	**31 December 2017**	31 December 2016
EQUITY			
Issued capital	*13*	**42,424**	42,424
Reserves		**95,109**	83,677
Equity attributable to equity holders of the Company		**137,533**	126,101
Non-controlling interests		**49,348**	44,893
TOTAL EQUITY		**186,881**	170,994
TOTAL EQUITY AND LIABILITIES		**987,906**	932,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(in RMB million)	Attributable to equity holders of the Company															
	Share capital *(note 13)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve	Agriculture catastrophic loss reserve	Asset revaluation	Cash flow hedge	Share of other comprehensive (expense)/income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve fund*	Other reserves	Actuarial losses on pension benefit obligation	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2017	42,424	19,925	2,353	7,062	1,300	2,417	(7)	661	6	1,410	(15,153)	(652)	64,355	126,101	44,893	170,994
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	16,099	16,099	6,952	23,051
Other comprehensive (expense)/income for the year	–	–	(2,194)	–	–	208	7	(965)	(58)	–	–	(232)	–	(3,234)	(1,074)	(4,308)
Total comprehensive income for the year	–	–	(2,194)	–	–	208	7	(965)	(58)	–	–	(232)	16,099	12,865	5,878	18,743
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,411	–	–	–	–	–	10,349	–	–	(11,760)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	405	–	–	–	–	–	–	–	(405)	–	–	–
Dividends paid to shareholders *(note 10)*	–	–	–	–	–	–	–	–	–	–	–	–	(1,433)	(1,433)	(1,452)	(2,885)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	29	29
Balance at 31 December 2017	42,424	19,925	159	8,473	1,705	2,625	–	(304)	(52)	11,759	(15,153)	(884)	66,856	137,533	49,348	186,881

* This reserve contains both statutory and discretionary surplus reserves.

(in RMB million)	Attributable to equity holders of the Company															
	Share capital *(note 13)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve	Agriculture catastrophic loss reserve	Asset revaluation	Cash flow hedge	Share of other comprehensive income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve fund*	Other reserves	Actuarial gains/(losses) on pension benefit obligation	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2016	42,424	19,925	5,840	5,770	1,300	2,232	(3)	594	(49)	1,101	(15,010)	(693)	52,670	116,101	41,094	157,195
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	14,245	14,245	6,436	20,681
Other comprehensive income/(expense) for the year	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	–	(3,143)	(1,138)	(4,281)
Total comprehensive income for the year	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	14,245	11,102	5,298	16,400
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,292	–	–	–	–	–	309	–	–	(1,601)	–	–	–
Dividends paid to shareholders *(note 10)*	–	–	–	–	–	–	–	–	–	–	–	–	(959)	(959)	(1,574)	(2,533)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	12	12
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	(143)	–	–	(143)	63	(80)
Balance at 31 December 2016	42,424	19,925	2,353	7,062	1,300	2,417	(7)	661	6	1,410	(15,153)	(652)	64,355	126,101	44,893	170,994

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(in RMB million)	*Notes*	**2017**	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**30,831**	25,319
Adjustments for:			
Investment income	*6*	**(36,476)**	(33,075)
Exchange losses/(gains)		**668**	(688)
Share of profits and losses of associates and joint ventures		**(12,674)**	(10,386)
Loss on deemed disposal of an associate		**798**	–
Depreciation of property and equipment	*7*	**1,900**	1,969
Amortisation of intangible assets	*7*	**203**	169
Amortisation of prepaid land premiums	*7*	**152**	149
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums		**(72)**	(161)
Finance costs except for interests credited to policyholders		**4,152**	2,761
Impairment losses on receivables and other assets		**445**	408
Investment expenses		**789**	474
Operating cash flows before working capital changes		**(9,284)**	(13,061)
Increase in insurance receivables, net		**(7,605)**	(13,171)
Increase in investment contract liabilities for policyholders		**7,510**	10,769
Increase in insurance contract liabilities, net		**21,311**	26,350
Increase in other assets, net		**(4,474)**	(2,130)
(Decrease)/increase in other liabilities and accruals, net		**(494)**	22,999
Cash generated from operations		**6,964**	31,756
Income tax paid		**(8,989)**	(7,925)
Net cash (used in)/from operating activities		**(2,025)**	23,831
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		**28,721**	28,356
Dividends received		**6,016**	6,865
Decrease in policy loans		**143**	522
Capital expenditures		**(3,125)**	(3,621)
Proceeds from disposals of investment properties, property and equipment, intangible assets and prepaid land premiums		**254**	302
Investments in associates and joint ventures		**–**	(22,914)
Purchases of investments		**(254,098)**	(395,820)
Proceeds from disposals of investments		**225,085**	297,775
Payments for investment expenses		**(789)**	(474)
Decrease in term deposits, net		**21,063**	56,326
Net cash from/(used in) investing activities		**23,270**	(32,683)

(in RMB million)	**2017**	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares by subsidiaries	**29**	12
Increase in securities sold under agreements to repurchase	**8,160**	4,835
Issue of bonds payable	**3,500**	15,000
Repayment of bonds payable	**–**	(8,000)
Repayment to banks and other financial institutions	**–**	(980)
Interests paid	**(3,763)**	(2,887)
Dividends paid	**(2,885)**	(2,533)
Net cash from financing activities	**5,041**	5,447
Net increase/(decrease) in cash and cash equivalents	**26,286**	(3,405)
Cash and cash equivalents at the beginning of the year	**46,729**	49,884
Effects of exchange rate changes on cash and cash equivalents	**(196)**	250
Cash and cash equivalents at the end of the year	**72,819**	46,729
Analysis of balances of cash and cash equivalents		
Cash on hand	**–**	1
Demand deposits and deposits with banks with original maturity of less than three months	**29,528**	39,803
Securities purchased under resale agreements with original maturity of less than three months	**43,291**	6,925
Cash and cash equivalents at the end of the year	**72,819**	46,729

NOTES:

1. CORPORATE INFORMATION

The Company was established on 22 August 1996 in the People's Republic of China ("PRC") and its registered office is located at No. 69, Dongheyan Street, Xuanwu District, Beijing 100052, PRC. The Company's predecessor, the People's Insurance Company of China, is a state-owned enterprise established on 20 October 1949 by the PRC government. The ultimate controlling party of the Company is the Ministry of Finance of the PRC.

The Company is an investment holding company. During the year ended 31 December 2017, the Company's subsidiaries mainly provided integrated financial products and services and were engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB") and the disclosures required by the Appendix 16 to Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments and insurance contract liabilities. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATIONS OF NEW AND REVISED IFRSs

The Group has applied the following amendments to IFRSs issued by the IASB for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7-Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flow will be included in cash flow from financing activities.

Specially, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the management for deciding how to allocate resources and for assessing performance.

For management purposes, the Group is organised into business units based on principal activities of subsidiaries and has the following operating and reportable segments:

- the non-life insurance segment offers a wide variety of insurance products to both personal and corporate customers including automobile insurance, agricultural, property and liabilities insurance;

- the life insurance segment offers a wide range of participating, endowments, annuity and universal life insurance products;

- the health insurance segment offers a wide range of health and medical insurance products;

- the asset management segment offers asset management services;

- the headquarters segment provides management and support for the Group's business through its strategy, risk management, treasury, finance, legal and human resources functions;

- the others segment comprises insurance agent business, reinsurance business and other operating business of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on segment profit/(loss).

As the revenue, net profit, assets and liabilities of operations outside Mainland China constitutes less than 1% of the consolidated amounts in these financial statements, geographical segmental information is not presented.

Intersegment sales are transacted according to terms and conditions negotiated by the relevant parties within the Group.

During the reporting period, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

Segment revenue and results for the year ended 31 December 2017

(in RMB million)	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	309,552	105,428	17,997	–	–	1,748	252	434,977
Net reinsurance commission income	9,374	273	93	–	–	102	(1,039)	8,803
Investment income	15,901	17,320	2,008	452	4,438	162	(3,805)	36,476
Other income	2,025	754	121	1,618	1	379	(1,379)	3,519
TOTAL INCOME – SEGMENT INCOME	336,852	123,775	20,219	2,070	4,439	2,391	(5,971)	483,775
– External income	337,586	123,375	20,190	1,432	815	377	–	483,775
– Intersegment income	(734)	400	29	638	3,624	2,014	(5,971)	–
Net claims and policyholders' benefits	192,586	108,162	17,182	–	–	875	36	318,841
Handling charges and commissions	59,754	8,369	796	–	–	–	(825)	68,094
Finance costs	2,000	2,122	543	4	899	1	–	5,569
Exchange losses	442	185	2	1	35	3	–	668
Other operating and administrative expenses	60,137	7,725	1,689	1,301	823	1,809	(1,836)	71,648
TOTAL BENEFITS, CLAIMS AND EXPENSES	314,919	126,563	20,212	1,306	1,757	2,688	(2,625)	464,820
Share of profits and losses of associates and joint ventures	7,919	3,625	–	(1)	923	–	208	12,674
Loss on deemed disposal of an associate	(356)	(398)	–	–	(44)	–	–	(798)
PROFIT/(LOSS) BEFORE TAX	29,496	439	7	763	3,561	(297)	(3,138)	30,831
Income tax (expense)/credit	(7,315)	(285)	–	(199)	99	–	(80)	(7,780)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	22,181	154	7	564	3,660	(297)	(3,218)	23,051

Segment revenue and results for the year ended 31 December 2016

(in RMB million)	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	270,783	105,162	20,925	–	–	–	–	396,870
Net reinsurance commission income	10,091	233	195	–	–	–	–	10,519
Investment income	15,280	15,720	1,782	452	4,017	121	(4,297)	33,075
Other income	1,579	621	93	1,316	3	229	(982)	2,859
TOTAL INCOME – SEGMENT INCOME	297,733	121,736	22,995	1,768	4,020	350	(5,279)	443,323
– External income	297,570	121,498	22,982	1,202	(17)	88	–	443,323
– Intersegment income	163	238	13	566	4,037	262	(5,279)	–
Net claims and policyholders' benefits	172,087	109,187	20,479	–	–	–	–	301,753
Handling charges and commissions	46,578	6,900	666	–	–	–	(480)	53,664
Finance costs	1,208	1,752	456	2	887	28	–	4,333
Exchange gains	(415)	(174)	(2)	(1)	(96)	–	–	(688)
Other operating and administrative expenses	59,530	6,972	1,322	1,039	726	330	(591)	69,328
TOTAL BENEFITS, CLAIMS AND EXPENSES	278,988	124,637	22,921	1,040	1,517	358	(1,071)	428,390
Share of profits and losses of associates and joint ventures	6,176	3,348	–	5	908	–	(51)	10,386
PROFIT/(LOSS) BEFORE TAX	24,921	447	74	733	3,411	(8)	(4,259)	25,319
Income tax (expense)/credit	(4,439)	5	(71)	(190)	41	(13)	29	(4,638)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	20,482	452	3	543	3,452	(21)	(4,230)	20,681

Segment assets and liabilities as at 31 December 2017 and 2016, and other segment information for the year ended 31 December 2017 and 2016

(in RMB million)	**Non-life insurance**	**Life insurance**	**Health insurance**	**Asset management**	**Head-quarters**	**Others**	**Eliminations**	**Total**
31 December 2017								
Segment assets	**530,450**	**381,802**	**43,096**	**10,293**	**109,569**	**11,382**	**(98,686)**	**987,906**
Segment liabilities	**392,477**	**350,242**	**37,463**	**2,205**	**20,587**	**3,541**	**(5,490)**	**801,025**
Other segment information:								
Capital expenditures	**1,908**	**706**	**109**	**306**	**62**	**34**	**–**	**3,125**
Depreciation and amortisation	**1,806**	**176**	**54**	**31**	**111**	**8**	**69**	**2,255**
Interest income	**13,304**	**12,866**	**1,425**	**146**	**222**	**139**	**213**	**28,315**
31 December 2016								
Segment assets	480,354	375,499	45,224	9,531	108,320	6,586	(93,365)	932,149
Segment liabilities	357,480	342,629	39,548	1,800	20,190	2,656	(3,148)	761,155
Other segment information:								
Capital expenditures	2,511	504	46	245	29	286	–	3,621
Depreciation and amortisation	1,823	158	50	31	58	113	54	2,287
Interest income	12,378	12,836	1,238	143	168	5	–	26,768

5. GROSS AND NET WRITTEN PREMIUMS

(in RMB million)	**2017**	2016
(a) Gross written premiums		
Long-term life insurance premiums	**113,111**	117,764
Short-term health insurance premiums	**12,438**	10,804
Non-life insurance premiums	**350,898**	311,306
Total	**476,447**	439,874
(b) Premiums ceded to reinsurers		
Long-term life insurance premiums ceded to reinsurers	**(1,083)**	(711)
Short-term health insurance premiums ceded to reinsurers	**(1,167)**	(2,012)
Non-life insurance premiums ceded to reinsurers	**(25,620)**	(30,026)
Total	**(27,870)**	(32,749)
Net written premiums	**448,577**	407,125
(c) Change in unearned premium reserves		
Change in gross unearned premium reserves	**(12,150)**	(11,150)
Less: Change in reinsurer's share of unearned premium reserves	**(1,450)**	895
Net	**(13,600)**	(10,255)

6. INVESTMENT INCOME

(in RMB million)	**2017**	2016
Dividend, interest and rental income (a)	**32,650**	32,253
Realised gains (b)	**4,823**	2,175
Fair value losses (c)	**(110)**	(191)
Impairment losses (d)	**(887)**	(1,162)
TOTAL	**36,476**	33,075

(a) Dividend, interest and rental income

(in RMB million)	**2017**	2016
Operating lease income from investment properties	**575**	423
Interest income		
Current and term deposits	**4,992**	7,306
Debt securities		
– Held-to-maturity	**5,857**	5,894
– Available-for-sale	**7,727**	5,554
– Held-for-trading	**271**	81
Derivative financial assets	**3**	118
Loans and receivables	**9,465**	7,815
SUBTOTAL	**28,315**	26,768
Dividend income		
Equity securities, mutual funds and trust schemes		
– Available-for-sale	**3,369**	4,418
– Held-for-trading	**391**	644
SUBTOTAL	**3,760**	5,062
TOTAL	**32,650**	32,253

(b) Realised gains

(in RMB million)	**2017**	2016
Debt securities		
– Available-for-sale	**90**	530
– Held-for-trading	**9**	24
Equity securities and mutual funds		
– Available-for-sale	**4,330**	317
– Held-for-trading	**394**	295
– Derivative financial instrument	**–**	1,009
TOTAL	**4,823**	2,175

(c) Fair value losses

(in RMB million)	**2017**	2016
Debt securities		
– Held-for-trading	**(105)**	17
Equity securities and mutual funds		
– Held-for-trading	**195**	(432)
Investment properties	**(200)**	224
TOTAL	**(110)**	(191)

(d) Impairment losses

(in RMB million)	**2017**	2016
Equity securities and mutual funds		
– Available-for-sale	**(887)**	(1,162)

7. PROFIT BEFORE TAX

Profit before tax is arrived at after charging the following items:

(in RMB million)	**2017**	2016
Employee costs (a)	**39,026**	34,915
Depreciation of property and equipment	**1,900**	1,969
Impairment losses recognised on insurance receivables *(note 11)*	**426**	390
Impairment losses recognised on other assets	**11**	18
Impairment losses on prepaid land premiums	**8**	–
Minimum lease payments under operating leases in respect of land and buildings	**1,089**	896
Amortisation of intangible assets	**203**	169
Amortisation of prepaid land premium	**152**	149
Auditors' remuneration	**31**	30

(a) Employee costs

(in RMB million)	**2017**	2016
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	**35,198**	31,842
– Pension scheme contributions	**3,828**	3,073
TOTAL	**39,026**	34,915

8. INCOME TAX EXPENSE

(in RMB million)	**2017**	2016
Current income tax		
– Charge for the year	**10,653**	7,525
– Adjustments in respect of current tax of previous periods	**42**	39
Deferred income tax	**(2,915)**	(2,926)
TOTAL	**7,780**	4,638

In accordance with the relevant PRC income tax rules and regulations, the Company and Company's subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% (2016: 25%) on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The People's Insurance Company of China (Hong Kong) Limited ("PICC Hong Kong"), PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), subsidiaries incorporated in Hong Kong, were subject to a profits tax rate of 16.5% in 2017 (2016: 16.5%).

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

(in RMB million)	**2017**	2016
Profit before tax	**30,831**	25,319
Tax at the statutory tax rate	**7,708**	6,330
Adjustments in respect of current tax of previous periods	**42**	39
Tax effect of share of profits and losses of associates	**(2,969)**	(2,597)
Income not subject to tax	**(888)**	(1,102)
Expenses not deductible for tax	**3,511**	941
Unrecognised deductible temporary differences and tax losses	**384**	1,030
Effects of different tax rates applied to subsidiaries	**(8)**	(3)
Tax charge for the year	**7,780**	4,638
Effective tax rate	**25.2%**	18.3%

Handling charges and commission expenses are not deductible for tax purposes when they exceed certain percentages of the amounts of premiums income subtracted by surrender expenses. The increase in handling charges and commission expenses results in an increase in expenses not deductible for tax purposes.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the years 2017 and 2016 is based on the profit attributable to equity holders of the Company and the number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to equity holders of the Company for the year *(in RMB million)*	**16,099**	14,245
Number of ordinary shares *(in million shares)*	**42,424**	42,424
Basic earnings per share *(in RMB)*	**0.38**	0.34

No diluted earnings per share has been presented for the years 2017 and 2016 as the Group had no potential ordinary shares in issue during the years.

10. DIVIDENDS

(in RMB million)	**2017**	2016
Dividends recognised as distributions during the year:		
2016 Final, paid-RMB3.37881 cent per share (2016: 2015 Final, paid-RMB2.26005 cent per share)	**1,433**	959

As at 23 March 2018, final dividend in respect of the year ended 31 December 2017 of RMB3.94 cent per share has been proposed by the Board of Directors and is subject to approval by the shareholders at the forthcoming general meeting.

11. INSURANCE RECEIVABLES, NET

(in RMB million)	**31 December 2017**	31 December 2016
Insurance receivables	**45,120**	37,557
Less: Impairment provision on insurance receivables	**(3,602)**	(3,218)
TOTAL	**41,518**	34,339

(a) The movements of provision for impairment of insurance receivables are as follows:

(in RMB million)	**2017**	2016
At 1 January	**3,218**	2,869
Impairment losses recognised *(note 7)*	**426**	390
Amount written off as uncollectible	**(42)**	(41)
At 31 December	**3,602**	3,218

(b) An aged analysis of insurance receivable as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

(in RMB million)	**31 December 2017**	31 December 2016
Not yet due and within 3 months	**30,382**	27,749
3 to 6 months	**4,288**	4,234
6 to 12 months	**5,652**	1,943
1 to 2 years	**1,033**	300
Over 2 years	**163**	113
Total	**41,518**	34,339

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which the Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged.

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A- (or ratings of an equal level given by other international rating institutions such as A.M. Best and Fitch and Moody's) or above. The Group's management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) The Group's investments in the associates and joint ventures as at 31 December 2017 and 2016 are as follows:

(in RMB million)	**31 December 2017**	31 December 2016
Associates		
Cost of investment in associates	**66,756**	63,961
Share of post-acquisition profits and other comprehensive income	**28,094**	18,983
Subtotal	**94,850**	82,944
Joint ventures		
Cost of investment in joint ventures	**2,890**	2,890
Total	**97,740**	85,834

Included in the carrying amount of investments in associates as at 31 December 2017 was an aggregate amount of RMB84,958 million (31 December 2016: RMB73,541 million) in respect of listed entities and their corresponding fair values amounted to RMB71,963 million (31 December 2016: RMB66,416 million) on the same date.

(b) Particulars of the principal associates are as follows:

Associates	Place of registration	Principal activities/ Place of operation	**Percentage of ownership interest and voting rights held by the Group** **31 December 2017** Direct	**31 December 2017** Indirect	31 December 2016 Direct	31 December 2016 Indirect
Industrial Bank Co., Ltd. ("Industrial Bank")	Fujian	Banking, China	**0.85%**	**12.05%**	0.91%	13.15%
Hua Xia Bank Co., Limited	Beijing	Banking, China	**–**	**19.99%**	–	19.99%

The Group accounts for its interests in Industrial Bank as associate as it has a representative in boards of directors in this entity.

The above table lists the associates of the Group which principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

13. SHARE CAPITAL

	31 December 2017	31 December 2016
Issued and fully paid ordinary shares of RMB 1 each *(in million shares)*		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424
Share capital *(in RMB million)*		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424

14. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(in RMB million)	**31 December 2017**	31 December 2016
ASSETS		
Cash and cash equivalents	**2,833**	5,984
Debt securities	**2,386**	323
Equity securities and mutual funds	**7,138**	7,648
Term deposits	**131**	135
Investments classified as loans and receivables	**600**	2,806
Investments in subsidiaries	**84,274**	82,318
Investments in associates	**5,571**	5,137
Investment properties	**2,605**	1,201
Property and equipment	**3,090**	158
Intangible assets	**29**	25
Prepaid land premiums	**65**	67
Other assets	**227**	2,080
TOTAL ASSETS	**108,949**	107,882
LIABILITIES		
Bonds payable	**15,995**	15,984
Pension benefit obligation	**2,899**	2,800
Other liabilities	**1,693**	1,406
TOTAL LIABILITIES	**20,587**	20,190
EQUITY		
Share capital	**42,424**	42,424
Reserves	**45,938**	45,268
TOTAL EQUITY	**88,362**	87,692
TOTAL EQUITY AND LIABILITIES	**108,949**	107,882

MANAGEMENT DISCUSSION AND ANALYSIS

The Group divides its three principal business lines of P&C insurance, life and health insurance and asset management into four operating segments for reporting purposes: P&C insurance business constitutes the P&C insurance segment and includes PICC Property and Casualty Company Limited ("PICC P&C") and The People's Insurance Company of China (Hong Kong), Limited ("PICC Hong Kong"), in which the Company holds 68.98% and 75.0% equity interests, respectively; life and health insurance business constitutes two separate segments, including life insurance segment and health insurance segment, among which the life insurance segment includes PICC Life Insurance Company Limited ("PICC Life"), in which the Company holds an 80.0% equity interest directly and indirectly, and the health insurance segment includes PICC Health Insurance Company Limited ("PICC Health"), in which the Company holds a 95.45% equity interest directly and indirectly; and the asset management business constitutes the asset management segment and primarily includes PICC Asset Management Company Limited ("PICC AMC"), PICC Investment Holding Co., Ltd ("PICC Investment Holding"), PICC Capital Investment Management Company Limited ("PICC Capital"), and PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), in which the Company holds 100%. The Company also holds 100% equity interest in PICC Financial Services Company Limited ("PICC Financial Services"), directly and indirectly holds 100% equity interest in PICC Reinsurance Company Limited ("PICC Reinsurance") and holds 100% equity interest in PICC Pension Company Limited ("PICC Pension").

KEY OPERATING INDICATORS

(1) Key Operating Data

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Original Premiums Income			
PICC P&C	**349,290**	310,453	12.5
PICC Life	**106,238**	105,115	1.1
PICC Health	**19,250**	23,020	(16.4)
Combined ratio of PICC P&C (%)	**97.0**	98.1	Decrease of 1.1 pt
Value of one year's new business of PICC Life	**5,687**	4,131	37.7
Value of one year's new business of PICC Health	**468**	325	44.0
Total investment yield (%)	**5.9**	5.8	Increase of 0.1 pt

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
Market share [(1)]			
PICC P&C (%)	**33.1**	33.5	Decrease of 0.4 pt
PICC Life (%)	**4.1**	4.8	Decrease of 0.7 pt
PICC Health (%)	**0.7**	1.1	Decrease of 0.4 pt
Embedded Value of PICC Life	**61,909**	57,558	7.6
Embedded Value of PICC Health	**7,831**	7,118	10.0

	As of 31 December 2017	As of 31 December 2016	(% of change)
Comprehensive solvency margin ratio (%)			
PICC Group	**299**	284	Increase of 15 pt
PICC P&C	**278**	287	Decrease of 9 pt
PICC Life	**219**	177	Increase of 42 pt
PICC Health	**396**	215	Increase of 181 pt
Core solvency margin ratio (%)			
PICC Group	**235**	220	Increase of 15 pt
PICC P&C	**229**	232	Decrease of 3 pt
PICC Life	**192**	149	Increase of 43 pt
PICC Health	**257**	200	Increase of 57 pt

(1) The market share was based on the statistics and measurement of the Original Premiums Income in the PRC (excluding Hong Kong, Macau and Taiwan) published by the China Insurance Regulatory Commission (the "CIRC"), and the market share of PICC P&C represents its market share among all P&C insurance companies, and the market share of PICC Life and PICC Health represents their respective market share among all life and health insurance companies.

In 2017, by closely following the general tone of "making progress while maintaining stability", the Group reinforced the efforts on reform and innovation, enhanced the agglomeration effect, continued to promote customer-oriented transformation and built up leading service capabilities. The Group has shown a steady growth in its business and its structure continued to be optimized. In 2017, the market share of PICC P&C in the P&C insurance market was 33.1%, the market share of PICC Life in life and health insurance market was 4.1% and the market share of PICC Health in life and health insurance market was 0.7%. In terms of the total written premiums (the "TWPs"), in 2017, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB349,290 million, RMB116,799 million, RMB25,702 million and HKD207 million, respectively. The Group proactively pushed for the unification in the development of the Group, standing firmly for the new development idea. By actively facilitating the spirit of "1+4" series documents issued by regulatory authority, the Group shifted its focus back on the origin of insurance which was providing protection and propelled the Group for a high quality development and transformation. Affected by the proactive adjustment of business structure and the reduction in short and medium-term product scale, the TWPs generated by cross-selling & synergy among the Group's business lines dropped by 16.9% to RMB26,403 million in 2017 from RMB31,791 million in 2016, among which, TWPs of first-year regular premiums business amounted to RMB715 million, increased by 95.9% on a year-on-year basis.

(2) Key Financial Indicators

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Gross written premiums	**476,447**	439,874	8.3
P&C Insurance	**350,898**	311,306	12.7
Life Insurance	**106,299**	105,548	0.7
Health Insurance	**19,250**	23,020	(16.4)
Profit before tax	**30,831**	25,319	21.8
Net profit	**23,051**	20,681	11.5
Net profit attributable to equity holders of the Company	**16,099**	14,245	13.0
Earnings per share (RMB)	**0.38**	0.34	13.0
Weighted average return on equity (%)	**12.2**	11.8	Increase of 0.4 pt

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
Total assets	**987,906**	932,149	6.0
Total liabilities	**801,025**	761,155	5.2
Total equity	**186,881**	170,994	9.3
Net assets per share (RMB)	**3.24**	2.97	9.1
Gearing ratio(1) (%)	**81.1**	81.7	Decrease of 0.6 pt

(1) The gearing ratio refers to the ratio of total liabilities to total assets.

The Group's capital base has been further strengthened, in which total equity grew by 9.3% to RMB186,881 million as of 31 December 2017 from RMB170,994 million as of 31 December 2016. The Group's gross written premiums ("GWPs") increased by 8.3% to RMB476,447 million in 2017 from RMB439,874 million in 2016. The net profit increased by 11.5% to RMB23,051 million in 2017 from RMB20,681 million in 2016. Profit attributable to equity holders of the Company increased by 13.0% to RMB16,099 million in 2017 from RMB14,245 million in 2016. The weighted average return on equity of the Group increased by 0.4 percentage point to 12.2% in 2017 from 11.8% in 2016.

The net assets per share of the Group increased by 9.1% to RMB3.24 as of 31 December 2017 from RMB2.97 as of 31 December 2016. The Group's earnings per share increased by 13.0% to RMB0.38 in 2017 from RMB0.34 in 2016. The Group's gearing ratio decreased by 0.6 percentage point to 81.1% as of 31 December 2017 from 81.7% as of 31 December 2016.

P&C INSURANCE BUSINESS

In 2017, with a continuous supply side structural reform in China, the new situation of economic and social development stimulated the release of demand for insurance, accelerated the market reform process of insurance industry, guided the transformation and upgrading of insurance industry, and boosted business structure optimization. Meanwhile, it also posed new challenges for the core part of the industry in respect of business model innovation, product supply upgrading, real economy development support, risk prevention and control ability improvement. Facing opportunities and challenges arising from the development of the times and the changes in the market, P&C insurance segment deepened the five development ideas, namely innovation, coordination, go green, openness and sharing, and proactively promoted the five strategies, namely macro service, globalization, internet, value chain and platformization, so as to accelerate the comprehensive transformation and upgrading, deepen structural reform, complete operation and channel layout, strengthen market bench-marking appraisal, positively perform social responsibility, continuously upgrade service quality, thus realized stronger development motivation, formed more balanced development situation and solidified our leading position.

(1) Analysis by Product

The following table sets forth the GWPs by product from P&C insurance segment for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Motor vehicle insurance	**249,249**	225,877	10.3
Commercial property insurance	**12,755**	12,562	1.5
Liability insurance	**17,085**	13,840	23.4
Accidental injury and health insurance	**30,646**	23,433	30.8
Cargo insurance	**3,238**	2,999	8.0
Agricultural insurance	**22,090**	19,535	13.1
Other P&C insurance	**15,529**	13,060	18.9
Total	**350,592**	311,306	12.6

GWPs for the P&C insurance segment increased by 12.6% to RMB350,592 million in 2017 from RMB311,306 million in 2016. The overall steady growth was largely driven by the development in the motor vehicle insurance, accidental injury and health insurance, liability insurance, agricultural insurance and credit insurance businesses.

GWPs for motor vehicle insurance increased by 10.3% to RMB249,249 million in 2017 from RMB225,877 million in 2016. In 2017, the P&C insurance segment, on one hand, continued to reinforce the construction and consolidation of sales channels, strengthen construction of sales pricing capacity, improve resource allocation capacity and enhance incremental business acquiring capacity; on the other hand, strictly controlled key indicators of renewal insurance, continued to prolong days of early renewal, promote development of the renewal insurance business, strengthen the control over existing business, promote the year-on-year increase of number of motor vehicle insurance, which effectively offset the reduced premiums per car, and boosted the rapid development of motor vehicle insurance business.

GWPs for commercial property insurance increased by 1.5% to RMB12,755 million in 2017 from RMB12,562 million in 2016. In 2017, the P&C property insurance segment actively responded to the adverse effects of falling premium rates caused by competition in market and explored all property insurance, machine damage insurance and business interruption insurance, which promoted the steady growth of the overall business of commercial property insurance.

GWPs for liability insurance increased by 23.4% to RMB17,085 million in 2017 from RMB13,840 million in 2016. In 2017, the P&C liability insurance segment actively served the overall interests of economic and social development and accurately grasped policy opportunities. Employer liability insurance, safety production liability insurance, first major technological equipment insurance, export product liability insurance, government rescue insurance and other types of insurance showed well development trend. Meanwhile, the P&C liability insurance segment made full use of the advantages of network nodes and facilitated channel cooperation to carry out marketing promotion programs. Motor vehicle extended maintenance insurance, online shopping shipment fee loss insurance and other innovative types of insurance have become our new business growth point for the segment.

GWPs for accidental injury and health insurance increased by 30.8% to RMB30,646 million in 2017 from RMB23,433 million in 2016. In 2017, the P&C insurance segment actively connected with "Healthy China" Strategy to consolidate advantages of critical illness insurance and accelerated the development of new areas such as basic medical insurance management, social medical insurance nursing and poverty alleviation. It also set up a "one-stop" service platform, explored health management services, accelerated secondary development of customers, and rapidly developed health insurance business, intensified the promotion of mobile phone sales systems, accelerated the exploration of the potential of car dealership channels, and renewal insurance business of private cars, and enriched the insurance methods of traditional businesses. While promoting the rapid development of emerging businesses such as accidental injury insurance of auto driver and passengers, it also maintained the steady growth of traditional business such as corporate businesses insurance and student and infant insurance.

GWPs for cargo insurance increased by 8.0% to RMB3,238 million in 2017 from RMB2,999 million in 2016. In 2017, China's economy maintained a stable and positive operation, and both enterprise production and investment activities steadily recovered, while volumes and prices of goods, such as metal raw materials, minerals and building materials grew, drove the growth of related traditional insurance products such as imports, waterways, and land and water transport insurances. At the same time, the P&C insurance segment continued to expand its individual decentralized business, and carry-on baggage with vehicles and people insurance business developed rapidly.

GWPs for agricultural insurance increased by 13.1% to RMB22,090 million in 2017 from RMB19,535 million in 2016. In 2017, in face of increasingly fierce market competition, the P&C insurance segment has increased resources investment and efforts on performance appraisal. While stabilizing the existing business, efforts were made to expand the breeding insurance business. It also actively developed index-type innovation insurance products such as agricultural product prices and weather, new agricultural main products, poverty alleviation insurance and local agricultural insurance, etc, which created new energy for agricultural insurance business development.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 18.9% to RMB15,529 million in 2017 from RMB13,060 million in 2016. In 2017, personal credit loan guarantee insurance and performance guarantee insurance business realized rapid growth in the P&C insurance segment, boosted the rapid development of credit guarantee insurance business; meanwhile, special risk insurance, engineering insurance and family property insurance services also achieved rapid development.

(2) Analysis by Channel

The following table sets forth a breakdown of Original Premiums Income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage. In 2017, PICC P&C completed the top-down design for channel, primarily constructed a channel strategic management frame system, forming a multi-channel development pattern.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December				
	2017			2016	
	Amount	**(% of total)**	**(% of change)**	Amount	(% of total)
Insurance agents	**246,610**	**70.6**	**19.2**	206,904	66.7
Among which:					
Individual insurance agents	**124,548**	**35.7**	**14.2**	109,044	35.1
Ancillary insurance agents	**57,705**	**16.5**	**1.8**	56,681	18.3
Professional insurance agents	**64,357**	**18.4**	**56.3**	41,179	13.3
Direct sales	**82,859**	**23.7**	**(5.8)**	87,968	28.3
Insurance brokerage	**19,821**	**5.7**	**27.2**	15,581	5.0
Total	**349,290**	**100.0**	**12.5**	310,453	100.0

(3) Financial Analysis

The following table sets forth certain selected key financial data of the P&C insurance segment for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**309,552**	270,783	14.3
Investment income	**15,901**	15,280	4.1
Other income	**2,025**	1,579	28.2
Total income	**336,852**	297,733	13.1
Net claims and policyholders' benefits	**192,586**	172,087	11.9
Handling charges and commissions	**59,754**	46,578	28.3
Finance costs	**2,000**	1,208	65.6
Other operating and administrative expenses	**60,137**	59,530	1.0
Total benefits, claims and expenses	**314,919**	278,988	12.9
Profit before tax	**29,496**	24,921	18.4
Income tax expense	**(7,315)**	(4,439)	64.8
Net profit	**22,181**	20,482	8.3

Net earned premiums

Benefiting from the steady development in the businesses of motor vehicle insurance, accidental injury and health insurance, liability insurance, agricultural insurance and credit insurance, net earned premiums of the P&C insurance segment increased by 14.3% to RMB309,552 million in 2017 from RMB270,783 million in 2016.

Investment income

Investment income of the P&C insurance segment increased by 4.1% to RMB15,901 million in 2017 from RMB15,280 million in 2016. This was primarily due to the fact that the Company took advantage of the increase in the yield of the fixed income products, increased the allocation as well as seized the investment opportunities in equity markets.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the P&C insurance segment increased by 11.9% to RMB192,586 million in 2017 from RMB172,087 million in 2016, of which the loss ratio of PICC P&C decreased by 1.2 percentage point to 62.3% in 2017 from 63.5% in 2016. In 2017, the business structure of motor vehicle insurance in P&C insurance segment further enhanced. After the deregulation of premium rate of commercial motor vehicle insurance, the percentage of customers with no record of reported claims increased, and the valid claim reports and frequency witnessed an obvious decrease. The loss ratio of motor vehicle insurance decreased on a year-on-year basis.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 28.3% to RMB59,754 million in 2017 from RMB46,578 million in 2016. The increase in handling charges and commissions were mainly due to steady increase in business scale, increased investment in quality business and more intense market competition.

Finance costs

Finance costs of the P&C insurance segment increased by 65.6% to RMB2,000 million in 2017 from RMB1,208 million in 2016. The increase in finance costs was mainly due to the increase in interest expenses relating to subordinated debts, capital supplementary bonds and financial assets sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the P&C insurance segment increased by 8.3% to RMB22,181 million in 2017 from RMB20,482 million in 2016.

LIFE AND HEALTH INSURANCE

(1) Life insurance

In 2017, the macro economy in China maintained the stability with a positive trend, while major economic indicators performed better than estimation, and effective financial risk control became the core of financial regulation. Life and health insurance regulatory authorities successively issued series of regulatory policies, guiding the industry towards the direction of protection and risk prevention. The industry focused on business restructuring and transformation, and the growth of premiums slowed down. Facing complex market environment and competing situation, the Group's life insurance segment insisted in the general tone of "making progress while maintaining stability", and firmly implemented the transformation strategy of "Stabilizing growth, emphasizing value, strengthening the foundation". The premium income remained stable, regular premiums business increased steadily, the business structure was continuously refined, and the transformation and development achieved significant results. In 2017, the Group's life insurance segment recorded TWPs of RMB116,799 million; the TWPs of first-year regular premiums increased by 25.6% as compared to that for the previous year, and its percentage to first year TWPs increased by 6.75 percentage points, while the value of one year's new business increased by 37.7% as compared to the previous year.

1. *Analysis by Product*

Income from various products of the life insurance segment for the purpose of Original Premiums Income for the reporting periods is as follows:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2017		2016	
	Amount	**(% of total)**	Amount	(% of total)
Life insurance				
General life insurance	**68,078**	**64.1**	74,667	71.0
Participating life insurance	**20,199**	**19.0**	16,595	15.8
Universal life insurance	**106**	**0.1**	91	0.1
Health insurance	**15,827**	**14.9**	11,953	11.4
Accident insurance	**2,028**	**1.9**	1,809	1.7
Total	**106,238**	**100**	105,115	100

In terms of TWPs, in 2017, the TWPs of general life insurance, participating life insurance, universal life insurance amounted to RMB68,078 million, RMB21,307 million and RMB9,540 million, respectively. TWPs of health insurance and accidental injury insurance amounted to RMB15,846 million and RMB2,028 million, respectively. The Company actively reduced existing short and medium-term business, while achieved a positive increase of TWPs, demonstrating notable results for transformation and development. High value business and renewal premium of general and participating life insurance both increased dramatically.

2. Analysis by Channel

Income of the life insurance segment by distribution channel for the purpose of Original Premiums Income for the reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Bancassurance	**52,785**	59,166	(10.8)
First-year business of long-term insurance	**44,313**	55,622	(20.3)
Single premiums	**38,273**	49,421	(22.6)
First-year regular premiums	**6,040**	6,201	(2.6)
Renewal business	**8,366**	3,413	145.1
Short-term insurance	**106**	132	(19.7)
Individual Insurance	**42,796**	35,559	20.4
First-year business of long-term insurance	**25,452**	25,226	0.9
Single premiums	**11,401**	15,555	(26.7)
First-year regular premiums	**14,051**	9,671	45.3
Renewal business	**16,379**	9,306	76.0
Short-term insurance	**965**	1,027	(6.0)
Group Insurance	**10,656**	10,389	2.6
First-year business of long-term insurance	**8,670**	8,683	(0.1)
Single premiums	**8,467**	8,454	0.2
First-year regular premiums	**203**	229	(11.4)
Renewal business	**220**	8	2650.0
Short-term insurance	**1,766**	1,698	4.0
Total	**106,238**	105,115	1.1

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB54,511 million, RMB46,712 million and RMB15,576 million, respectively, for 2017.

In the life insurance segment, the individual insurance agent channel became the main channel in contributing the value. Such insurance channel focused on regular premiums business and the increase in quantity and quality of sales persons. The first-year TWPs of regular premiums business reached RMB14,050 million, increased by 45.3% on a year-on-year basis. As of the end of 2017, the number of sales agents for the life insurance segment was 255,908. The first-year TWPs per capita from sales agent amounted to RMB4,728 and the number of new life insurance policies per capita was 1.29 per month. The bancassurance channel accelerated the pace of value transformation, and improved sales capacity of regular premiums business, with a significant increased proportion of regular premiums business. The group insurance sales channel focused on legal persons' business and high-value business, and its efforts on customer development increased while short-term premium remained steadily.

3. *Persistency Ratios of Premiums*

The following table sets forth the 13-month and 25-month premium persistency ratios for individual customers of the life insurance segment for the reporting periods indicated:

	For the Year Ended 31 December	
Item	**2017**	2016
13-month premium persistency ratio [(1)] (%)	**93.8**	91.3
25-month premium persistency ratio [(2)] (%)	**88.7**	85.3

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial data of the life insurance segment for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**105,428**	105,162	0.3
Investment income	**17,320**	15,720	10.2
Other income	**754**	621	21.4
Total income	**123,775**	121,736	1.7
Net claims and policyholders' benefits	**108,162**	109,187	(0.9)
Handling charges and commissions	**8,369**	6,900	21.3
Finance costs	**2,122**	1,752	21.1
Other operating and administrative expenses	**7,725**	6,972	10.8
Total benefits, claims and expenses	**126,563**	124,637	1.5
Profit before tax	**439**	447	(1.8)
Income tax expense	**(285)**	5	–
Net profit	**154**	452	(65.9)

Net earned premiums

Net earned premiums for the life insurance segment increased by 0.3% to RMB105,428 million in 2017 from RMB105,162 million in 2016, mainly due to benefiting from business transformation measures of the Company, and achieving satisfactory results from stabilizing the growth and adjusting the structure, resulting in the steady increase in premiums income and slight increase in the scale.

Investment income

Investment income of the life insurance segment increased by 10.2% to RMB17,320 million in 2017 from RMB15,720 million in 2016. This was primarily due to the fact that the Company took advantage of the increase in the yield of fixed income products, increased the allocation and seized the investment opportunities in equity markets.

Other income

Other income of the life insurance segment increased by 21.4% to RMB754 million in 2017 from RMB621 million in 2016, mainly due to the commission income from business synergy increased RMB158 million, representing an increase of 62.74% year-on-year.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the life insurance segment decreased by 0.9% to RMB108,162 million in 2017 from RMB109,187 million in 2016, mainly due to the fact that the Company transformed effectively, adjusted the business structure of stabilizing growth and emphasizing value, and reduced significantly the scale of short and medium-term product businesses, while policyholders' benefits decreased.

Handling charges and commissions

Handling charges and commissions of the life insurance segment increased by 21.3% to RMB8,369 million in 2017 from RMB6,900 million in 2016, under the condition that premium income grew steadily and optimization of business structure, regular premium products increased significantly as compared to the same period of last year.

Finance costs

Finance costs of the life insurance segment increased by 21.1% to RMB2,122 million in 2017 from RMB1,752 million in 2016, which was mainly due to the significant increase in interest expenses of financial assets sold under the agreements to repurchase compared to last year to achieve better investment asset allocation.

Net profit

As a result of the foregoing reasons and dilution of equity interest in associates, the net profit of the life insurance segment decreased by 65.9% to RMB154 million in 2017 from RMB452 million in 2016.

(2) Health Insurance

In 2017, the construction of "Healthy China" accelerated, reform of the medical and health system and construction of multi-level medical security system continuously deepened, policy bonus and demand bonus for health insurance released rapidly, the potential of health insurance has been increasing explored. Under the guidance of "Develop through innovation and speed up transformation" and based on the operational strategy of "Profession with feature, transformation with effectiveness, turnaround with results", the health insurance segment of the Group actively responded to the revolution of policies and market changes, took strengthening value creation and accelerating transformation and upgrading as the principal line to seize development opportunities to make overall efforts to facilitate each work, which vigorously promoted the co-development of the three major business segments, namely government commission insurance business, commercial health insurance business and health management insurance business, steadily increasing business scale, continuously improving profitability and prominent specialized features. The health insurance segment actively adjusted and optimized business structure and reduced short and medium-term product businesses to promote the rapid growth of business with high embedded value. First-year regular premium of individual insurance agent channel increased by 68.6% as compared to the previous year; The short-term insurance premiums of group insurance sales channel increased by 10.4% as compared to the previous year; The value of the year's new business increased by 44.0% as compared to the same period in the previous year, which indicates a continuously enhancing value creation capabilities.

1. Analysis by Product

Income from various products of the health insurance segment for the purpose of Original Premiums Income for the reporting periods is as follows:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December			
	2017		2016	
Health insurance products	**Amount**	**(% of total)**	Amount	(% of total)
Illness insurance	**842**	**4.4**	544	2.4
Medical insurance	**8,538**	**44.3**	7,831	34.0
Disability losses insurance	**89**	**0.5**	85	0.4
Nursing care insurance	**8,800**	**45.7**	13,660	59.3
Accidental injury insurance	**646**	**3.4**	535	2.3
Participating endowment insurance	**335**	**1.7**	366	1.6
Total	**19,250**	**100.0**	23,020	100.0

In terms of TWPs, in 2017, the TWPs of illness insurance, medical insurance, disability losses insurance, nursing care insurance, accidental injury insurance and participating endowment insurance amounted to RMB842 million, RMB12,609 million, RMB89 million, RMB11,181 million, RMB646 million and RMB335 million, respectively. The health insurance segment has adhered to the value-oriented direction, solidly promoted the tasks, optimized continuously the business structure, and the value creation ability continued to be improved. In 2017, with actively reducing short and medium-term product businesses, it achieved the TWPs of RMB25,702 million. In addition, the health insurance segment has also actively developed government commission processing business, and the medical insurance fund size under management was RMB12,299 million.

2. *Analysis by Channel*

Income of the health insurance segment by distribution channel for the purpose of Original Premiums Income for the reporting periods, which can further be divided into bancassurance channel, individual insurance agent channel and group insurance sales channel.

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Bancassurance	**5,305**	11,006	(51.8)
First-year business of long-term insurance	**5,003**	10,724	(53.3)
Single premiums	**4,856**	10,599	(54.2)
First-year regular premiums	**147**	125	17.6
Renewal business	**281**	276	1.8
Short-term insurance	**21**	6	250.0
Individual Insurance	**4,376**	3,220	35.9
First-year business of long-term insurance	**3,468**	2,662	30.3
Single premiums	**2,797**	2,265	23.5
First-year regular premiums	**671**	398	68.6
Renewal business	**784**	461	70.1
Short-term insurance	**124**	97	27.8
Group Insurance	**9,569**	8,794	8.8
First-year business of long-term insurance	**98**	218	(55.0)
Single premiums	**93**	217	(57.1)
First-year regular premiums	**5**	1	400.0
Renewal business	**9**	4	125.0
Short-term insurance	**9,462**	8,571	10.4
Total	**19,250**	23,020	(16.4)

In terms of TWPs, in 2017, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB5,393 million, RMB4,648 million and RMB15,661 million respectively.

In the health insurance segment, individual insurance agent channel focused on developing its sales team to drive the development of regular premiums business. By the end of 2017, the number of sales agents for the health insurance segment was 35,427. The first-year TWPs of new insurance policies amounted to RMB2,127 per sales agent per month and the monthly new insurance policies were 0.62 per sales agent per month. The bancassurance channel actively promoted the implementation of "1+4" series documents issued by the relevant regulatory authorities to accelerate the transformation of business structure, continuously improve professional skills and consolidate the channel development foundation. The group insurance sales channel expanded in relation to government commission insurance business and its TWPs recorded rapid growth. Basic medical insurance processing business achieved a breakthrough. With regard to the commercial group insurance business, it put more efforts to expand the project and strengthen the features of health insurance, achieving the improvement of both the team size and sales capacity.

3. *Persistency Ratios of premiums*

The following table sets forth the 13-month and 25-month premium persistency ratios for individual customers of the health insurance segment for the reporting periods indicated:

	For the Year Ended 31 December	
Item	**2017**	2016
13-month premium persistency ratio (1) (%)	**84.7**	81.2
25-month premium persistency ratio (2) (%)	**76.9**	72.7

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial data of the health insurance segment for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net earned premiums	**17,997**	20,925	(14.0)
Investment income	**2,008**	1,782	12.7
Other income	**121**	93	30.1
Total income	**20,219**	22,995	(12.1)
Net claims and policyholders' benefits	**17,182**	20,479	(16.1)
Handling charges and commissions	**796**	666	19.5
Finance costs	**543**	456	19.1
Other operating and administrative expenses	**1,689**	1,322	27.8
Total benefits, claims and expenses	**20,212**	22,921	(11.8)
Profit before tax	**7**	74	(90.5)
Income tax expense	**–**	(71)	–
Net profit	**7**	3	133.3

Net earned premiums

Net earned premiums of the health insurance segment decreased by 14.0% to RMB17,997 million in 2017 from RMB20,925 million in 2016, mainly due to its active promoting of the business transformation and upgrading, concentrating on the growth of protection business and initiative shrinking of the scale of short and medium-term product businesses.

Investment income

Investment income from the health insurance segment increased by 12.7% to RMB2,008 million in 2017 from RMB1,782 million in 2016, primary due to the fact that the Company took advantage of the increase in fixed income products yield, with the stable growth in re-investment income, as well as seized the opportunities of equity market.

Other income

Other income from the health insurance segment increased by 30.1% to RMB121 million in 2017 from RMB93 million in 2016. This was mainly due to the increase in corresponding management fee income generated from government commission processing business and the increase in the commission income from business synergy within the Group.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the health insurance segment decreased by 16.1% to RMB17,182 million in 2017 from RMB20,479 million in 2016, mainly due to the shrinking scale of short and medium-term product businesses as a result of the adjustment of business structure and a decrease in withdrawal of premium reserves.

Handling charges and commissions

Handling charges and commissions of the health insurance segment increased by 19.5% to RMB796 million in 2017 from RMB666 million in 2016. This was mainly attributable to the increase in scale of traditional long-term regular premiums business and short-term commercial insurance business as a result of the adjustment of business structure.

Finance costs

Finance costs from the health insurance segment increased by 19.1% to RMB543 million in 2017 from RMB456 million in 2016, primarily due to the increase in interest expenses of capital supplementary bonds and securities sold under the agreements to repurchase.

Net profit

Mainly due to the factors mentioned above, the health insurance segment increased by 133.3% to RMB7 million in 2017 from RMB3 million in 2016.

Analysis of Original Premiums Income by Region

The following table sets forth the Original Premiums Income from the insurance business of the Group in the PRC by region for the reporting periods indicated:

Unit: in RMB million

	For the Year Ended 31 December	
	2017	2016
Jiangsu Province	**40,993**	39,278
Guangdong Province	**39,963**	36,552
Zhejiang Province	**33,430**	30,219
Shandong Province	**28,431**	28,410
Sichuan Province	**26,189**	24,791
Hebei Province	**25,601**	25,285
Beijing Municipal	**21,791**	23,507
Hubei Province	**18,258**	16,024
Liaoning Province	**17,962**	16,041
Fujian Province	**17,765**	16,379
Other regions	**204,395**	182,102
Total	**474,778**	438,589

ASSET MANAGEMENT BUSINESS

In 2017, the Group's asset management segment overcame certain adverse factors, such as tightening of market liquidity, narrow fluctuation in stock market and frequent occurrence of credit risk. It actively seized the opportunities in A Share market and H Share market and increased the investments in fixed income products, such as debt securities, trust scheme and equity scheme. On the basis of developing traditional equity and debt products, it actively promoted the innovations of financial products such as inclusive finance and agriculture and SME support and coordinated the development of major insurance business which helped maintain a stable investment return and effectively reduced investment risk. The equity and debt products of the asset management segment had a registered scale of RMB46,200 million, of which the registered debt products amounted to RMB33,200 million and the registered equity products amounted to RMB13,000 million. As of 31 December 2017, the scale of entrusted third-party and the issued insurance assets management products of the asset management segment amounted to RMB308,636 million.

The investment income of the asset management segment of the Group does not include the investment income generated by the investment assets managed by our asset management segment on behalf of the Group's insurance segments. The investment income generated by the investment assets managed by the asset management segment on behalf of other segments have already been included in the investment income of the relevant segments.

The following table sets forth the income statement data of the asset management segment for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Investment income	**452**	452	–
Other income	**1,618**	1,316	22.9
Total income	**2,070**	1,768	17.1
Finance costs	**4**	2	100.0
Other operating and administrative expenses	**1,301**	1,039	25.2
Total expenses	**1,306**	1,040	25.6
Profit before tax	**763**	733	4.1
Income tax expense	**(199)**	(190)	4.7
Net profit	**564**	543	3.9

Investment income

Investment income from the asset management segment was RMB452 million, the same as that for the last year.

Other income

Other income of the asset management segment increased by 22.9% to RMB1,618 million in 2017 from RMB1,316 million in 2016, mainly due to the increase in management fee income as a result of the substantial increase in the size of the third-party asset under management.

Finance costs

Finance costs for the asset management segment increased by 100.0% to RMB4 million in 2017 from RMB2 million in 2016, primarily due to the increase in interest expenses of securities sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the asset management segment increased by 3.9% to RMB564 million in 2017 from RMB543 million in 2016.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

(1) Investment Portfolio

The following table sets forth certain information regarding the composition of the investment portfolio of the Group as of the dates indicated:

Unit: in RMB million, except for percentages

Investment assets	As of 31 December 2017 Carrying amount	As of 31 December 2017 (% of total)	As of 31 December 2016 Carrying amount	As of 31 December 2016 (% of total)
Cash and cash equivalents	**72,819**	**8.5**	46,729	5.8
Fixed-income investments	**553,673**	**64.9**	511,927	63.4
Term deposits	**70,706**	**8.3**	91,884	11.4
Treasury bonds	**18,493**	**2.2**	14,597	1.8
Financial bonds	**105,595**	**12.4**	96,906	12.0
Corporate bonds	**150,273**	**17.6**	129,028	16.0
Long-term debt investment scheme	**105,290**	**12.3**	95,002	11.7
Other fixed-income investments (1)	**103,316**	**12.1**	84,510	10.5
Fund and equity securities investments at fair value	**92,869**	**10.9**	132,866	16.4
Fund	**54,045**	**6.3**	94,027	11.6
Equity securities	**38,824**	**4.6**	38,839	4.8
Other investments	**134,039**	**15.7**	116,216	14.4
Investment in associates and joint ventures	**97,740**	**11.5**	85,834	10.6
Others (2)	**36,299**	**4.2**	30,382	3.8
Total investment assets	**853,400**	**100.0**	807,738	100.0

(1) Other fixed-income investments primarily consist of subordinated debts, wealth management products, capital guarantee deposits, policy loans, trust products and asset management products.

(2) Others primarily consist of investment properties, equity investment scheme, reinsurance arrangements classified as investment contacts, non-listed equity investments and derivative financial assets.

(2) Investment income

The following table sets forth certain information relating to the investment income of the Group for the reporting periods indicated:

Unit: in RMB million, except for percentages

	For the Year Ended 31 December	
Item	**2017**	2016
Cash and cash equivalents	**1,066**	581
Fixed-income investments	**27,111**	26,534
Interest income	**27,117**	25,963
Profits and losses of disposal of financial instruments	**99**	554
Profits and losses of fair value changes	**(105)**	17
Impairment	**–**	–
Fund and equity securities investments at fair value	**7,335**	4,534
Dividends and bonus income	**3,303**	4,507
Profits and losses of disposal of financial instruments	**4,724**	1,621
Profits and losses of fair value changes	**195**	(432)
Impairment	**(887)**	(1,162)
Other investment	**12,840**	11,812
Investment income in associates and joint ventures	**12,674**	10,386
Other profits and losses	**166**	1,426
Total investment income	**48,352**	43,461
Net investment income[1]	**45,324**	42,639
Total investment yield[2] (%)	**5.9**	5.8
Net investment yield[3] (%)	**5.5**	5.7

(1) Net investment income = total investment income – gains and losses from the disposal of investment assets – gains and losses on fair value changes of investment assets – impairment losses of investment assets

(2) Total investment yield = (total investment income – interest expenses on securities sold under agreements to repurchase)/(the total investment assets as of the beginning of the period – the amount of financial assets sold under agreement to repurchase as of the beginning of the period + the total investment assets as of the end of the period – the amount of financial assets sold under agreement to repurchase as of the end of the period) x 2

(3) Net investment yield = (net investment income – interest expenses on securities sold under agreements to repurchase)/(the total investment assets as of the beginning of the period – the amount of financial assets sold under agreement to repurchase as of the beginning of the period + the total investment assets as of the end of the period – the amount of financial assets sold under agreement to repurchase as of the end of the period) x 2

SPECIFIC ANALYSIS

(1) Liquidity Analysis

1. Liquidity Analysis

The liquidity of the Group was mainly derived from premiums, net investment income, cash from sales or maturity of investment assets and its own financing activities. The demand for liquidity primarily arose from insurance claims or benefits, surrenders, withdrawals or other forms of early termination of insurance policies, payment of dividends to shareholders and cash required for payment of various ordinary expenses.

Since the Group generally collects premiums before the payment of insurance claims or benefits, the cash flow from operating activities of the Group generally records a net inflow. At the same time, the Group maintained a certain proportion of assets with high liquidity to meet liquidity requirements. In addition, the Group could also obtain additional liquidity from the arrangements of securities sold under agreement to repurchase, interbank borrowings and other financing methods.

As a holding company, the Company's cash flows are mainly derived from the investment income arising from investment activities, the cash flow generated by financing activities and the dividends from its subsidiaries. The Company believes that it has sufficient liquidity to meet foreseeable liquidity requirements of the Group and the Company in the foreseeable future.

2. Statement of Cash Flows

Unit: in RMB million, except for percentages

	For the Year Ended 31 December		
	2017	2016	(% of change)
Net cash flows from operating activities	**(2,025)**	23,831	–
Net cash flows from investing activities	**23,270**	(32,683)	–
Net cash flows from financing activities	**5,041**	5,447	(7.5)

(2) Solvency

The Group calculated and disclosed the actual capital, core capital, minimum capital, comprehensive solvency margin ratio and core solvency margin ratio in accordance with relevant CIRC requirements.

Unit: in RMB million, except for percentages

	As of 31 December 2017	As of 31 December 2016	(% of change)
PICC Group			
Actual capital	**251,983**	222,890	13.1
Core capital	**198,075**	172,358	14.9
Minimum capital	**84,323**	78,518	7.4
Comprehensive solvency margin ratio (%)	**299**	284	Increase of 15 pt
Core solvency margin ratio (%)	**235**	220	Increase of 15 pt
PICC P&C			
Actual capital	**154,590**	140,793	9.8
Core capital	**127,326**	113,864	11.8
Minimum capital	**55,552**	49,071	13.2
Comprehensive solvency margin ratio (%)	**278**	287	Decrease of 9 pt
Core solvency margin ratio (%)	**229**	232	Decrease of 3 pt
PICC Life			
Actual capital	**54,010**	46,380	16.5
Core capital	**47,192**	39,257	20.2
Minimum capital	**24,631**	26,263	(6.2)
Comprehensive solvency margin ratio (%)	**219**	177	Increase of 42 pt
Core solvency margin ratio (%)	**192**	149	Increase of 43 pt
PICC Health			
Actual capital	**10,930**	6,695	63.3
Core capital	**7,099**	6,200	14.5
Minimum capital	**2,763**	3,107	(11.1)
Comprehensive solvency margin ratio (%)	**396**	215	Increase of 181 pt
Core solvency margin ratio (%)	**257**	200	Increase of 57 pt

As of 31 December 2017, the comprehensive solvency margin ratio of the Group was 299%, representing an increase of 15 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 235%, representing an increase of 15 percentage points as compared to that as of 31 December 2016.

As of 31 December 2017, the comprehensive solvency margin ratio of PICC P&C was 278%, representing an decrease of 9 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 229%, representing an decrease of 3 percentage points as compared to that as of 31 December 2016; the comprehensive solvency margin ratio of PICC Life was 219%, representing an increase of 42 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 192%, representing an increase of 43 percentage points as compared to that as of 31 December 2016; the comprehensive solvency margin ratio of PICC Health was 396%, representing an increase of 181 percentage points as compared to that as of 31 December 2016, and its core solvency margin ratio was 257%, representing an increase of 57 percentage points as compared to that as of 31 December 2016.

PROSPECTS

(1) Market Environment

In 2017, China's insurance market achieved a steady and favourable development. The industry sped up in returning to origin and its capability to serve the real economy strengthened significantly. According to data published by the CIRC, the Original Premiums Income of the Chinese insurance industry in 2017 amounted to RMB3.7 trillion, representing an increase of 18.2% as compared to the same period last year. This means that the industry continued to maintain a rapid growth. The Original Premiums Income of the P&C insurance companies and life and health insurance companies recorded increases of 13.8% and 20.0% respectively as compared to the same period last year. By the end of 2017, the total assets of the insurance industry in China amounted to RMB16.7 trillion, representing an increase of 10.8% from the beginning of the year.

2018 is the beginning year of implementing the spirit of the Communist Party of China's 19th National Congress ("19th NPC"). It is the 40th anniversary of reform and opening-up and a crucial transitional year for securing a decisive victory in building a moderately prosperous society in all respects and for continuing to implement the 13th Five-Year Plan. From the perspective of macro-environment, as the 19th National Congress of the Communist Party of China specifically highlighted that China's economy has transformed from a rapid growing stage to a high quality development stage, we must put quality first and give priority to effectiveness. We should pursue economic development through reform of quality, efficiency and momentum. The National Financial Work Conference specifically demanded that we should take serving the real economy as the starting point and goal of our financial work and implement the new development philosophy and establish the concept of giving priority to quality and efficiency. From the perspective of policy directions, the 19th NPC proposed a range of new strategies and new initiatives which will provide new room for the insurance industry to serve the real economy's development. For example, for the first time it put forward the "rural vitalization" strategy which is positive for the Company to accelerate the establishment of an integrated and comprehensive protection system for "agriculture, rural areas and farmers" including agricultural insurance, social protection and governance insurance, etc., to integrate policy business and commercial business and to strengthen protection against the risks in the whole agricultural industrial chain and supply chain as well as providing new opportunities for the development of inclusive finance for rural areas. Another example is that the 19th NPC specifically put forward that we should resolutely carry out targeted poverty alleviation which gives rise to new policy opportunities for the Company to deepen the integration of poverty alleviation through insurance, finance and industrial development, to enhance and extend "inclusive + preferential" products and services for poverty alleviation through insurance and to establish a range of insurance products under the category of poverty alleviation. Furthermore, the Healthy China initiative and a range of policies related to health, medical and pension are proposed which opens up new room for the Company to reinforce and enhance its market position in the social medical insurance business such as critical illness insurance, to grasp the window period in the development of occupational annuity and to speed up the establishment of pension and health industrial chain. The implementation of the "Belt and Road" initiative and regional development strategy such as the construction of the Xiong'an New Area will provide new source of insurance business and plenty of investment opportunities for the Company. From the perspective of regulatory policies, pursuant to the decision of the central government in the prevention and defusing major risks, regulators give risk control and prevention a higher priority, continue to deepen the implementation of the "1+4" series documents, drive the insurance industry to return to its origin and accelerate the pace of transformation of the industry towards high quality development. From the perspective of market cycle, the insurance industry is at the "trough-forming" stage between the transition from the old cycle to a new cycle. This means the market is at the dawn before the rise of a new round of development opportunities. We must fully recognise the cyclical pattern of market changes and accelerate reforms in terms of quality, efficiency and momentum, so as to have the upper hand and turn risks into opportunities. From the perspective of industry competition, the rapid development of internet technology, especially financial technology, is overturning the traditional competition landscape of the financial and insurance industries, and new technologies, new industrial forms and new models emerge every day. The greatest threat to the Group in the future may not come from entities within the financial and insurance industries or from traditional competitors, but instead from the "dimensionality reduction attack" by large internet enterprises in cross-industry competition.

(2) Key Tasks

In 2018, the Company will adhere to the general tone of making progress while maintaining stability and uphold the new development philosophy. We will closely align with changes in the principal contradictions of China's society and serve key strategies and supply-side structural reform of the country based on the requirement of achieving high quality development. We will coordinate and implement the tasks of stabilising growth, promoting reform, adjusting structure, creating value and preventing risks; vigorously implement innovation-driven development strategy and push ahead integrated development and reforms of quality, efficiency and momentum; and pursue concrete progress in serving the real economy, preventing and defusing risks and deepening reform in an effort to become stronger, better and bigger. The Company will try to excel in its principal business and refine special business, change the form of business, optimise structure and renew momentum while insisting quality first and giving priority to effectiveness. It will return to the industry's origin and base its business on protection while focusing on serving the real economy and major strategies of the country. We will deepen the Group's supply-side structural reform in insurance and expand the space for the Group's development. Resources will be integrated and development coordinated in an effort of maximizing the interest of the Group as a whole, and integrated development will be further deepened. The Company will be brave in reform and innovation and take innovation as the top driver to lead development and promote the realization of quality, efficiency and momentum reforms. We will focus on prevention and control, hold the bottom line and concretely carry out the tough battle of prevention and defusing major risks in accordance with the requirements of the central government and the actual situation of the Company.

In 2018, the subsidiaries of the Company will seek to differentiate, accomplish bright spots and secure competitiveness in their principal and special businesses based on their own positioning. PICC P&C will promote “two integrations” including the integration of policy business and commercial business and the integration of business model reform and technological reform. It will adhere to benchmarking against the market and cost effective development, and consolidate its leading position in the P&C insurance market. It will take motor vehicle insurance as the top business for its transformation and development and disintermediate, lower costs, improve services and strengthen customer stickiness. It will treat non-motor vehicle insurance as a key driver for fostering new momentum; seize the opportunities of business expansion in agricultural insurance, critical illness insurance and liability insurance; reinforce and develop industrial business and business of key customers; accelerate development of internet business; deepen the sharing of policy customers and promote individual and retail business. PICC Life will focus on sustainable development and “pattern changing”, consolidate the foundation for systematic transformation, further deepen the change from extensive to intensive development, from scale driven to value driven and from primarily bancassurance to primarily individual insurance business. Focusing on “structure optimisation”, it will deepen profit source analysis and promote structural adjustment of products, maturity, profit and assets. Focusing on “changing momentum”, it will strengthen the building of the individual insurance team, and promote systematic and professional operation. PICC Health will demonstrate its professionalism, realise innovativeness and offer special features. Based on the philosophy of being professional, efficient and capable, it will pursue a path of professional and flattening development, and strengthen its capability in health management services and reinforce the foundation of health insurance customers and data. The investment segment will proactively and effectively respond to policy changes in financial regulation and serve the principal insurance business. It will always bear in mind the obligation of trust, and abide by the principles of “always be professional and diligent, care and sincere, strong in management, uphold bottom line and serve third parties when having extra capacity.” PICC Financial Services will focus on and serve our principal business, develop innovation in financial technology applications and play a complementary and activating role for our principal business, helping the Group to implement its innovation-driven strategy. Being the only window for the Group’s domestic inward reinsurance business, PICC Reinsurance will thoroughly explore the potential of our outward reinsurance. PICC Pension will speed up the obtaining qualification for occupational annuity, standardise the establishment of provincial annuity centers and develop occupational annuity business with strong effort. PICC Hong Kong will maintain steady development of its local business while actively developing overseas business so as to play a pivotal role for the Group to advance its presence in the overseas market. Zhongsheng International Insurance Brokers Company Limited, a subsidiary of the Company, will deepen internal integration, restructuring and transformation to enhance business development ability and strengthen value creation.

EMBEDDED VALUE

1. RESULT SUMMARY

Embedded Value of PICC Life and PICC Health as of 31 December 2017 and 31 December 2016 with 10.0% as the risk discount rate are summarized below (in RMB million):

	PICC Life		**PICC Health**	
	2017	2016	**2017**	2016
Adjusted Net Worth	**39,467**	39,076	**5,897**	5,687
Value of In-Force Business before CoC	**28,469**	21,949	**2,165**	1,755
Cost of Required Capital	**(6,027)**	(3,468)	**(231)**	(324)
Value of In-Force Business after CoC	**22,442**	18,481	**1,934**	1,430
Embedded Value	**61,909**	57,558	**7,831**	7,118

Note: Figures may not add up to total due to rounding.

Value of One Year's New Business for the 12 months up to 31 December 2017 and 31 December 2016 of PICC Life and PICC Health with 10.0% as the risk discount rate are summarized below (in RMB million):

	PICC Life		**PICC Health**	
	2017	2016	**2017**	2016
Value of One Year's New Business before CoC	**7,655**	5,943	**536**	446
Cost of Required Capital	**(1,967)**	(1,812)	**(68)**	(121)
Value of One Year's New Business after CoC	**5,687**	4,131	**468**	325

Note: Figures may not add up to total due to rounding.

Value of One Year's New Business of PICC Life and PICC Health by distribution channel are summarized below (in RMB million):

	PICC Life		PICC Health	
	2017	2016	**2017**	2016
Bancassurance Channel	**403**	134	**25**	13
Individual insurance agent Channel	**4,844**	3,403	**403**	284
Group sales Channel	**440**	592	**41**	28
Reinsurance	**0**	2	**0**	0
Total	**5,687**	4,131	**468**	325

Note: Figures may not add up to total due to rounding.

The results disclosed in this report are based on 100% shareholding of PICC Life and PICC Health.

2. KEY ASSUMPTIONS

For the results as at 31 December 2017 disclosed above, the assumption on risk discount rate is 10.0% and the assumption on the rate of investment return is 5.25% p.a. used by PICC Life and PICC Health. Corporate income tax is currently levied at 25% on taxable profits. The assumptions on mortality rates, morbidity rates, lapse rates, expenses and commissions are based on the operational experience of PICC Life and PICC Health, as well as expectations on future experience and etc.

3. SENSITIVITY TESTS

Sensitivity tests are based on a range of alternative assumptions. In each of the tests, only the assumption referred to is changed, while other assumptions remain unchanged. For the investment return assumption scenarios, the expected participating policyholder dividend will also change.

The results of sensitivity tests for PICC Life as at 31 December 2017 are summarized below (in RMB million):

	Risk Discount Rate at 10.0% *(Note)*	
Scenarios	**Value of In-Force Business after CoC**	**Value of One Year's New Business after CoC**
Base Scenario	22,442	5,687
Risk Discount Rate at 9.0%	25,389	6,825
Risk Discount Rate at 11.0%	19,993	4,730
Rate of investment return increased by 50 bps	28,173	7,985
Rate of investment return decreased by 50 bps	16,854	3,438
Expenses increased by 10%	21,862	5,071
Expenses decreased by 10%	23,023	6,303
Lapse rates increased by 10%	21,851	5,408
Lapse rates decreased by 10%	23,036	5,972
Mortality increased by 10%	22,021	5,556
Mortality reduced by 10%	22,869	5,820
Morbidity increased by 10%	22,074	5,503
Morbidity reduced by 10%	22,813	5,874
Short-term business claim ratio increased by 10%	22,399	5,572
Short-term business claim ratio decreased by 10%	22,485	5,803
Participating Ratio (80/20)	21,586	5,348

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10.0%.

The results of sensitivity tests for PICC Health as at 31 December 2017 are summarized below (in RMB million):

	Risk Discount Rate at 10.0% *(Note)*	
Scenarios	**Value of In-Force Business after CoC**	**Value of One Year's New Business after CoC**
Base Scenario	1,934	468
Risk Discount Rate at 9.0%	2,112	527
Risk Discount Rate at 11.0%	1,779	417
Rate of investment return increased by 50 bps	2,286	591
Rate of investment return decreased by 50 bps	1,576	345
Expenses increased by 10%	1,834	392
Expenses decreased by 10%	2,040	544
Lapse rates increased by 10%	1,909	460
Lapse rates decreased by 10%	1,961	477
Mortality increased by 10%	1,920	465
Mortality reduced by 10%	1,947	471
Morbidity increased by 10%	1,868	451
Morbidity reduced by 10%	1,984	486
Short-term business claim ratio increased by 5%	1,339	192
Short-term business claim ratio decreased by 5%	2,560	745
Participating Ratio (80/20)	1,930	467

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10.0%.

4. MOVEMENT ANALYSIS

This section shows the analysis of Embedded Value movement of PICC Life and PICC Health from 31 December 2016 to 31 December 2017 based on 10% risk discount rate (in RMB Million):

		Risk Discount Rate at 10.0% *(Note)*	
No.	**Description**	**PICC Life**	**PICC Health**
1	Embedded Value as at 31 December 2016	**57,558**	**7,118**
2	New Business Contribution	5,965	513
3	Expected Return	4,761	371
4	Investment Return Variance	483	(135)
5	Other Experience Variances	(1,278)	(141)
6	Model and Assumption Modification	(3,693)	73
7	Capital Change and Market Value Adjustment	(1,684)	(1)
8	Others	(201)	33
9	Embedded Value as at 31 December 2017	**61,909**	**7,831**

Note: Figures may not add up to total due to rounding.

Explanations to above items 2 to 8:

2. The contribution of new business sold in 2017 to the embedded value as at 31 December 2017;

3. The expected return in 2017 arising from the in-force business and adjusted net worth as at 31 December 2016;

4. Change in embedded value arising from variances between the actual investment return and the related investment return assumption in 2017;

5. Change in embedded value arising from variances between the actual experiences and assumptions other than the related investment return in 2017;

6. The impact on embedded value due to model enhancement and the changes in assumptions during 2017;

7. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2017;

8. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 31 December 2016 to 31 December 2017.

CORPORATE GOVERNANCE

In 2017, save for not in compliance with the requirement of "Each Director shall retire from office by rotation at least once every three years" specified in A.4.2 of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company had complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, adopted recommended best practices under appropriate circumstances and continued to perfect its corporate governance structure. The general meeting, Board, Board of Supervisors and senior management independently performed their respective rights and obligations pursuant to the Articles of Association, which is in compliance with laws and regulatory requirements.

The terms of directorship of the second session of the Board expired on 4 March 2017. According to the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, the Directors shall serve consecutive terms if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of Directors results in the number of Directors being less than the statutory requirement. Accordingly, the second session of the Board will continue to serve as Directors until the newly elected Director commences his/her term of office.

In order to comply with the requirement of A.4.2 of the Corporate Governance Code, the Company held a Board meeting on 1 March 2018, at which Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang were nominated to be the executive director candidates of the third session of the Board, Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin and Mr. Wang Zhibin to be the non-executive director candidates of the third session of the Board, and Mr. Shiu Sin Por, Mr. Ko Wing Man, Mr. Luk Kin Yu, Mr. Lin Yixiang and Mr. Chen Wuzhao to be the independent non-executive director candidates of the third session of the Board, which will be considered at the extraordinary general meeting to be held on 19 April 2018.

PURCHASE, DISPOSAL OR REDEMPTION OF LISTED SECURITIES

During the year of 2017, the Company and its subsidiaries did not purchase, dispose of or redeem any listed securities of the Company or its subsidiaries.

RECOMMENDATION OF FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The Board proposed the distribution of a final dividend of RMB0.394 per 10 shares (tax inclusive) for the year ended 31 December 2017, amounting to a total of approximately RMB1,672 million. The above proposal will be put forward to a general meeting for consideration and approval. The specific arrangements regarding the final dividend and its distribution (including arrangement of withholding and payment of income tax for shareholders) and the time and arrangement of the closure of register of members of H Shares will be disclosed separately in the circular for the general meeting. If approved at the general meeting, the final dividend is expected to be paid around 25 May 2018.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Board has reviewed, in the presence of the external auditor of the Company, the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017, including the accounting principles and practices.

PUBLICATION OF THE ANNUAL REPORT

The 2017 Annual Report of the Company will be published on the website of the Company (www.picc.com) and the disclosure website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) in due course.

By Order of the Board
The People's Insurance Company (Group) of China Limited
Miao Jianmin
Chairman

Beijing, the PRC
23 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Miao Jianmin, Mr. Xie Yiqun and Mr. Tang Zhigang, the non-executive directors are Mr. Wang Qingjian, Mr. Xiao Xuefeng, Ms. Hua Rixin, Ms. Cheng Yuqin and Mr. Wang Zhibin, and the independent non-executive directors are Mr. Lau Hon Chuen, Mr. Xu Dingbo, Mr. Luk Kin Yu, Peter, Mr. Lin Yixiang and Mr. Chen Wuzhao.